CORPORATE PROFILE

Norstar is principally engaged in the manufacture and sale of auto parts and modules under the automobile chassis system. The Group's production plants are located in Beijing and Anhui Province, the PRC. Currently, it has a sales network spanning the United States, Canada, Europe and China. The Group has a stable customer base comprising many leading international system integrators and renowned PRC automakers. Boasting unique production technologies, strong R&D capabilities, stringent quality control and a strong and diverse customer base, the Group is progressing towards the formation of a world-class auto parts manufacturer and system integrator.

FINANCIAL HIGHLIGHTS

For the year ended 31 March

		2007	2006	2005 (restated)
Operating results				
Turnover	RMB'000	3,497,159	2,658,993	2,206,041
Gross profit	RMB'000	615,245	493,775	368,692
EBITDA	RMB'000	522,729	420,333	310,608
Profit attributable to shareholders	RMB'000	404,150	347,313	273,487
Ratio				
Gross profit margin	%	17.6	18.6	16.7
Net profit margin	%	11.6	13.1	12.4
Return on average shareholders' funds	%	16.2	20.8	26.6
Interest cover	times	7.8	9.8	14.3
Current ratio	times	3.3	4.1	3.1
Net debt/equity ratio	%	net cash	net cash	15.5
Share data				
Shares in issue	Thousands	1,251,368	1,077,321	975,000
Share closing price (as at year end)	HK$	3.50	3.7	1.98
Market capitalization	HK$'000	4,379,788	3,986,088	1,930,500
Basic earnings per share	RMB cents	32.79	35.24	28.94
Interim dividend per share	HK cents	2.20	2.00	2.50
Final dividend per share	HK cents	6.50	5.70	4.50
Total dividend per share	HK cents	8.70	7.70	7.00
Net asset value per share	RMB	2.37	1.89	1.35

GLOSSARY

EBITDA = Earnings before associate, interest, tax, depreciation and amortisation

$$\text{Gross profit margin} = \frac{\text{Gross profit}}{\text{Turnover}}$$

$$\text{Net profit margin} = \frac{\text{Profit attributable to shareholders}}{\text{Turnover}}$$

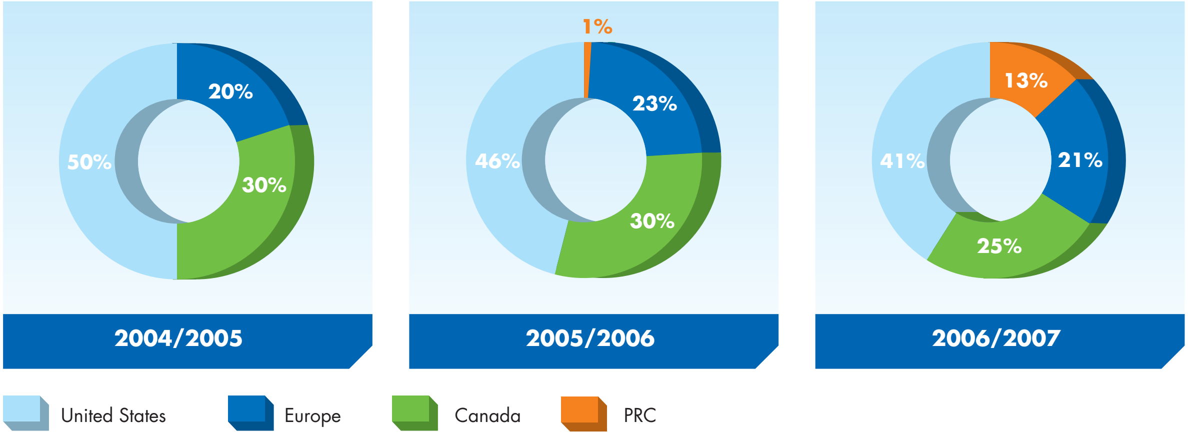
$$\text{Return on average shareholders' funds} = \frac{\text{Profit attributable to shareholders}}{\text{Average shareholders' funds}}$$

$$\text{Interest cover} = \frac{\text{Profit from operations}}{\text{Interest expenses}}$$

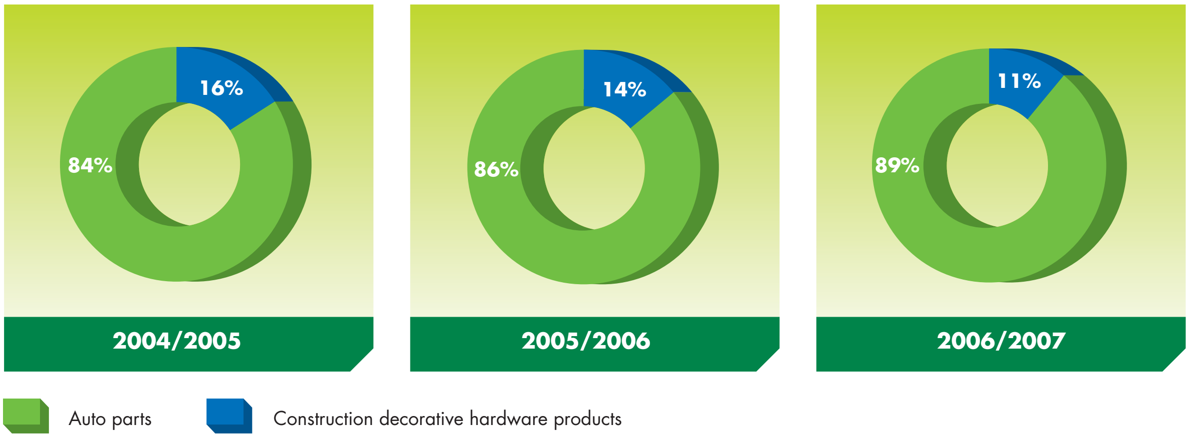
$$\text{Current ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}$$

$$\text{Net debt/equity ratio} = \frac{\text{Gross debt - cash and bank balances}}{\text{Shareholders' funds}}$$

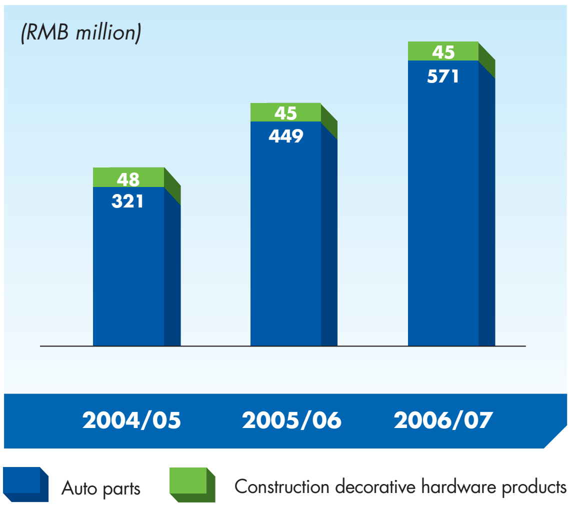
TURNOVER BY GEOGRAPHICAL LOCATION



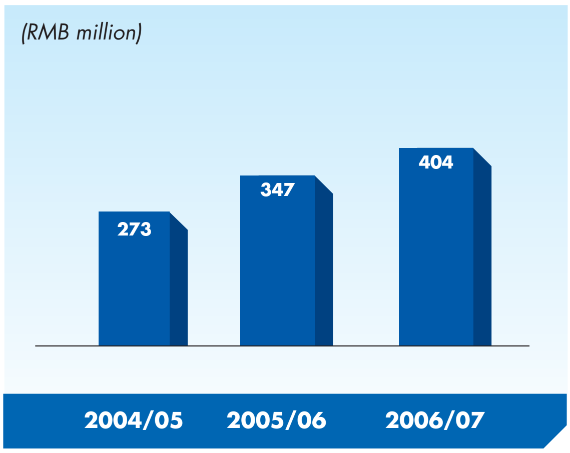
TURNOVER BY SECTOR



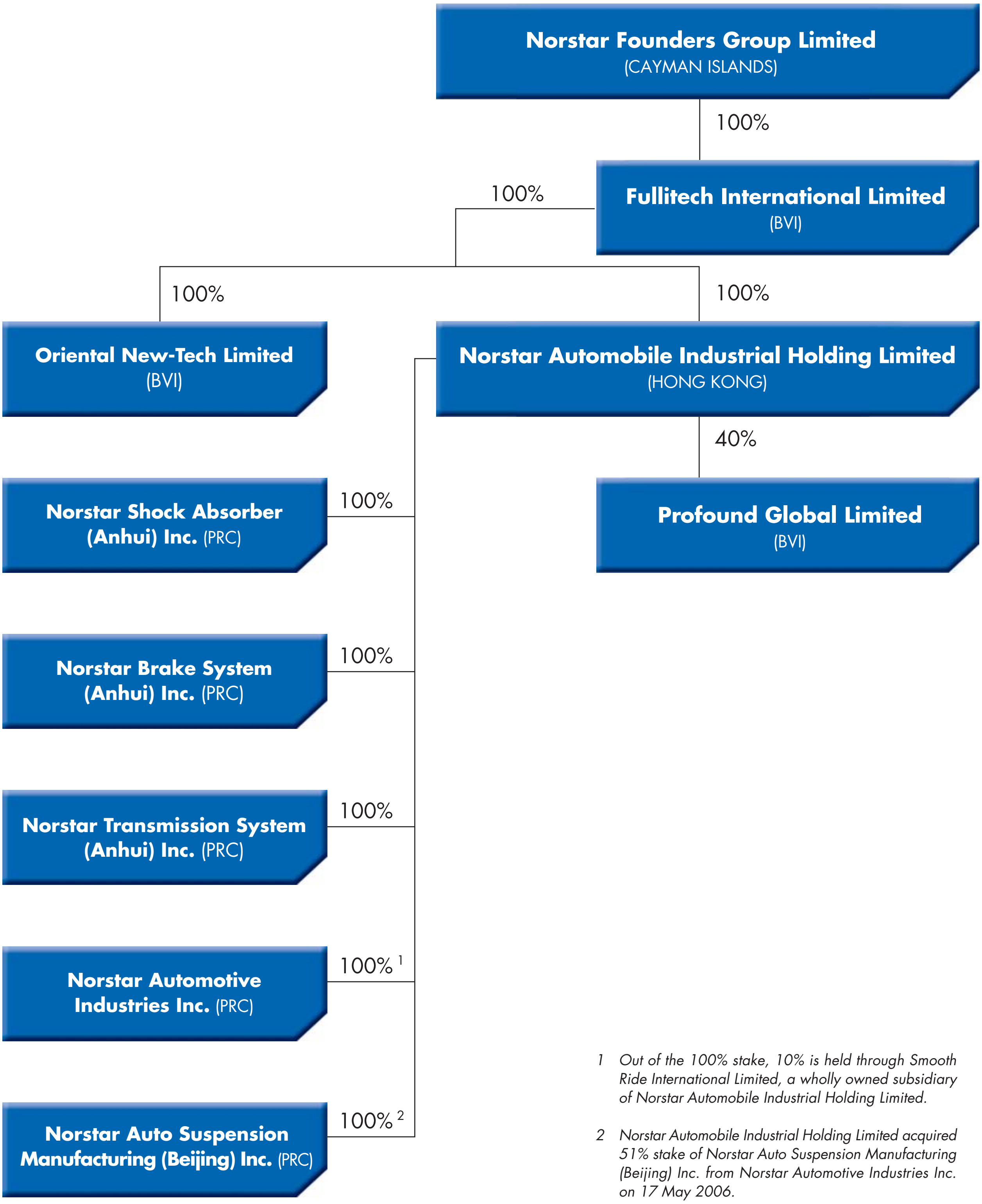
GROSS PROFIT BY SECTOR



PROFIT ATTRIBUTABLE TO SHAREHOLDERS



CORPORATE STRUCTURE



1 *Out of the 100% stake, 10% is held through Smooth Ride International Limited, a wholly owned subsidiary of Norstar Automobile Industrial Holding Limited.*

2 *Norstar Automobile Industrial Holding Limited acquired 51% stake of Norstar Auto Suspension Manufacturing (Beijing) Inc. from Norstar Automotive Industries Inc. on 17 May 2006.*

CORPORATE INFORMATION

Executive Directors
Ms. Lilly Huang (Chairman)
Mr. Zhou Tian Bao
Ms. Zhang Zhen Juan
Mr. Yang Bin
Mr. Dai Wei
Mr. Chen Xiang Dong

Non-Executive Director
Mr. Lee Cheuk Yin, Dannis

Independent Non-Executive Directors
Mr. Choi Tat Ying, Jacky
Ms. Zhang Xin, Cindy
Mr. Zhang Jian Chun

Company Secretary
Ms. Fung Ka Wai, Elina

Audit Committee
Mr. Choi Tat Ying, Jacky (Chairman)
Ms. Zhang Xin, Cindy
Mr. Zhang Jian Chun

Remuneration Committee
Mr. Choi Tat Ying, Jacky (Chairman)
Ms. Zhang Xin, Cindy
Mr. Zhang Jian Chun
Mr. Lee Cheuk Yin, Dannis

Nomination Committee
Mr. Lee Cheuk Yin, Dannis (Chairman)
Mr. Choi Tat Ying, Jacky
Ms. Zhang Xin, Cindy
Mr. Zhang Jian Chun

Auditor
RSM Nelson Wheeler

Principal Bankers
Banca di Roma
Bank of Communications
Bank of Tokyo-Mitsubishi UFJ Limited
Commerzbank
DBS Bank (Hong Kong) Limited
Hang Seng Bank Limited
KBC Bank N.V.
Hua Xia Bank
Oversea-Chinese Banking Corporation Limited
Sanpaolo Imi S.p.A.
State Bank of India
The Hong Kong and Shanghai Banking Corporation Limited
Wing Hang Bank Limited

Public Relations Consultant
Strategic Financial Relations Limited
Unit A, 29th Floor, Tower I, Admiralty Centre
18 Harcourt Road, Admiralty, Hong Kong
Website : www.sprg.com.hk

Principal Share Registrar and Transfer Office
Bank of Bermuda (Cayman) Limited
P.O. Box 513 GT
Strathvale House
North Church Street, George Town
Grand Cayman, Cayman Islands
British West Indies

Hong Kong Branch Share Registrar and Transfer Office
Computershare Hong Kong Investor Services Limited
Shop 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wan Chai, Hong Kong

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

Head Office and Principal Place of Business In Hong Kong
19th Floor, Tower II, Admiralty Centre
18 Harcourt Road, Admiralty
Hong Kong

Stock Code
HKEx : 2339

Website
www.norstar.com.hk

CORPORATE *MILESTONES*

OCT

Listed on the Mainboard of Hong Kong Stock Exchange

2003

SEPT

Production of friction materials commenced in Anhui plant

04

04

The China Auto Forum 2004 was first held with HSBC in Hong Kong

SEPT

AUG

Accredited with ISO/TS 16949 certificate

05

OCT

Norstar Auto Suspension Manufacturing (Beijing) Inc. located in BETD Area commenced operations

05

MAY

The third consecutive year for Norstar to hold China Auto Parts Forum with HSBC in Hong Kong

06

SEPT

Entered a Technology License and Technology Transfer Agreement with Delphi Technologies Inc. Norstar is equipped with the technical capabilities to manufacture friction materials products of global OE standards.

06

05

The China Auto Parts Forum 2005 was held with Citigroup in Hong Kong

SEPT

06

Signed a supply agreement to supply suspension systems/axle modules to Beijing Benz-Daimler Chrysler Automotive Co. Ltd. and BAIC

APR

06

Capacity of suspension systems /axle modules was expanded to 120,000 sets from 60,000 sets

JUN

07

Won the 1st OEM and OES order for friction material products from Shanghai General Motors in Jan 07 and started delivery in Mar 07.

MAR

STRIDES IN CHINA AND THE
GLOBAL PLAYFIELD
CHAIRMAN'S STATEMENT

>>

Among all emerging markets, China is the largest, fastest growing and most competitive. In the years to come, Norstar will focus on accelerating expansion in China, aiming to turn China into another major market in addition to North America and Europe.

CHAIRMAN'S STATEMENT

On behalf of the Board of Directors, I am delighted to present the annual results of Norstar Founders Group Limited ("Norstar", or together with its subsidiaries, the "Group") for the financial year 2006/07. The Group delivered record high results for another year with total turnover and profit attributable to shareholders up by 31.5% to RMB3,497,159,000 and 16.4% to RMB404,150,000 respectively.

I am pleased with the overall satisfactory performance of Group's operations during the year. However, it had to shoulder pressures from external challenges including appreciation of the RMB, high interest rate and economic austerity measures imposed by the PRC government. In spite of these challenges, thanks to the booming demand for quality auto parts in China, steady global aftermarket needs, international automobile manufacturers' increasing procurement in China and the PRC automobile joint ventures' turning to local sources for auto parts, the Group was able to achieve promising growth in sales.

During the year, the Group expanded production capacities for suspension systems and axle modules in Beijing. Sales of these products have become a major growth driver for the Group's top line. Sales of other high value added products (including disc brake pads and lined brake shoes) also had notable growth during the year.

The price of raw materials stabilized during the year under review. This plus the Group's efforts to optimize its product mix helped to lower the proportion of steel cost in the Group's total production cost and accordingly its cost pressure. The Group further achieved cost-efficiency through higher economies of scale as a result of capacity expansion and vertical integration as well as equipment upgrade. The adoption of strict cost control measures and implementation of strategies to develop high-margin products also provide a cushion effect for the group's overall gross margin.

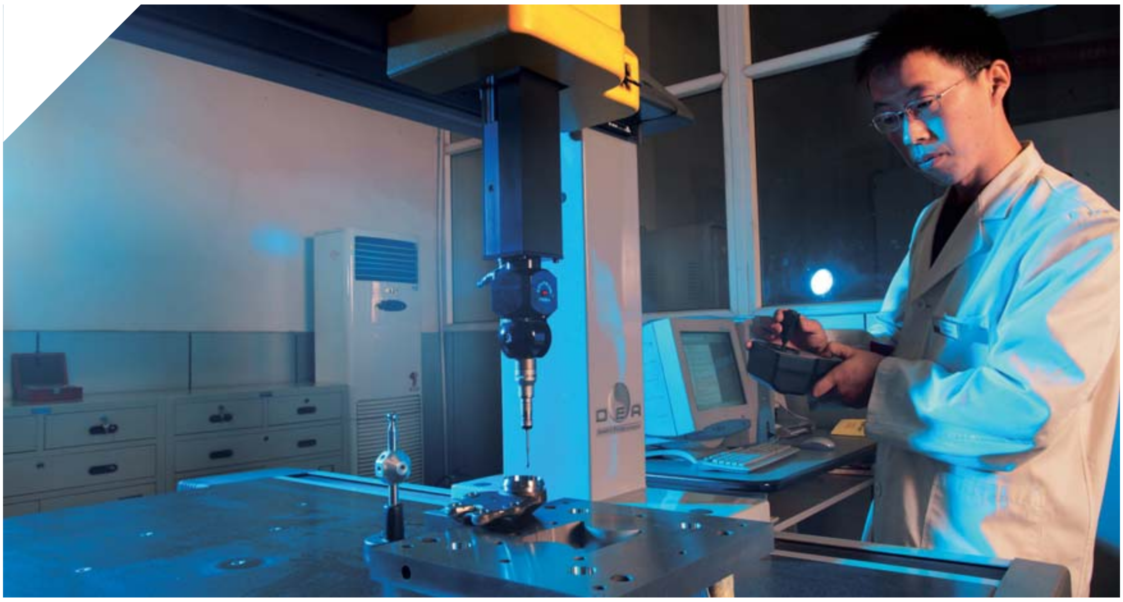
CHAIRMAN'S STATEMENT

As for the international markets, automobile ownership rates are expected to remain steady in mature markets in Europe, the U.S. and Japan. Competition and cost pressures will prompt more automobile manufacturers in these markets to either shift production to or procure more parts from low cost countries. Furthermore, emerging automobile markets are growing rapidly in Asia Pacific, Eastern Europe and South America. Supplied with abundant choices, consumers in these markets are demanding for products with high performance to price ratio.

Among all emerging markets, China is the largest, fastest growing and most competitive. According to China Association of Automobile Manufacturer's statistics, China sold a total of 7,200,000 automobiles in 2006, over 22% higher than the previous year. Sales of auto parts amounted to RMB524 billion in 2006. Total auto parts sales of the country is expected to reach RMB1,400 billion by 2010, representing a CAGR of approximately 27.8% Export of auto parts and automobiles from the country valued US$21.6 billion in 2006 and is expected to increase to US$70 billion by 2010 at a CAGR of over 34.2%.

In recent years, with the promotion of the Chinese Government, various industries have been actively improving product quality and production technologies instead of engaging in mere price competition. Enterprises are encouraged to innovate and explore new technologies. For many years, Norstar has been investing resources in R&D to develop high value added products, and such a strategy will continue for years to come.

Composite friction materials production line


Mould testing equipment from Italy

Looking ahead, we will continue to expand capacities and increase the utilization rate of production facilities to ensure that we are able to meet increasing orders, enlarge market share and explore new markets. As more and more international automobile manufacturers enter the China market, demand for quality auto parts will keep rising. Domestic manufacturers are also increasingly looking for quality auto parts to improve their products. Such developments will present Norstar with enormous opportunities. In the next few years, we will focus on accelerating expansion in China, aiming to increase the proportion of domestic sales to over 30% of the Group's total turnover within three years and turn China into another major market of the Group in addition to North America and Europe.

Norstar aspires to become a world-class auto parts manufacturer and system integrator. We will strive to improve competitiveness by strengthening our R&D capabilities and manufacturing standards, and hastening technological innovation. We will also continue to identify suitable merger and acquisition potentials in overseas markets to enhance production technology, and expand our customer network and business scale. Furthermore, the Group will keep its eyes on domestic merger and acquisition opportunities to effect better vertical and horizontal integration of its operations. On the solid foundation it has built, the Group has advanced into the stage of rapid growth. We will continue to exert our best in bringing satisfactory returns to our shareholders.

On behalf of the Board, I would like to thank the management and our staff for their contribution and dedication in the past year. I would also like to thank our customers, suppliers, financial institutions, business associates and shareholders for their continuous support and trust in Norstar over the years.

Lilly Huang
Chairman
Hong Kong, 28 June 2007

SEIZE OPPORTUNITIES

EMBRACE CHALLENGES

INTERVIEW WITH THE CEO

>>

Norstar continued to move up the value chain by increasing the weight of high value-added products and OE products in its portfolio, to expand production capacity and to widen gross profit margins through vertical integration.

INTERVIEW WITH THE CEO

Question 1:

The RMB has been appreciating faster than the market expected. What measures do you have to mitigate its impact on your export business?

CEO:

The RMB appreciated over 4% last year and caused certain exchange losses to the Group. Counter measures taken by the management included:

1) Agreed with certain overseas customers on an average 2% raise in the prices of certain export products commencing 1 April 2007. Management will continue to negotiate for further raise.

2) Stepped up effort to expand the domestic market to increase the proportion of RMB turnover. In FY 2006/07, RMB denominated turnover accounted for 12.5% of total turnover. The management hopes to increase the ratio to over 15% in the coming financial year and to 30% in the next two to three years.

3) Continued to move up the value chain by increasing the weight of high value-added products and OE products in its portfolio, to expand production capacity and to widen gross profit margins through vertical integration.

4) Apply tight cost control measures and optimize the supply chain and cost structure.

5) The Group's loan portfolio comprises mainly non-RMB debt, which can serve as indirect hedge against the risks arising from appreciation of the RMB.

6) Management will look into certain derivative products which could potentially reduce the Group's exchange losses.

Question 2:

Please explain your relationship with Delphi and the progress of your cooperative efforts.

CEO:

The Group signed a technology cooperation agreement with Delphi in September 2006 concerning composite friction material technology tailored for the OE market. The 10-year agreement granted us exclusivity in China for the first five years. Since the agreement was signed, the Group has obtained all the formulations and technologies of Delphi's friction materials and Delphi has provided training to the Group on ways to improve production craftsmanship and the skills of its staff. Delphi has also helped the Group pass technological inspections by Shanghai General Motors and upgrade production techniques. In March 2007, the Group secured the first OE order for the technology, covering OEM and OES endeavors and entailing the provision of disc brake pads for the Lacrosse automobile series manufactured by Shanghai General Motors Co. Ltd. Lacrosse was among the best selling middle to high-end sedans in the China market and the second best seller among all new automobile models last year according to the 2006 statistics of the China Association of Automobile Manufacturers. Currently, we are developing the OE market for various vehicle models of General Motors in North America, and are actively pursuing cooperation opportunities with other leading vehicle manufacturers. Our cooperation with Delphi has facilitated Norstar's rapid growth in the OE market.

OE friction materials production line

Question 3:

Does the Group have sufficient production capacity for various products? Can you tell us what progress you have made with rolling out new products and your capacity expansion plan for the next few years?

CEO:

The Group has mapped out product development plans heeding market conditions and development needs:

1) We have started trial production of ball joints. Some of the products are going through inspection by OE manufacturers, but internal consumption of the products has begun.

2) Installation and testing of shock absorber facility is expected to be completed by the end of 2007 for trial production.

3) A brake system facility is expected to start trial production in first half of 2008.

4) For the axle module and suspension system assembly business, taking into consideration the rising demand of existing customers and demand from potential customers, the Group has begun to expand the production capacities for suspension system assembly and key parts machining in the Beijing Economic and Technology Development Zone. The Group aims to raise production capacity to 200,000 sets by the end of FY2007/08 and to 400,000 sets in FY2010/11.

5) The total production capacity for disc brake pads will see a slight increase in order to cater for new orders from Shanghai General Motors and other OE customers.

Ball joints production line

Assembly line for control arms

Mould grinding machine from Switzerland

Question 4:

The Group has said it would actively look for appropriate merger and acquisition (M&A) opportunities. What criteria do you use in selecting suitable M&A targets?

CEO:

The Group is looking for appropriate M&A targets in China and overseas, with the aim of advancing its technological skills, expanding market reach and optimizing product mix within the automobile chassis system. In choosing M&A targets, we will consider the following criteria:

1. In China

i) Whether a target has a strong OE customer network;

ii) Whether it can enhance the Group's existing product offerings or bring in synergies;

iii) Whether it can bring substantial RMB revenue and contribute a more balanced currency mix for the Group's turnover;

iv) Whether it has strong human resources and technological foundation and sound development potentials.

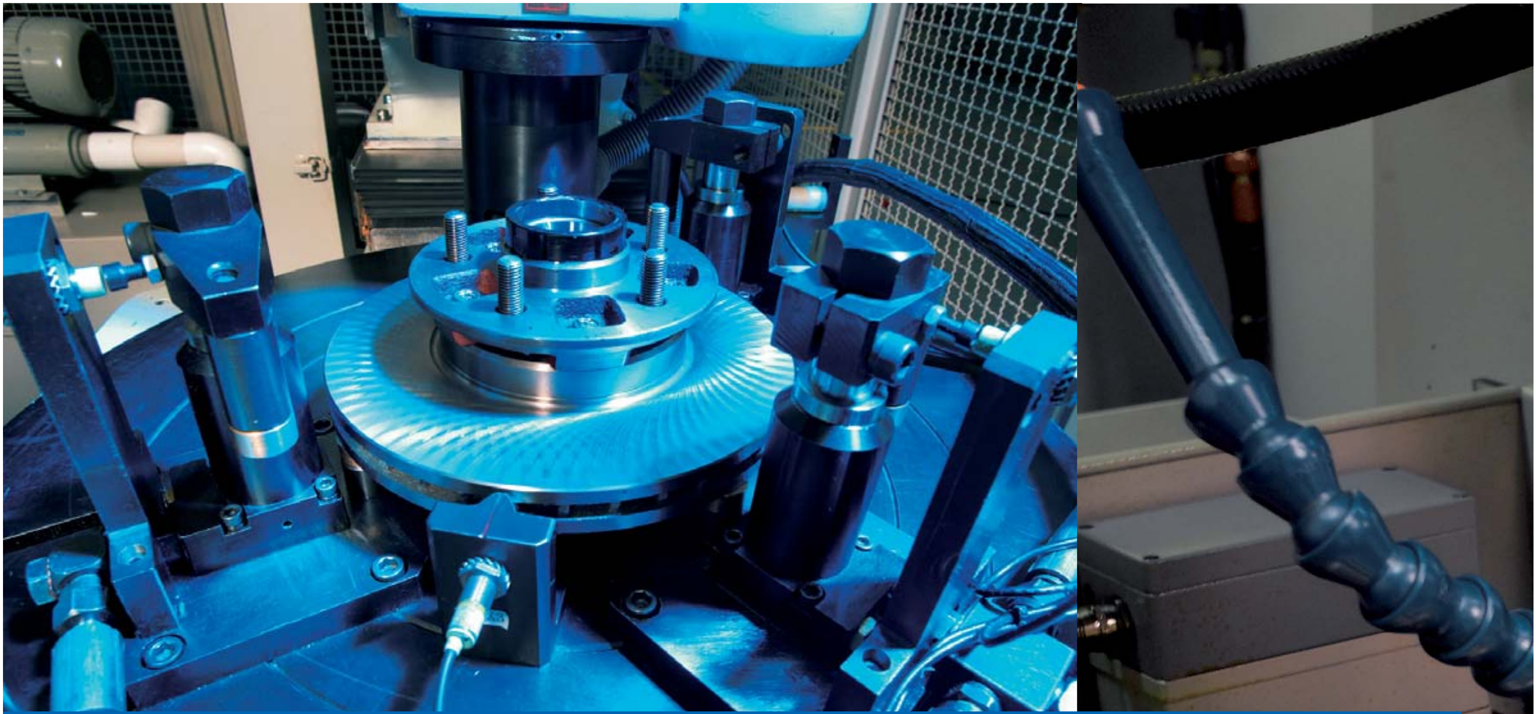
2. In overseas

i) Whether it has an extensive global OE customer network and bright market prospect;

ii) Whether it has technological leadership or strong manufacturing skill sets in the global automobile market;

iii) Whether it can bring to the Group professionals with international exposure;

iv) Whether it is feasible to relocate certain parts of the operations to China.



CHINA MARKET WORLDWIDE BRAND

>>

Within the next two to three years, the Group will strive to expand the scale of its business and enhance R&D capabilities by investing in new plants/joint ventures and mergers and acquisitions.

INNOVATE AND GROW

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS AND FINANCIAL REVIEW

For the financial year ended 31 March 2007, the Group recorded a turnover of approximately RMB 3,497,159,000, a 31.5% rise from last year's approximately RMB 2,658,993,000. Gross profit amounted to approximately RMB 615,245,000, representing a 24.6% increase from the approximately RMB 493,775,000 last year. Together with the profit of associated company, total profit attributable to shareholders increased to RMB 404,150,000, 16.4% more than last year's approximately RMB 347,313,000. Earnings per share were RMB 32.8 cents, 7.0% lower than that of last year due to dilutive effect from conversion of convertible bonds into ordinary shares since 2006 and placement of new shares in April 2006.

The Board of Directors recommended the payment of a final dividend of HK 6.5 cents per share for FY2006/07 payable to shareholders whose names appear on the Register of Members of the Company on 15 August 2007. Together with the interim dividend of HK 2.2 cents per share already paid, the annual total dividend per share for the year amounts to HK 8.7 cents. Subject to the approval of shareholders at the forthcoming annual general meeting, the final dividend will be paid on 24 August 2007.

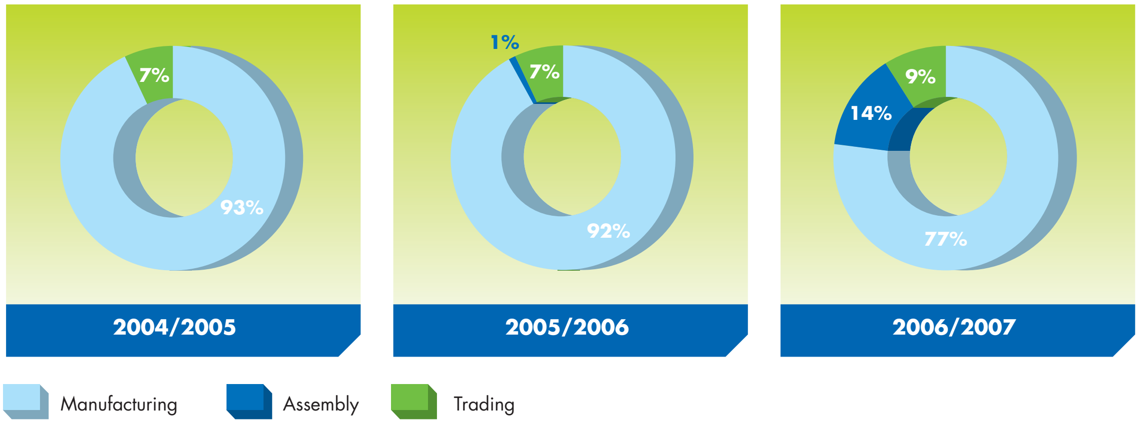
During the year, the increasingly competitive automobile market in China, high interest rate, appreciation of the RMB and fluctuating raw material costs all posed challenges to the Group's business. However, with the Group's continuous emphasis on product quality and development of high value-added products, and thanks to stable overseas aftermarket demand, global automobile manufacturers' increasing purchasing from China and rapid expansion of the China OE market, the Group continued to record stable sales growth. Furthermore, the technological cooperation with Delphi Technologies, Inc. ("Delphi") on producing composite friction material also helped to boost sales of high value-added products. The suspension system/axle module and shock absorber assembly lines in Beijing became fully operational during the year. With production capacity doubled, the facility has seen the Group move up the value chain as well as the currency mix of its turnover enhanced.

Although it exercised stringent internal cost control and focused on developing high value-added products, with the RMB appreciating sharply and assembly business having a relatively lower margin, the Group's overall gross profit margin slightly decreased against last year's. During the year, the Group's overall gross profit margin was approximately 17.6%, while that of last year's was approximately 18.6%. If eliminating the impact of RMB appreciation, the overall gross profit margin of the Group would have increased by 0.3 percentage point when compared with the previous year. Appreciation of the RMB is expected to pose long-term pressure on the Group's overall gross profit margin. To mitigate such impact, the Group will continue to develop high value-added products, striving to move up the value chain and develop its market in China. To the same end, it will also strive for organic growth as well as expansion through mergers and acquisitions.

AUTO PARTS

During the year, the core business of the Group continued to be sale of auto parts. Its turnover amounted to approximately RMB 3,116,596,000, representing a 35.7% increase from approximately RMB 2,297,521,000 in the last corresponding period. It accounted for approximately 89.1% of the Group's overall turnover. Gross profit margin of the business decreased slightly to 18.3% from last year's 19.5%, attributable to the currency exchange loss of export business resulting from appreciation of the RMB and the relatively lower profit margin of the suspension system/axle module and shock absorber assembly operations. However, this business has moved from the introduction stage into the growth stage, as reflected in the steady rise in capacity utilization since the Group's production capacity doubled in July 2006. With production of core suspension system parts and brake systems for use on the assembly lines commencing in the coming two years and the boosted capacity bringing greater economies of scale, the overall profit margin of the Group is expected to return on the up trend.

AUTOPARTS TURNOVER BY BUSINESS SEGMENT



Ball joints production line

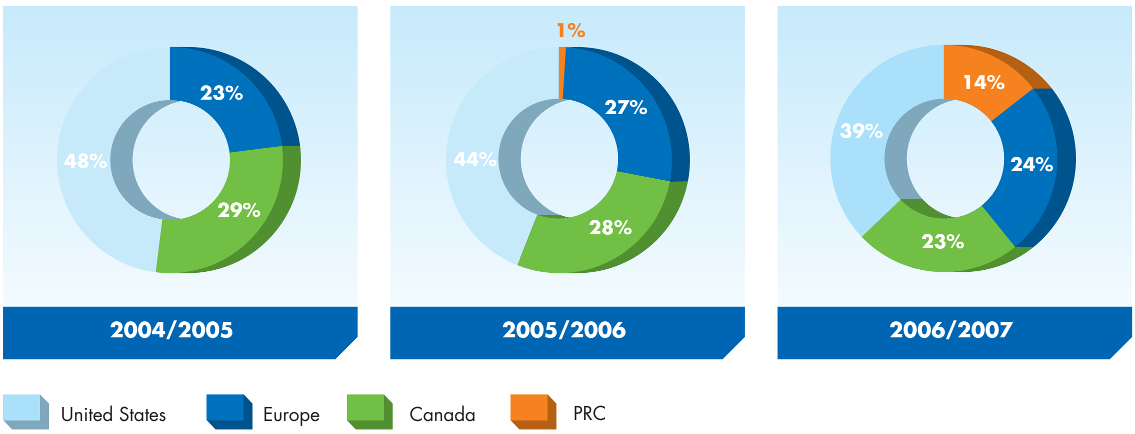
Hardinge grinding machine for ball joints

Market Analysis

Sales of suspension systems/axle modules and shock absorbers in the PRC surged markedly during the year, and ample room for growth is expected for the business in the future. Export continued to make up the bulk of the Group's business and accounted for 86% of the turnover from auto parts business, with the US, Canada and Europe as major markets.

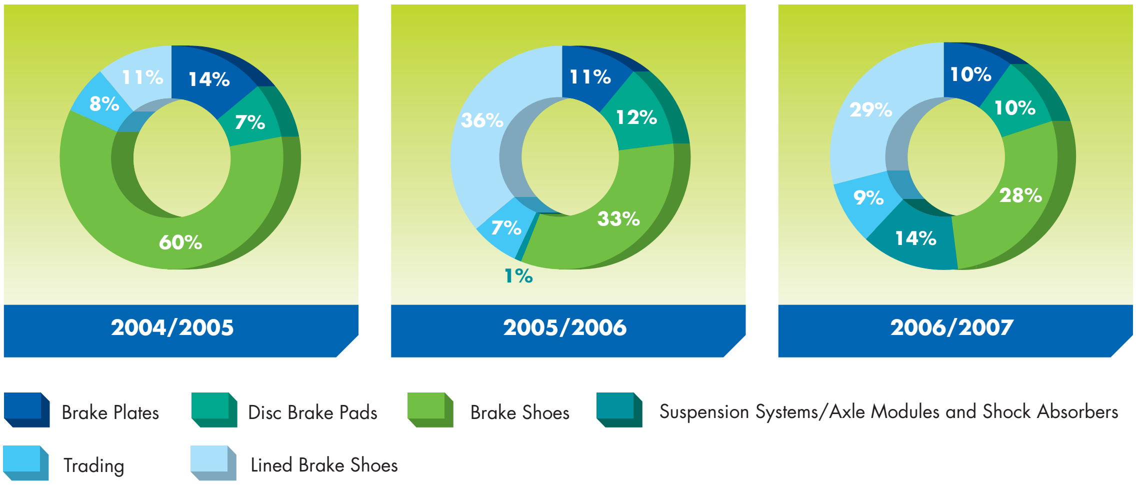
The major export markets in the US, Canada and Europe accounted for 38.6%, 23.5% and 23.7% respectively of the turnover from sales of auto parts against 43.8%, 28.1% and 27.1% last year. As for the China market, its share of contribution to the total turnover from sales of auto parts increased from about 1% last year to this year's 14%. The Group reached consensus on product pricing with overseas customers in December 2006, agreeing on raising export price of its product for 2% on average, effective 1 April 2007, to compensate for loss resulting from appreciation of the RMB. The Group expects to see stable growth for its markets in the US, Canada and Europe in the coming year, while focus on developing the PRC market.

AUTOPARTS TURNOVER BY REGION



MANAGEMENT DISCUSSION AND ANALYSIS

AUTOPARTS TURNOVER BY PRODUCT



MANUFACTURING BUSINESS

During the year, the Group's auto parts manufacturing business reported stable growth, with sales up 13.6% to approximately RMB 2,408,356,000, accounting for approximately 77.3% of the total turnover from sales of auto parts.

Turnover from sales of disc brake pads and lined brake shoes increased by approximately 8.2%, thanks to improved utilization of production capacity. Sales of brake plates/shoes climbed about 19.6% benefiting from the boosted production capacity since February 2006.

Currently, the Group produces more than 800 models of disc brake pads and lined brake shoes, which together account for about 50.2% of total auto parts manufacturing sales. The Group signed a composite friction material technology license agreement with Delphi in September 2006 and secured the first OE order for friction material products in March 2007. Covering OEM and OES endeavors, the order entails provision of disc brake pads for the Lacrosse series manufactured by Shanghai General Motors Co. Ltd. ("Shanghai GM"). Lacrosse was among the best selling middle-end sedans in the China market and ranked the second best seller among all new automobile models last year according to China Association of Automobile Manufacturers. Winning the order marked Norstar's entry into the international OE supply chain, as well as another breakthrough of the Group in China's OE market following the launch of its suspension systems/axle modules and shock absorbers. The management believes Norstar's landing the order so shortly after it forged strategic relationship with Delphi is proof of its outstanding execution capability.

The Group is developing OE products for various vehicles manufactured by Shanghai GM and GM in the North America. It has also been actively pursuing joint efforts with other leading vehicle manufacturers to develop more OEM and OES products to raise product value and profit margin, as well as increase RMB revenue.

During the year, the utilization rate of the Group's facilities to produce stamping parts (i.e. brake plates/shoes) was more than 86.5% and that of composite friction material was 84.1%. The management is considering adding new OE production lines to increase production capacity for friction material and bringing in new testing and inspection equipments in the coming financial year, so as to satisfy the OE market demand for composite friction material. It is also looking into increasing the production capacity of stamping parts as a whole.

ASSEMBLY BUSINESS

In July 2006, the Group increased its annual production capacity from 60,000 sets of suspension system/axle module to 120,000 sets. Utilization rate increased to 74.7% from last year's 16.9%. Together with shock absorbers, turnover of assembly products rose to RMB 424,492,000 from RMB 22,977,000 in the previous year, and their contribution to the total turnover of auto parts also leaped from approximately 1% in the previous year to 13.6%. As more and more domestic automobile manufacturers are willing to use quality auto parts to enhance product quality and more joint venture automobile manufacturers are replacing imported auto parts with locally made ones, the management sees huge demands for the Group's suspension systems/axle modules and shock absorbers. It believes that such products will become the leading products and major turnover growth driver of the Group. As these products are denominated in RMB, it will also optimize the overall currency mix of the Group's turnover and help to mitigate the negative impact of RMB appreciation.

TRADING BUSINESS

Compared with last year, income from trading of auto parts increased a substantial 84.0% to RMB 283,747,000, accounting for approximately 9.1% of the year's total auto parts sales. During the year, universal joints and transmission shafts were the major auto part products sourced by customers. With the addition of 5 new qualified suppliers, the Group has been able to satisfy customers' demands and boost the results of trading business. The Group aims to achieve stable and continuous growth for the business by satisfying demand in terms of quality and volume of existing customers.

CONSTRUCTION DECORATIVE HARDWARE

In the year, construction decorative hardware products generated a turnover of approximately RMB 380,564,000, which was 5.3% higher than in the previous year. Its contribution to total sales of the Group dropped 2.7ppts to 10.9%. The gross profit margin of construction decorative hardware products declined from last year's 12.5% to 11.8% mainly due to change in export VAT rebate policy and RMB appreciation.

GL8

Lacrosse

OE friction materials production line

PRODUCTION COSTS

During the year, the cost structure of the Group's production business changed reflecting changes in product mix. As a result of the flourishing business of suspension system assembly, its purchasing costs of parts and components accounted for 13.0% of the Group's total production costs against last year's 1.0%. Although the cost of steel continued to make up the largest share of the Group's production costs, its percentage dropped from around 46.0% last year to around 36.9% this year. Total composite friction material costs to total production costs decreased from approximately 20.1% last year to approximately 18.8% this year.

The average unit price of steel dropped approximately 3%. The cost of friction materials and chemicals used for surface finishing and electroplating remained generally stable.

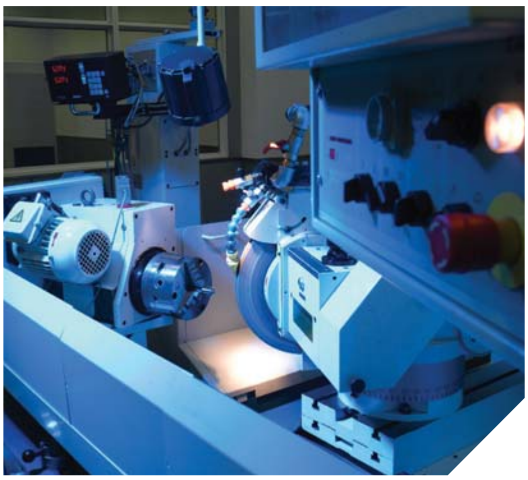
GROSS PROFIT MARGIN

The Group's overall gross profit margin dropped slightly from 18.6% to 17.6%, the result of increasing sales of suspension systems/axle modules and shock absorbers, which caused overall gross profit margin to drop temporarily. In addition, the Group adjusted its book exchange rate of USD to RMB from 8.1 to 7.9 on 1 October 2006 to reflect appreciation of the RMB, which resulted in a drop in revenue exchanged from RMB to USD. Assuming no adjustment of book exchange rate was made, the overall gross profit margin would have increased slightly, because of decreasing unit price of steel and better production efficiency achieved during the year.

Looking to the coming financial year, the Chinese Government's austerity measures over the steel industry has been effective. Pushing for energy conservation and cutting wastage and catering for domestic needs will be the focus next. The Group does not expect substantial increase in the price of steel. As for other major raw materials such as friction materials and chemicals, taking reference from terms in the latest purchase contracts, their costs will remain stable in the coming financial year. In the middle to long run, the Group will gradually increase the proportion of high value-added products and OE products in its offers, facilitate vertical integration, expand production capacity and exercise stringent cost control in order to assure steady growth of the Group's profit margin.

PRODUCT RESEARCH AND DEVELOPMENT

During the year, the Group invested approximately RMB 115,635,000 (FY2005/06: RMB 95,537,000) in research and development ("R&D") of products. The amount was equivalent to approximately 3.3% of the Group's total turnover (FY2005/06: 3.6%). The Anhui plant developed over 500 product items including brake plates/shoes, disc brake pads and lined brake shoes, ball joints, brake systems and chassis stamping parts, etc., bringing the total number of auto part products it offers to over 1,500. The Beijing plant also developed 20 models of suspension systems and axle modules.



Mould grinding machine from Switzerland

Friction materials production facility

Germany's Chiron CNC machining facility for ball joints

The Group's Technology License Agreement with Delphi has given it access to 18 formulations and entire technologies for 172 products suitable for all GM vehicles. Delphi has helped the Group to improve its overall operation to reach the standard of those of international automotive OE product manufacturers.

PROSPECTS

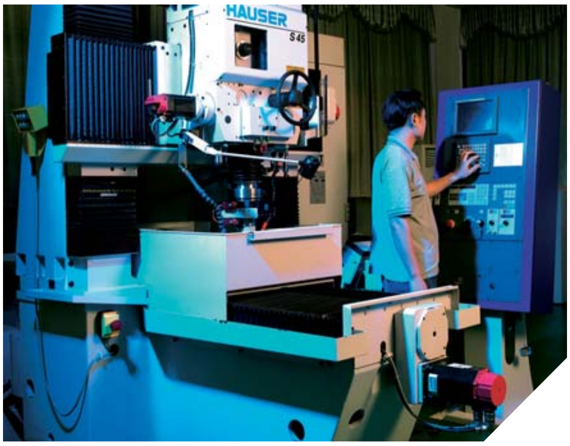
As more and more US and European automobile giants are setting up purchasing centres, R&D facilities and production lines in China, the country's auto parts industry is presented with substantial orders, new technologies and huge market opportunities. However, competition has also intensified. Facing opportunities and challenges, Chinese auto parts enterprises have to shape up quickly if they are to compete effectively. A leader in the auto parts industry in China, Norstar's long-term goal is to become a world-class system integrator of auto parts. Within the next two to three years, the Group will strive to expand the scale of its business and enhance R&D capabilities by investing in new plants/joint ventures and mergers and acquisitions. This can help speed up its transformation into an automobile chassis system parts manufacturer and system integrator.

As for investment in new plants, the Group will build new plants for producing chassis system parts such as brake systems, suspension systems, steering systems and transmission systems. As for mergers and acquisitions, the Group will pursue projects that focus on supplying various modules and systems to OE customers. The Group will keep looking for M&A opportunities to facilitate the development in integrated systems including the chassis module, wheel system, steering system, transmission system and powertrain system. The Group will also look into projects that can enhance its existing surface finishing technology, or bring in technologies other than stamping so as to help optimize the Group's existing industry chain and technology portfolio.

Germany's ZF automatic assembly line for ball joints

MARKET/CUSTOMER PROSPECTS

Looking ahead, the Group expects its existing brake shoes/plates business to mature and enter a stage of steady and balanced growth in the international aftermarket. The business will serve the sourcing needs of the Group's existing customers. In the domestic market, riding on its cooperation with Delphi in the R&D of composite friction material technology, the Group will step up efforts in exploring opportunities in the OE market. Having successfully entered the supply system of Shanghai GM, the Group will actively approach other internationally renowned automobile manufacturers.



Mould grinding machine from Switzerland

The Group secured over 10 OE customers for its suspension systems/axle modules in Beijing in FY2006/07. Among them, Beijing Benz-Daimler Chrysler Automotive Co., Ltd. contributed satisfactory revenue. Other customers had indicated the need to increase purchase amounts, which is the reason behind the Group’s on-going capacity expansion. Furthermore, the Group will also cooperate with several potential customers to develop and test new suspension system/axle module products.

In the coming year, the Group will focus on boosting sales of suspension systems/axle modules and shock absorbers in China and sales of lined brake shoes/ disc brake pads and ball joint products in the domestic OE market. Its aim is to increase the proportion of domestic sales to over 30% of the Group’s total turnover within the next two to three years

PROJECT PROGRESS

Disc Brake Pads For OE System

As the Group seeks to use Delphi’s friction material technology in more applications, it will be able to increase production capacity slightly. It also plans to expand its product mix from mostly semi-metallic frictional materials to include also ceramic frictional materials to meet both domestic and overseas demands.

Suspension System Assembly

The Group had already increased its production capacity for suspension systems/axle modules from 60,000 sets to 120,000 sets. However, heeding the growing demand of existing customers and the purchasing need of potential customers, the Group targets to increase related capacity to 200,000 sets by the end of FY2007/08 and to 400,000 sets by the end of FY2010/11.


Cherokee


Mitsubishi Outlander


Jeep 2500


Mitsubishi Pajero

Disc brake pads

Suspension systems / axle modules

Components of brake systems

Suspension System Parts

Currently, the Group still purchases certain key parts of suspension systems from other suppliers. The management plans to internalize the manufacturing of certain key parts used in suspension systems and shock absorbers at the Anhui plant, which will not only ensure the Group has stable supply of quality components, but will also effectively raise the overall profit margin of the suspension system and shock absorber business. Apart from supplying needs of the Beijing plant, the components also have huge domestic and export market potential. The Group has commenced trial production of ball joint products and the designed capacity for phase one of the project is 3,000,000 pieces. Trial production of shock absorbers will begin in FY2007/08 with an initial designed capacity of 2,000,000 sets.

Brake System

The Group's existing disc brake pad/lined brake shoe products are major components of brake systems. The pursuit of vertical integration will boost the value of the Group in the supply chain. Preparation work for production of brake system products has begun at the Group's Anhui plant during the year. The designed production capacity for disc brakes/drum brakes for phase one of the project is 400,000 sets and trial production is scheduled for the first half of 2008.

R&D PLAN

Looking forward, the Group will work with certain leading automobile manufacturers and develop chassis systems for several new vehicle models. Its Anhui R&D and tooling centre will focus on development of ball joints, shock absorbers, brake systems and chassis stamping parts, etc. The Group plans to develop about 600 models of these products in FY2007/08. As for stamping parts, the Group will focus on upgrading its fine blanking capability, and extend its current stamping technology to cover parts other than brake plates/shoes. On friction material side, apart from deepening its production capability for semi-metallic pads, the Group will dedicate efforts in developing ceramic pads with the help of Delphi's technology.

At its chassis systems research centre in Beijing, the Group plans to develop new chassis assembly products for 20 vehicle models in the coming financial year. In addition to the chassis systems for cross country vehicles, SUV, MPV, light passenger vehicles and pickups, the Group has participated in several joint development projects for chassis system, mainly on independent suspension system for sedans. Regarding the R&D of auto parts, the Group will not only develop various auto parts including driveshaft housings, final drive reduction housings, differential housings, semi axles, disc brake pads and steering knuckles, it will also include limited slip differentials, locking differentials and energy savers etc. into the R&D list for the coming year.

ORDER BOOK

In the first quarter of FY2007/08, the Group has already registered sales orders totaling RMB 893,000,000 (exchange rate: USD1=RMB7.6). If eliminating RMB appreciation effect, the sales orders would have amounted to RMB 942,000,000 (exchange rate: USD1=RMB8.1), 22.7% more than that in the same period last year.

The management believes, as various high value-added products in the pipeline move into production, the Group will be able to deliver promising growth in near future.

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATING COST

DISTRIBUTION AND SELLING EXPENSES

The Group's total distribution and selling expenses increased by 17.0% during the year. Sea freight and local transportation charges, which accounted for 95.3% (31 March 2006: 96.1%) of the Group's total distribution and selling expenses, was up 16.1% during the year. Such increase was mainly attributable to higher unit charges for local transportation and increased sales volume during the year.

ADMINISTRATIVE EXPENSES

Total administrative expenses rose 95.2% during the year, or 77.3% after excluding exchange loss which increased from RMB 8,024,000 to RMB 24,941,000 (please refer to the section "Impact from RMB appreciation" for details). Additional administrative expenses and depreciation as a result of full year production of Beijing's suspension system assembly operation (commenced in October 2005), and the subsequent doubling of its production capacity in July 2006, accounted for around 40.0% of the increase after excluding exchange loss. Head counts for the rest of the Group were also increased to support the Group's development of the PRC market. Labour and management salaries and corresponding staff welfare provisions also saw moderate increases. Also included in administrative expenses were property tax provisions for Anhui and Beijing facilities and amortization of share options granted in September 2006.

OTHER REVENUES

Other revenues mainly consisted of sales of scrap metals and waste materials and interest income during the year. The higher revenue from sale of scrap metals was mainly attributable to an increased scrap metal sales volume due to rising production volume and higher product development activities, and higher selling prices for scrap metals.

Interest income soared by 141.3% during the year, due mainly to the increase in cash balance which surged 61.5% compared with the year ended 31 March 2006 and an increase in placement of idle cash in fixed deposits.

FINANCE COSTS

During the year, total finance costs rose by approximately 7.0% compared with last year. Interest costs on bank borrowings however surged by 49.3% due to higher bank borrowings after the drawdown of a US-dollar denominated syndicated loan totaling USD94.6 million in November 2005, and a moderate increase in USD LIBOR during the year. Gradual repayment of the syndicated loan commenced in November 2006, which resulted in a lower bank loan balance as at 31 March 2007 compared to the amount as at 31 March 2006.

Interest on convertible bonds and arrangement fee amortisation however decreased sharply by around 79.9%, as 80% of the USD40m-convertible bonds were already converted into equity during FY2005/06. As at 31 March 2007, total outstanding convertible bonds amounted to USD6,750,000, representing 16.9% of the total issued amount.

Shock absorbers testing line

Production facility for ball joints

SHARE OF PROFITS OF AN ASSOCIATE

The Group owned 40% stake in Profound Global Group, which engages in the manufacturing and distribution of metal hardware products as well as the trading and distribution of auto parts in the PRC. During the period from 1 April 2006 to 31 March 2007, Profound Global Group recorded total turnover of approximately RMB 1,360,807,000 (FY2005/06: RMB 1,588,480,000) unaudited profit before taxation of RMB 113,093,000 (FY2005/06: RMB 121,889,000) and unaudited net profit of RMB 89,138,000 (FY2005/06: RMB 106,888,000), representing declines of 14.3%, 7.2% and 16.6% respectively, against last year. Despite an increase in turnover from sales of metal hardware products during the period, intensifying competition for auto parts trading and distribution in China dragged down total turnover of the company. Income tax rate for the company's auto parts trading and distribution business also increased to 33% during the period, which resulted in higher taxation charges for Profound Global Group.

Profound Global Group declared a dividend of HKD8,000,000 to the Group for the year.

IMPACT OF RMB APPRECIATION

During the year, the Group generated approximately 87.4% of its sales from export markets including the US, Canada and Europe. Most of the Group's export sales are denominated in US dollars while its purchases and expenditures are denominated in RMB, except for certain capital expenditures which are settled in US dollars. Hence, appreciation of the RMB against US dollars during the year had affected the earnings of the Group.

The Group’s book exchange rate of US dollar against the RMB was 8.27 until 1 July 2005 when the rate was adjusted to 8.1. The Group had since then maintained the same book exchange rate until October 2006 when the rate was revised to 7.9 to reflect the continuing RMB appreciation. The adjustment in book exchange rate has resulted in 1.8% decrease in the Group’s total export revenue. Furthermore, additional exchange losses totaling RMB 44,228,000 were also incurred with respect to the settlement and revaluation of the Group’s accounts receivable balances recorded during the year, as a result of differences between book and actual exchange rate at the point of settlement or revaluation.

The Group has adopted a few measures to mitigate the impact of RMB appreciation on its profits. Apart from mapping plan to raise its PRC turnover to over 30% within the next 2 to 3 years, the Group has been maintaining a bank loan portfolio which is mainly denominated in foreign currencies, i.e. US dollars and HK dollars.

All in all, the Group recorded a net exchange loss of approximately RMB 24,941,000 for the year ended 31 March 2007 (31 March 2006: RMB 8,024,000).

THE GROUP'S FINANCIAL POSITION, LIQUIDITY AND CAPITAL STRUCTURE

As at 31 March 2007, the Group had total net assets of approximately RMB 2,964,298,000 and net current assets of around RMB 1,879,430,000, compared to approximately RMB 2,030,230,000 and RMB 1,490,154,000 respectively as at 31 March 2006.

The average receivable turnover for the year was 60 days compared to 56 days for FY2005/06. The Group maintains credit terms of 30-90 days. The increase in receivable turnover days for the year was mainly due to a gradual reduction in the proportion of exports to overseas customers through the Group's agent with a shorter credit term. During the year, the Group's export via agent accounted for 12.4% of its total sales compared to 16.8% for FY2005/06. Excluding such sales and the corresponding accounts receivable balance, the Group's average receivable turnover for the year was 61 days, representing a slight improvement from 64 days for FY2005/06.

Average payable turnover for the year increased slightly to 18 days from last year's 16 days. Average inventory turnover also increased to 9 days from last year's 7 days.

During the year under review, total cashflow from operations amounted to approximately RMB 565,433,000 compared to RMB 208,107,000 last year. Total capital expenditure was RMB 167,651,000 (FY2005/06: RMB 101,816,000).

As at 31 March 2007, the Group's cash and bank balance increased to approximately RMB 1,743,535,000 compared to RMB 1,079,833,000 as at 31 March 2006. Total borrowings including bank loans and convertible bonds for the Group declined from RMB 1,047,296,000 to RMB 884,716,000, resulting in a net cash position of approximately RMB 858,819,000 (31 March 2006: RMB 32,537,000).

Over 90% of the Group's cash and bank balance is denominated in RMB with a small portion in HK dollars and US dollars. Continuing RMB appreciation has prompted management to maintain most of the Group's cash and bank balances in RMB so as to minimize foreign exchange losses for the cash holdings. In addition, to mitigate the impact of RMB appreciation on its earnings, the Group's loan portfolio is principally denominated in foreign currencies such as HK dollars and US dollars. As at 31 March 2007, approximately 84% of the Group's total borrowings were denominated in foreign currencies, and 93% of such borrowings bear floating interest at prevailing market rates.

Looking ahead, the Group's cash and bank balances will be principally used to finance operations, capital expenditures required for various green-field and capacity expansion projects. They will also form part of the "war chest" for the Group's potential acquisitions in the future. Please refer to the "Prospects" section for further details.

Stamping machines for steel backings

Assembly line of disc brakes in Beijing plant

CHARGE ON ASSETS

As at 31 March 2007, bank deposits of approximately RMB 16,450,000 (31 March 2006: RMB 16,670,000) were pledged as security for certain banking facilities of the Group.

CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

As at 31 March 2007, the Group's total capital commitments amounted to RMB 148,068,000 (31 March 2006: RMB 138,022,000). There were no material contingent liabilities as at 31 March 2007 (31 March 2006: Nil).

EMPLOYEES AND REMUNERATION POLICIES

As at 31 March 2007, the Group had a total of approximately 2,200 employees. Total staff costs amounted to RMB 75,401,000 (FY2005/06: RMB 53,631,000) during the year. 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. The Group also participates in the Mandatory Provident Fund Scheme in Hong Kong and state-managed retirement benefit scheme in the PRC. On 26 September 2006, the Group granted a total of 21,025,000 share options to directors and eligible staff to reward them for their contribution to the Group.

EXECUTIVE DIRECTORS

Ms. Lilly Huang

Aged 44, is an executive director and the Chairman of the Group. Ms. Huang graduated from 北京建築工程學院 (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. Ms. Huang has experience in marketing and she is primarily involved in the Group's development planning, and business development in North America.

A WINNING TEAM IN THE LEAD

DIRECTORS AND SENIOR MANAGEMENT

Mr. Zhou Tian Bao

Aged 56, is an executive director, managing director and the Chief Executive Officer of the Group. Mr. Zhou is primarily responsible for the Group's overall management, corporate planning and business development. Mr. Zhou graduated from Dorcas University in the United States with a master's degree in business administration. He founded a hardware manufacturing company in the PRC and has over 20 years' experience in production planning, sales and marketing. Mr. Zhou's supervision will lead the Group towards achieving its target of building a world-class auto parts corporation.

Ms. Zhang Zhen Juan

Aged 42, is an executive director and the financial controller of the Group. Ms. Zhang is primarily responsible for managing the finance and accounting function of the Group. Ms. Zhang has over 15 years' experience in financial management. She completed a professional course in economic management at 中共中央黨校函授學院 (Party School of the Central Committee of the Communist Party of China). She joined the Group in 1997.

Mr. Yang Bin

Aged 37, is an executive director of the Group. From 1997 to 1999, Mr. Yang held the position of assistant to the managing director of the Group. During the tenure, he was responsible for obtaining the international quality system ISO9002 and QS9000 certification of Norstar Automotive Industries Inc. Mr. Yang is now the director and general manager of Norstar Automotive Industries Inc. He will continue to supervise the production, technology and quality control of the Group.

Mr. Dai Wei

Aged 32, is an executive director of the Group. He is responsible for the daily operations of Norstar Automobile Industrial Holding Limited. From 1997 to 1999, Mr. Dai was the head of the corporate planning department and the human resources department of Norstar Automotive Industries Inc. From 2000 to 2003, Mr. Dai was the deputy general manager of Norstar Automotive Industries Inc. Mr. Dai has been appointed as an executive director of the Group since 27 September 2005.

Mr. Chen Xiang Dong

Aged 37, is an executive director of the Group and the financial controller of Norstar Automotive Industries Inc., and he is also the person in charge of treasury department of the Group. Mr. Chen had worked as a financial supervisor in both state-owned and sino-foreign joint venture enterprises. He has many years of experience in financial management. From 1997 to 2000, Mr. Chen was the finance manager and deputy general manager of Norstar Automotive Industries Inc. From 2000 onwards, Mr. Chen was the financial controller of Norstar Automotive Industries Inc. Mr. Chen has been appointed as an executive director of the Group since 27 September 2005.

Non-executive directors

Mr. Lee Cheuk Yin, Dannis

Aged 36, was an executive director of the Group and was re-designated as an non-executive director of the Group since 19 August 2005. Mr. Lee graduated from Texas A & M University summa cum laude in 1992 with a bachelor's degree in business administration majoring in accounting. He is qualified as a Certified Public Accountant in Texas, the United States. Mr. Lee is an associate member of the Hong Kong Institute of Certified Public Accountants, and a member of the American Institute of Certified Public Accountants. He previously worked as a manager in an international accounting firm and has many years of working experience in the PRC. Mr. Lee is currently the executive director of AMVIG Holdings Limited and the independent non-executive director of Geely Automobile Holdings Limited, all two companies are listed on the Stock Exchange of Hong Kong Limited.

Independent non-executive directors

Mr. Choi Tat Ying, Jacky

Aged 38, is an independent non-executive director of the Group. Mr. Choi graduated from Hong Kong Baptist University in 1990 and obtained a bachelor's degree in business administration with first class honours. Mr. Choi is an associate member of the Hong Kong Institute of Certified Public Accountants. Mr. Choi is currently the chief financial officer of AIG Finance (Hong Kong) Limited, and has been its director since 20 March 2004. He is also the independent non-executive director of a Hong Kong listed company Dawnrays Pharmaceutical (Holdings) Limited, and Enzyme Engineering Corporation, a private company.

Ms. Zhang Xin, Cindy

Aged 42, is an independent non-executive director of the Group. She graduated from 北京工業大學 (Beijing Polytechnic University) in 1989, majoring in environmental chemical engineering, and obtained a bachelor's degree in engineering. Later, she obtained her master's degree in law and master's degree in information engineering from 北京大學 (Beijing University) and University of Hawaii respectively. Ms. Zhang has over 10 years' experience in law and commercial management. She worked in 中國國家環境保護總局 (the PRC National Environmental Protection Agency), and acted as the chief operating officer of a Hong Kong-listed IT company, and was responsible for market development and project management.

Mr. Zhang Jian Chun

Aged 60, is a senior engineer and is currently the general manager of Nero Carbide (Beijing) Technology Company Limited. Mr. Zhang graduated from Beijing University of Chemical Technology (formerly known as Beijing College of Chemical Technology) in 1974 and completed a course in basic organic chemical technology. During the period 1974 to 1992, Mr. Zhang was an assistant lecturer and lecturer of Beijing University of Chemical Technology. He held the position of second secretary of the Embassy of the People's Republic of China in the Republic of Finland in 1992 and was promoted to the first secretary in 1996. From the end of 1996 to the early of 1998, Mr. Zhang acted as the secretary of Environmental Protection of Beijing Economic-Technology Development Area and became the secretary of Economic Development Bureau of Beijing Economic-Technology Development Area thereafter until 2002. Mr. Zhang has been appointed as an independent non-executive Director of the Group since 1 April 2006.

Senior management

Mr. Xuan Shou Zhao

Aged 37, is the deputy general manager and the head of marketing division of the Group. Mr. Xuan is primarily responsible for the Group's marketing and business development activities. Mr. Xuan has more than ten years of experience in corporate management and marketing. From 1997 to 1999, Mr. Xuan was the general manager of the international trade division and the head of the marketing division of Norstar Automotive Industries Inc. Mr. Xuan joined the Group in 1997.

Ms. Fung Ka Wai, Elina

Aged 39, is the company secretary of the Group and the financial controller of Norstar Automobile Industrial Holding Limited. Ms. Fung graduated from the Chinese University of Hong Kong with a bachelor's degree in business administration majoring in accounting. Ms. Fung is a member of the American Institute of Certified Public Accountants and a fellow member of the Hong Kong Institute of Certified Public Accountants. Ms. Fung has over 12 years' experience in the financial services industry. She previously worked in auditing at an international accounting firm and was responsible for securities analysis and research in international investment banks. Before joining the Group, Ms. Fung was in charge of the financial management of a Singapore company.

Mr. Wong Ho Yin, Aaron

Aged 31, is the assistant general manager of Norstar Automobile Industrial Holding Limited. Mr. Wong graduated from the Hong Kong University of Science and Technology with a master's degree in business administration. Mr. Wong is a member of the Hong Kong Institute of Certified Public Accountant. He is also a CFA charterholder. Before joining the Group, Mr. Wong worked in auditing for an international accounting firm.

Senior management

Mr. Jiang Kui Duo

Aged 68, is the chief engineer of the Group. Mr. Jiang graduated from the Dalian University of Technology (大連理工大學) in 1965, majoring in mechanical engineering. He has worked for various reputable domestic enterprises such as Beijing Automobile Works Co. Limited and Beijing Jeep Company Limited (currently the Beijing Benz-Daimler Chrysler Limited) and was responsible for product design and the set-up of production lines. Possessing well-rounded expertise, Mr. Jiang continuously introduced new technologies and technical improvements for production lines during his tenure at Beijing Jeep Company Limited, helping to lower production costs. Mr. Jiang joined the Group in 2005.

Mr. Liu Guan Li

Aged 55, is the deputy engineer of the Group. Mr. Liu graduated from Northeastern University (東北大學) in 1984. In 1993, he continued his training at the Business School of the University of California. He had previously worked at the Dandong Shuguang Axle Factory followed by tenures at several renowned companies – mainly responsible for technical research and product development. Mr. Liu joined the Group in 2007.

Mr. Zhu Guo Cheng

Aged 53, is the Group's deputy technical controller. Mr. Zhu graduated from the Shenyang Liming Engineering College (瀋陽黎明工學院) in 1984, majoring in welding process and equipment. He has served as the technical controller responsible for technical development and project renovation for several reputable domestic axle enterprises namely Shenyang Automobile Axle Factory, Dandong Shuguang Axle Factory and Anhui Yangtse Axle Company. Mr. Zhu joined the Group in 2003.

Mr. Ni Xiang Guo

Aged 47, is the Group's deputy technical controller. Mr. Ni graduated from Northeastern University (東北大學) in 1990, majoring in machinery manufacture and process, and was the chief designer, head of the product designing department, head of the product planning department of Shenyang Automobile Axle Factory, the Axle Research Institute of Shenyang 7407 Factory, Liaoning Shuguang Automobile Group, and has extensive experience in product designs as well as theoretical and practical design experience. Mr. Ni cooperated with others and successfully obtained a number of invention patents, practical and innovation-related patents. Mr. Ni joined the Group in 2004.

COMPANY SECRETARY

Ms. Fung Ka Wai, Elina

Details as above.

The Directors submit their report together with the audited financial statements for the year ended 31 March 2007.

Principal activities and geographical analysis of operations

The Company is an investment holding company. The principal activities of its principal subsidiaries and an associate are set out in Note 34 and Note 20 to the financial statements respectively.

Results and appropriations

The results of the Group for the year are set out in the consolidated income statement on page 49.

The interim dividend of approximately RMB27,871,000 was paid on 15 December 2006.

Subject to the approval of the Directors' recommendation by shareholders at the annual general meeting to be held on 17 August 2007, the final dividend will be paid on 24 August 2007.

Reserves

Movements in the reserves of the Group and of the Company during the year are set out in the consolidated statement of changes in equity on page 51 and Note 33 to the financial staements on page 93 respectively.

Distributable reserves

At 31 March 2007, the Company's share premium reserve of approximately RMB1,699,017,000 (subject to Section 34 of the Cayman Islands Companies Law and the Article of Association of the Company) and retained profits of approximately RMB178,603,000 were available for distribution to the Company's shareholders.

Under the Companies Law (Revised) of the Cayman Islands, the funds in the share premium account of the Company 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.

Final Dividends

The Directors recommend the payment of a final dividend of HK$0.065 (2006: HK$0.057) per share to the shareholders on the register of members as of 15 August 2007 amounting to approximately HK$81,655,000 (2006: HK$71,097,000).

Property, plant and equipment

Additions to property, plant and equipment of the Group for the year totaled RMB166,869,000 (2006: RMB101,816,000), comprising principally construction in progress and machinery and equipment.

Details of the movements in property, plant and equipment of the Group are set out in Note 16 to the financial statements.

Share capital

Details of the movements in share capital of the Company are set out in Note 30 to the financial statements.

Share option scheme

The Company has a share option scheme which was adopted on 4 September 2003 whereby the Directors of the Company ("Directors") are authorized, at their discretion, to invite, inter alias, employees of the Group, including Directors of any company in the Group, to take up options to subscribe for shares of the Company. The exercise price of the options is the higher of (i) the closing price of the shares as stated in the daily quotations sheet of The Stock Exchange of Hong Kong Limited ("Stock Exchange") on the date of grant and (ii) the average closing price of the shares as stated in the daily quotations sheet of the Stock Exchange for the five business days immediately preceding the date of grant. The options are exercisable for a period to be notified by the Directors to each grantee. Such period will not exceed ten years from the date on which the option is granted.

The maximum number of shares which may be issued upon the exercise of all outstanding options and yet to be exercised under the share option scheme and any other scheme of the Company shall, subject to refreshment in accordance with the requirements set out in Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"), shall not exceed 30% of the total issued share capital of the Company from time to time. Subject always to the above overall limit, the Directors may grant options under the share option scheme, generally and without further authority, in respect of a maximum of 83,000,000 shares (including options granted but excluding options lapsed).

In respect of the maximum entitlement of each participant under the scheme, the number of shares issued and to be issued upon the exercise of the options granted and to be granted in any 12-month period up to the date of grant to each participant is limited to 1% of the total issued share capital of the Company in issue.

A total of 21,025,000 share options were granted to eligible participants on 26 September 2006 under the share option scheme of the Company. 125,000 share options lapsed due to the resignation of an employee.

Details of the movements in share options of the Company are set out in Note 31 to the financial statements.

Pre-emptive rights

There is no provision for pre-emptive rights under the Company's Articles of Association and there were no pre-emptive rights under the laws of Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

Financial summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on pages 98 to 100.

Purchase, sale or redemption of securities

Save as disclosed in Note 30 to the financial statements in relation to the placing and subscription of 170,000,000 shares, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed shares.

Directors

The Directors during the year and up to the date of this report are:

Executive Directors

Ms. Lilly Huang (Chairman)
Mr. Zhou Tian Bao
Ms. Zhang Zhen Juan
Mr. Yang Bin
Mr. Dai Wei
Mr. Chen Xiang Dong

Non-Executive Directors

Mr. Lee Cheuk Yin, Dannis

Independent Non-Executive Directors

Mr. Choi Tat Ying, Jacky
Ms. Zhang Xin, Cindy
Mr. Zhang Jian Chun (appointed with effect from 1 April 2006)
Mr. Wu Chao Ying (resigned with effect from 1 April 2006)

Each independent non-executive director provided an annual confirmation of his or her independence to the Company for the year ended 31 March 2007 and the Company confirmed that each of them was still considered to be independent.

In accordance with the Company's Articles of Association , Mr. Dai Wei, Mr. Choi Tat Ying, Jacky, and Ms. Zhang Xin, Cindy will retire by rotation at the forthcoming annual general meeting of the Company and, being eligible, offer themselves for re-election.

Directors' service contracts and letters of appointment

Each of the executive Directors and non-executive Directors of the Company entered into a service agreement with the Company. Each of these service agreements is for an initial term of 3 years renewable automatically for successive terms of one year each commencing from the day next after the expiry of the then current term until terminated by either party for not less than three months' prior written notice and is subject to retirement by rotation and re-election at least once every three years at the annual general meeting pursuant to the Articles of Association of the Company. Each independent non-executive director entered into appointment letters with the Company for a term of 2 years from the date of the appointment letter and is subject to retirement by rotation and re-election at least once every three years at the annual general meeting pursuant to the Articles of Association thereafter. No Directors proposed for re-election at the forthcoming annual general meeting of the Company has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory compensation.

Directors' emoluments

Details of the remuneration of the Directors pursuant to Appendix 16 of the Listing Rules are set out in Note 12 to the financial statements.

Directors' interests in contracts

Save for those transactions described in the note "Related Party Transactions" in Note 38 to the financial statements and the section "Continuing connected transactions" below, none of the Directors had any material interest, whether directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

Biographical details of Directors and senior management

Brief biographical details of Directors and senior management are set out on pages 32 to 36.

Directors' and chief executive's interests and short positions in the shares, underlying shares and debentures

At 31 March 2007, the interests and short positions of each Director and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company under Section 352 of the SFO or as notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers were as follows:

	Number of shares held				
Name of director	Personal interest	Corporate interest	Total	Underlying shares of outstanding share options	Approximate aggregate percentage of interests (Note 3)
Ms. Lilly Huang (Note 1)	—	600,000,000	600,000,000	—	47.95%
Mr. Zhou Tian Bao (Note 2)	8,832,000	645,000,000	653,832,000	—	52.25%
Ms. Zhang Zhen Juan	—	—	—	5,000,000	—
Mr. Dai Wei	—	—	—	2,500,000	—
Mr. Chen Xiang Dong	—	—	—	2,500,000	—
Mr. Yang Bin	—	—	—	500,000	—
Mr. Lee Cheuk Yin, Dannis	—	—	—	250,000	—
Mr. Choi Tat Ying, Jacky	—	—	—	250,000	—

Details of share options granted to Directors are stated in the note "Share-based Payments" in Note 31 to the financial statements.

Interests in shares and underlying shares stated above represent long positions.

Notes:

(1) The shares are held by Century Founders Group Limited in which Ms. Lilly Huang owns a 63% 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) 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) 45,000,000 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 37% 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.

(3) The calculation is based on the number of shares as a percentage of the total number of issued shares of the Company (ie. 1,251,367,851 shares) as at 31 March 2007.

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 2007.

Interest of substantial shareholders

So far as is known to any Directors of the Company, as at 31 March 2007, other than the interests of the Directors of the Company as disclosed above, the following persons had interests in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

Name of shareholder	Number of shares held	Approximate percentage of shareholding (Note 3)
Century Founders Group Limited (Note 2)	600,000,000	47.95%
Mark Up Investments Limited	645,000,000	51.54%
Ms. Lilly Huang (Note 2)	600,000,000	47.95%
Mr. Zhou Tian Bao	653,832,000	52.25%
Sansar Capital Management, LLC	149,734,000	11.97%
Templeton Asset Management Limited	79,603,000	6.36%

Notes:

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

(2) Century Founders Group Limited owns 600,000,000 Shares. Ms. Lilly Huang owns a 63% shareholding interest in Century Founders Group Limited and the remaining 37% shareholding interest is owned by Mark Up Investments Limited, a company wholly-owned by Mr. Zhou Tian Bao.

(3) The calculation is based on the number of shares as a percentage of the total number of issued shares (ie. 1,251,367,851 shares) of the Company as at 31 March 2007.

Save as disclosed above and so far as the Directors are aware, as at 31 March 2007, no other person (other than the Directors of the Company) had an interest or short position in the Company's shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO and as recorded in the register required to be kept under Section 336 of SFO.

Major customers and suppliers

During the year, the Group purchased 48.3% and 16.4% of its goods and services from its 5 largest suppliers and its largest supplier respectively. Also, the Group sold 41.8% and 9.1% of its goods and services to its 5 largest customers and its largest customer respectively.

Save as disclosed in Note 38 to the financial statements, none of the Directors, their associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had an interest in the major suppliers or customers noted above.

Related party transactions

Details of related party transactions undertaken in the normal course of business are set out in Note 38 to the financial statements.

Continuing connected transactions

During the year ended 31 March 2007, the Group had the following continuing connected transactions.

Annual expenditure for provision of services:

1.	Anhui Industries and Trading Corporation ("AITC"): rental of production machineries	RMB5,100,000
2.	AITC: rental of factory complex	RMB2,700,000

The Independent non-executive Directors have confirmed that the above continuing connected transactions for the year ended 31 March 2007 to which any member of the Group was a party were entered into by the Group:

1. in the ordinary and usual course of its business;
2. either (a) on normal commercial terms, or (b) where there was no available comparison, on terms no less favorable to the Group than those available to or from independent third parties; and
3. in accordance with the relevant agreements governing them on terms that were fair and reasonable so far as the shareholders of the Company were concerned and in the interests of the shareholders of the Company as a whole.

The Independent Non-executive Directors have further confirmed that for the year ended 31 March 2007:

1. the aggregate annual rental for leased factory complex paid to AITC under the Premises Leases Agreement did not exceed the annual cap of RMB2.7 million; and
2. the aggregate annual rental for leased production machineries paid to AITC under the Equipment Lease Agreements did not exceed the total annual cap of RMB5.1 million.

The auditor of the Group has reviewed the continuing connected transactions referred to above and confirmed to the Directors that:

1. the transactions had received the approval of the Directors;

2. the transactions had been entered into in accordance with the relevant agreements governing the transactions; and

3. the amounts of the transactions value had not exceeded the respective caps as disclosed in the announcement of the Company dated 12 April 2006.

Please also refer to Note 38 to the financial statements on page 97 for a summary of the related party transactions which include the Group's connected transactions.

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.

Retirement schemes

Details of the retirement schemes of the Group are set out in Note 13 to the financial statements.

Sufficiency of public float

According to the information that is publicly available to the Company and within the knowledge of the Directors, the percentage of the Company's shares which are in the hands of the public exceeds 25% of the Company's total number of issued shares.

Auditor

The financial statements have been audited by RSM Nelson Wheeler who will retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of RSM Nelson Wheeler as auditor of the Company will be proposed at the forthcoming annual general meeting of the Company.

On behalf of the Board
Norstar Founders Group Limited
Lilly Huang
Chairman

Hong Kong, 28 June 2007

Corporate Governance Report

This corporate governance report is issued pursuant to Appendix 23 of Rules Governing the Listing of Securities in Hong Kong. The Company is firmly committed to maintaining statutory and regulatory standards and adherence to the principles of corporate governance emphasizing transparency, independence, accountability, responsibility and fairness.

Corporate governance practices

The Company has complied with code provisions and, to certain extent, the recommended best practices of the Code on Corporate Governance Practices (the "Code") which is set out in Appendix 14 to the Listing Rules throughout the year ended 31 March 2007.

The Board

The Board is responsible for preparing the financial statements, and is accountable to shareholders for the overall activities and financial performance of the Group. Certain functions and authorities are delegated to the management for implementation of objectives, strategies and plans adopted by the Board and the day-to-day management of the Group's business. The Board considers that the financial statements have been prepared in conformity with the generally accepted accounting principles in Hong Kong, and reflect amounts that are based on the best estimates and reasonable, informed and prudent judgment of the Board with an appropriate consideration to materiality. As at 31 March 2007, the Board, having made appropriate enquiries, is not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Company's ability to continue as a going concern. Accordingly, the Board has prepared the financial statements of the Company on a going concern basis. The statement of the auditor about their reporting responsibilities on the financial statements of the Group is set out in Independent Auditor's Report on page 48.

All Directors have full and timely access to all relevant information which is required for their discharge of their duties as Directors. Induction program has also been arranged for newly appointed Directors and opportunities to update and develop skills and knowledge are provided to them.

As at 31 March 2007, the Company's Board is composed of six executive Directors, one non-executive Director and three independent non-executive Directors. There is no relationship (including financial, business, family or other material or relevant relationships) among members of the Board.

Details of the terms of appointment of the Directors is set out in the Directors' report on page 39 to page 40.

The independent non-executive Directors are all experienced individuals with diversified industry expertise. Their mix of skills and experience is an important element in the proper functioning of the Board and ensuring a high standard of financial and other mandatory reporting. Their participation provides adequate checks and balances for safeguarding the interests of both the Group and its shareholders. As at 31 March 2007, the Board consists of three independent non-executive Directors, representing nearly one-third of the Board. The Company has received written confirmation from each independent non-executive director of his independence to the Company. The Company considers all of them to be independent. One of the independent non-executive Directors, Mr. Choi Tat Ying, Jacky has the requisite financial and accounting background.

The Chairman of the Board is Ms. Lilly Huang and the chief executive officer of the Company is Mr. Zhou Tian Bao. The segregation of duties of the chairman of the Board and the chief executive officer ensures a clear distinction in the responsibility of the chairman, who is an executive director, responsibility to oversee the functioning of the Board, and the chief executive officer's responsibility to manage the Group's business.

The company secretary is responsible to the Board and ensures that the Board complies with all applicable laws and regulations. The company secretary also keeps all minutes of meetings of the Board and the committees.

The Board meets regularly to discuss the operation and financial performance of the Group. Matters discussed in Board meetings include internal control procedures, continuing connected transactions, relevant announcement and circulars, annual and interim results of the Group, and recommendation on Directors' appointment and resignation. The Board members had met four times during the year:

Member of the Board	**Number of meetings attended**	**Members' average attendance rate**
Executive Directors:		
Ms. Lilly Huang	3	75%
Mr. Zhou Tian Bao	4	100%
Ms. Zhang Zhen Juan	4	100%
Mr. Yang Bin	3	75%
Mr. Dai Wei	4	100%
Mr. Chen Xiang Dong	3	75%
Non-Executive Directors:		
Mr. Lee Cheuk Yin, Dannis	3	75%
Independent Non-Executive Directors:		
Mr. Choi Tat Ying, Jacky	4	100%
Ms. Zhang Xin, Cindy	2	50%
Mr. Zhang Jian Chun	3	75%

In accordance with the Company's articles, one-third of the Directors, including both executive and non-executive Directors, are required to retire from office at the Annual General Meeting in each year. A retiring director is eligible for re-election.

Remuneration committee

The primary duties of the remuneration committee are to make recommendation to the Board on the remuneration of executive Directors and senior management and the fees and emoluments of non-executive Directors.

The main elements of the Company's emolument policy are that no individual should determine his or her own remuneration, remuneration should reflect performance, complexity and responsibility of the individual, and the remuneration package will be structured to include salary, bonus and share options to provide incentives to Directors and senior management to improve their individual performance.

During the year, the committee reviewed the remuneration package of executive Directors and made recommendation to the Board. As at 31 March 2007, the remuneration committee comprised three independent non-executive Directors, Mr. Choi Tat Ying, Jacky (Chairman), Mr. Zhang Jian Chun, Ms. Zhang Xin, Cindy, and one non-executive Director, Mr. Lee Cheuk Yin, Dannis.

The remuneration committee met once during the year, and the meeting was held on 1 September 2006.

Member of the committee	Number of meetings attended	Members' average attendance rate
Mr. Choi Tat Ying, Jacky	1	100%
Mr. Zhang Jian Chun	1	100%
Ms. Zhang Xin, Cindy	1	100%
Mr. Lee Cheuk Yin, Dannis	1	100%

Nomination committee

The primary duties of the nomination committee are to consider and assess the qualifications and character of candidates for Directorships on the Board, if any. The recommendations of the nomination committee are then put forward for consideration and adoption by the Board. The selection of individual to become Director is based on assessment of their professional qualifications and experience.

As at 31 March 2007, the nomination committee comprised one non-executive Director, Mr. Lee Cheuk Yin, Dannis (Chairman) and three independent non-executive Directors, Mr. Choi Tat Ying, Jacky, Mr. Zhang Jian Chun and Ms. Zhang Xin, Cindy.

Audit committee

The primary duties of the audit committee are to review and supervise the accounting principles and practices adopted by the Group, and the financial reporting process and internal control systems of the Group. It also monitors the appointment and function of the Group's external auditor.

During the year, it reviewed the Group's interim results, annual results and internal control system. As at 31 March 2007, the audit committee comprised three independent non-executive Directors, namely, Mr. Choi Tat Ying, Jacky (Chairman), Mr. Zhang Jian Chun and Ms. Zhang Xin, Cindy. The audit committee met three times during the year, and the meetings were held on 22 June 2006,16 November 2006 and 29 March 2007 respectively.

Member of the committee	Number of meetings attended	Members' average attendance rate
Mr. Choi Tat Ying, Jacky	3	100%
Mr. Zhang Jian Chun	3	100%
Ms. Zhang Xin, Cindy	3	100%

The audit committee held a meeting on 28 June 2007 to review the annual report of the Company for the year ended 31 March 2007 and to give opinion and advice to the Board of the Company.

External auditor

The Group's external auditor is RSM Nelson Wheeler. The non-audit functions to the Group, if any, were reviewed by the audit committee. The audit committee also considers in advance whether such non-audit functions would lead to any potential material conflict of interest.

During the year, the services provided by RSM Nelson Wheeler to the Group were as follows:

	RMB'000
Audit Service	1,320
Non-Audit Services	—

Internal control and risk management

The Board of the Company is granted full authority to maintain the soundness and effectiveness of the internal control system and risk management procedures of the Group, including setting an internal review team composed of members from various department to ensure efficient and effective use of the Group's resources to assist the Group in achieving its operation objectives, safeguarding the Group's assets against any unauthorized use or disposal, ensuring an appropriate maintenance of accounting records and the availability of reliable financial information for internal use or external release, and ensuring compliance of all operating activities with laws and regulations. The control system is intended to have in place reasonable safeguards against material misrepresentation or loss, and to ensure safeguard on shareholders' interests.

The Board has conducted a meeting on 29 March 2007 to review the internal control system of the Group and confirmed its effectiveness. The Board intends to further improve its internal control and risk management with a view to achieve a better work flow in future.

Directors' securities transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuer (the "Model Code") contained in Appendix 10 of the Listing Rules as the Company's code of conduct regarding securities transactions by Directors. The Company has made specific enquiry of all Directors, and the Directors confirmed that they had complied with the required standard set out in the Model Code and its code of conduct regarding securities transactions by Directors.

Specified employees who are likely to be in possession of unpublished price-sensitive information of the Group are also subject to compliance with guidelines on no less exacting terms than the Model Code. No incident of non-compliance was noted by the Company for the year ended 31 March 2007.

Investor relations

The Company uses two-way communication channels to account to shareholders and investors for the performance of the Company. All the shareholders have 21 days' notice of annual general meeting at which Directors are available to answer questions on the business. Extensive information about the Group's activities is provided in its Annual Report and Interim Report which are sent to shareholders and investors.

The Company conducts briefings with analysts and press to apprise them of the Group's operating results, business strategies and outlook right after reporting its interim or annual results. Highlights of the Company's operating performance are also released on a quarterly basis. Other than those regular updates, the Company issues announcements or press releases where appropriate to comply with the Listing Rules requirement or keeps the public informed of the Company's latest development. In order to further enhance communication with the investment community, the Group's management holds regular roadshows, and participates actively in company visits and investors' conferences.

INDEPENDENT AUDITOR'S REPORT

RSM! Nelson Wheeler
羅 申 美 會 計 師 行
Certified Public Accountants

TO THE SHAREHOLDERS OF
NORSTAR FOUNDERS GROUP LIMITED
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Norstar Founders Group Limited (the "Company") set out on pages 49 to 97, which comprise the consolidated balance sheet as at 31 March 2007, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The Directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements 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. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these 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. 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 March 2007 and of the Group's results and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

RSM Nelson Wheeler
Certified Public Accountants

Hong Kong, 28 June 2007

CONSOLIDATED INCOME STATEMENT

For the year ended 31 March 2007

	Note	**2007 RMB'000**	2006 RMB'000
Turnover	6	**3,497,159**	2,658,993
Cost of goods sold		**(2,881,914)**	(2,165,218)
Gross profit		**615,245**	493,775
Other income	7	**48,568**	21,067
Distribution and selling expenses		**(57,508)**	(49,135)
Administrative expenses		**(116,929)**	(59,909)
Profit from operations		**489,376**	405,798
Finance costs	9	**(71,046)**	(66,389)
		418,330	339,409
Share of profits of an associate		**35,655**	42,755
Profit before tax		**453,985**	382,164
Income tax expense	10	**(49,835)**	(34,851)
Profit for the year attributable to equity holders of the Company	11	**404,150**	347,313
Dividends	14	**108,644**	94,003
Earnings per share	15		
Basic		**RMB32.79 cents**	RMB35.24 cents
Diluted		**RMB32.29 cents**	RMB34.47 cents

CONSOLIDATED BALANCE SHEET

At 31 March 2007

	Note	2007 RMB'000	2006 RMB'000
Non-current assets			
Property, plant and equipment	16	**854,567**	739,198
Prepaid land lease payments	17	**56,282**	57,530
Goodwill	18	**29,639**	29,639
Other intangible assets	19	**743**	—
Investment in an associate	20	**423,357**	396,690
		1,364,588	1,223,057
Current assets			
Inventories	21	**81,202**	44,850
VAT receivable	22	**145,625**	127,168
Trade and other receivables	23	**715,059**	715,532
Pledged bank deposits	24	**16,450**	16,670
Cash and bank balances	24	**1,727,085**	1,063,163
		2,685,421	1,967,383
Current liabilities			
Trade and other payables	25	**186,867**	99,584
Short-term borrowings	26	**186,978**	175,875
Current portion of non-current borrowings	27	**361,265**	188,440
Convertible bonds	29	**56,753**	—
Current tax liabilities		**14,128**	13,330
		805,991	477,229
Net current assets		**1,879,430**	1,490,154
Total assets less current liabilities		**3,244,018**	2,713,211
Non-current liabilities			
Non-current borrowings	27	**279,720**	616,336
Convertible bonds	29	**—**	66,645
		279,720	682,981
NET ASSETS		**2,964,298**	2,030,230
Capital and reserves			
Share capital	30	**131,598**	113,940
Reserves	33	**2,832,700**	1,916,290
Equity attributable to equity holders of the Company		**2,964,298**	2,030,230

Approved by the Board of Directors on 28 June 2007

Lilly Huang
Chairman

Zhou Tian Bao
Chief Executive Officer

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2007

	Attributable to equity holders of the Company									
	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Foreign currency translation reserve RMB'000	Share-based payment reserve RMB'000	Merger reserve RMB'000	General reserve fund RMB'000	Enterprise expansion fund RMB'000	Retained profits RMB'000	Total RMB'000
At 1 April 2005	103,350	838,535	7,053	708	—	(299,310)	63,657	63,657	689,991	1,467,641
Translation difference	—	—	—	15,219	—	—	—	—	—	15,219
Net income recognised directly in equity	—	—	—	15,219	—	—	—	—	—	15,219
Profit for the year	—	—	—	—	—	—	—	—	347,313	347,313
Total recognised income and expense for the year	—	—	—	15,219	—	—	—	—	347,313	362,532
Issue of shares upon conversion of convertible bonds *(note 30(b))*	10,590	261,463	(5,642)	—	—	—	—	—	—	266,411
Transfer to statutory reserves	—	—	—	—	—	—	34,935	34,935	(69,870)	—
2005 Final dividend paid	—	—	—	—	—	—	—	—	(45,937)	(45,937)
2006 Interim dividend paid	—	—	—	—	—	—	—	—	(20,417)	(20,417)
At 31 March 2006	113,940	1,099,998	1,411	15,927	—	(299,310)	98,592	98,592	901,080	2,030,230
At 1 April 2006	113,940	1,099,998	1,411	15,927	—	(299,310)	98,592	98,592	901,080	2,030,230
Translation difference	—	—	—	11,057	—	—	—	—	—	11,057
Share issue expenses paid	—	(19,453)	—	—	—	—	—	—	—	(19,453)
Net expense recognised directly in equity	—	(19,453)	—	11,057	—	—	—	—	—	(8,396)
Profit for the year	—	—	—	—	—	—	—	—	404,150	404,150
Total recognised income and expense for the year	—	(19,453)	—	11,057	—	—	—	—	404,150	395,754
Issue of shares *(note 30(a))*	17,255	608,239	—	—	—	—	—	—	—	625,494
Issue of shares upon conversion of convertible bonds *(note 30(b))*	403	10,233	(221)	—	—	—	—	—	—	10,415
Recognition of share-based payments	—	—	—	—	3,554	—	—	—	—	3,554
Transfer to statutory reserves	—	—	—	—	—	—	37,712	37,712	(75,424)	—
2006 final dividend paid	—	—	—	—	—	—	—	—	(73,278)	(73,278)
2007 interim dividend paid	—	—	—	—	—	—	—	—	(27,871)	(27,871)
At 31 March 2007	131,598	1,699,017	1,190	26,984	3,554	(299,310)	136,304	136,304	1,128,657	2,964,298

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 March 2007

	2007 **RMB'000**	2006 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	**453,985**	382,164
Adjustments for:		
Depreciation of property, plant and equipment	**51,452**	22,794
Amortisation of prepaid land lease payments	**1,248**	1,248
Amortisation of other intangible assets	**39**	—
Share-based payments	**3,554**	—
Share of profits of an associate	**(35,655)**	(42,755)
Amortisation of loan arrangement fee of convertible bonds	**1,072**	6,793
Redemption premium on convertible bonds	**3,073**	13,879
Finance charges	**2,737**	2,464
Interest expenses	**63,110**	42,281
Interest income	**(22,940)**	(9,507)
Operating profit before working capital changes	**521,675**	419,361
Increase in inventories	**(36,352)**	(12,004)
Increase in trade receivables	**(128,201)**	(208,744)
Decrease in prepayments and other receivables	**125,682**	4,712
Decrease in due from related companies	**1,554**	2,377
Decrease/(Increase) in pledged bank deposits	**220**	(39)
Increase/(Decrease) in trade payables	**52,100**	(20,953)
Increase/(Decrease) in due to Directors	**971**	(2,832)
Decrease in due to a related company	**—**	(106)
Increase in accruals and other payables	**27,784**	26,335
Cash generated from operations	**565,433**	208,107
Interest received	**22,940**	9,507
PRC enterprise income tax paid	**(49,037)**	(28,209)
Value-added tax paid, net	**(12,029)**	(9,627)
Net cash generated from operating activities	**527,307**	179,778
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, plant and equipment	**(165,128)**	(76,490)
Acquisition of other intangible assets	**(782)**	—
Dividend received from an associate	**8,280**	—
Decrease in amount due to an associate	**—**	(16)
Net cash used in investing activities	**(157,630)**	(76,506)

	2007 RMB'000	2006 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of finance lease payables	**(21,897)**	(15,789)
Proceeds from new short-term borrowings	**235,449**	228,167
Repayment of short-term borrowings	**(223,201)**	(199,092)
Net proceeds from issuance of shares	**606,041**	—
Net proceeds from syndicated loan	**—**	750,738
Repayment of syndicated loan	**(162,475)**	(402,800)
Net proceeds from other bank loans	**46,747**	1,349
Repayment of other bank loans	**(460)**	(40,280)
Dividends paid	**(101,149)**	(66,354)
Interest paid	**(59,973)**	(38,759)
Finance lease charges paid	**(2,737)**	(2,464)
Net cash inflow from financing activities	**316,345**	214,716
NET INCREASE IN CASH AND CASH EQUIVALENTS	**686,022**	317,988
Effect of foreign exchange rate changes	**(22,100)**	6,888
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**1,063,163**	738,287
CASH AND CASH EQUIVALENTS AT END OF YEAR	**1,727,085**	1,063,163
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	**1,727,085**	1,063,163

1. GENERAL INFORMATION

The Company 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 is located at Cricket Square, Hutchins Drive, P.O.Box 2681, Grand Cayman KY1-1111, Cayman Islands. The address of its principal place of business is Room B,19th Floor, Tower II Admiralty Centre, 18 Harcourt Road, Admiralty, Hong Kong. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company is an investment holding company. The principal activities of its principal subsidiaries are set out in note 34 to the financial statements.

2. ADOPTION OF NEW AND REVISED HKFRS

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 accounting periods beginning on or after 1 January 2006. 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 substantial changes to the Group's accounting policies and amounts reported for the current year and prior years.

The Group has not applied the new HKFRSs that have been issued but are not yet effective. The application of these new HKFRSs will not have material impact on the financial statements of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

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 ("Listing Rules") and by the Hong Kong Companies Ordinance.

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of investments which are carried at their fair values.

The preparation of financial statements in conformity with HKFRSs requires the use of certain key assumptions and estimates. It also requires management to exercise its judgements in the process of applying the accounting policies. The areas involving critical judgements and areas where assumptions and estimates are significant to these financial statements, are disclosed in note 4 to the financial statements.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) 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.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any goodwill relating to the subsidiary which was not previously charged or recognised in the consolidated income statement and also any related accumulated foreign currency translation reserve.

Inter-company transactions, balances and unrealised profits on transactions between Group companies 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.

(b) Business combination and goodwill

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets, liabilities and contingent liabilities of the subsidiary 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 subsidiary's identifiable assets, liabilities and contingent liabilities is recorded as goodwill. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recognised in the consolidated income statement.

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses of goodwill are recognised in consolidated income statement and are not subsequently reversed. Goodwill is allocated to cash-generating units for the purpose of impairment testing.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) 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 of accounting and is initially recognised at cost. Identifiable assets, liabilities and contingent 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, liabilities and contingent liabilities is recorded as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recognised in consolidated income statement.

The Group's share of its associate's post-acquisition profits or losses is recognised in the consolidated income statement, and its share of 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 interests 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.

The gain or loss on the disposal of an associate represents the difference between the proceeds of the sale and the Group's share of its net assets together with any goodwill relating to the associate which was not previously charged or recognised in the consolidated income statement and also 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.

(d) Foreign currency translation

(i) 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"). The consolidated financial statements are presented in Renminbi ("RMB"), which is the Company's presentation currency and the functional currency of the principal operating subsidiaries.

(ii) Transactions and balances in each entity's financial statements

Transactions in foreign currencies are translated into the functional currency using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the rates ruling on the balance sheet date. Profits and losses resulting from this translation policy are included in the income statement.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Foreign currency translation (continued)

(ii) Transactions and balances in each entity's financial statements (continued)

Translation differences on non-monetary items, such as equity instruments classified as financial assets at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equity instruments classified as available-for-sale financial assets, are included in the investment revaluation reserve in equity.

(iii) 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 balance sheet presented are translated at the closing rate at the date of that balance sheet;

— Income and expenses for each income statement 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 the consolidated income statement as part of the profit 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) 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 expensed in the income statement 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 estimated useful lives of property, plant and equipment are as follows:

Buildings	20 years
Moulds	3 years
Machinery and equipment	5 - 10 years
Office equipment and fixtures	5 - 10 years
Motor vehicles	5 - 10 years

The residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

Construction in progress represents buildings under construction and plant and machinery pending installation, and is stated at cost less impairment losses. Depreciation begins when the relevant assets are available for use.

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 the income statement.

(f) Leases

(i) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Lease payments (net of any incentives received from the lessor) are expensed in the income statement on a straight-line basis over the lease term.

(ii) 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 balance sheet 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred. An internally-generated intangible asset is recognised only if all of the following conditions are met:

— An asset is created that can be identified (such as software and new processes);

— It is probable that the asset created will generate future economic benefits; and

— The development cost of the asset can be measured reliably.

Internally-generated intangible assets are measured initially at cost and are amortised on a straight-line basis over their estimated useful lives. Where no internally-generated intangible asset can be recognised, development expenditure is charged to the income statement in the period in which it is incurred.

(h) License right

Expenditure on acquiring license for production technology and cost of technical assistance and training is initially recognised and measured at cost, which represent the capitalisation and unavoidable license fee and training cost payments in accordance with the license agreement. Cost of license and training assistance is amortised over a period of ten years or the remaining life of the relevant license agreement, whichever is the shorter.

(i) 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.

(j) Investments

Investments are recognised and derecognised on a trade date basis where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus directly attributable transaction costs except in the case of financial assets at fair value through profit or loss.

Investments are classified as either financial assets at fair value through profit or loss or available-for-sale financial assets.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are either investments held for trading or designated as at fair value through profit or loss upon initial recognition. These investments are subsequently measured at fair value. Gains or losses arising from changes in fair value of these investments are recognised in the income statement.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Trade and other receivables

Trade and other receivables 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 the income statement.

Impairment losses are reversed in subsequent periods and recognised in the income statement 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.

(l) Cash and cash equivalents

For the purpose of the cash flow statement, 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.

(m) 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.

(n) 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 balance sheet date.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Convertible bonds

Convertible bonds that consist of a liability and an equity component are regarded as compound instruments. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible debt. The difference between the proceeds of issue of the convertible bonds and the fair value assigned to the liability component, representing the embedded option for the holder to convert the bonds into equity of the Group, is included in equity as capital reserves.

Issue costs are apportioned between the liability and equity components of the convertible bonds based on their relative carrying amounts at the date of issue. The portion relating to the equity component is charged directly to equity.

The interest expense on the liability component is calculated by applying the prevailing market interest rate for similar non-convertible debt to the liability component of the instrument. The difference between this amount and the interest paid is added to the carrying amount of the convertible bonds.

(p) 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.

(q) Equity instruments

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

(r) 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.

Revenues from the sales of manufactured goods are recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered and the title has passed to the customers.

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

Rental income is recognised on a straight-line basis over the lease term.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Employee benefits

(i) 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 balance sheet date.

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

(ii) 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 to the income statement represents contributions payable by the Group to the funds.

(iii) 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.

(t) Share-based payments

The Group issues equity-settled share-based payments to certain Directors and employees. Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) of the equity instruments at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

(u) Borrowing costs

All borrowing costs are recognised in income statement in the period in which they are incurred.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) 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 as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

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, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credtis 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.

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(w) Related parties

A party is related to the Group if:

(i) directly or indirectly through one or more intermediaries, the party controls, is controlled by, or is under common control with, the Group; has an interest in the Group that gives it significant influence over the Group; or has joint control over the Group;

(ii) the party is an associate;

(iii) the party is a joint venture;

(iv) the party is a member of the key management personnel of the Company or its parent;

(v) the party is a close member of the family of any individual referred to in (i) or (iv);

(vi) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or

(vii) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

(x) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products and services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting, the Group has determined that geographical segments be presented as the primary reporting format and business as the secondary reporting format.

Segment revenue, expenses, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to the segment. Unallocated costs represent corporate expenses. Segment assets consist primarily of property, plant and equipment, prepaid land lease payments, goodwill, inventories and trade receivables. Segment liabilities comprise operating liabilities and exclude items such as tax liabilities and corporate borrowings.

Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between Group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

In respect of geographical segment reporting, sales are based on the countries in which customers are located. Total assets and capital expenditure are based on where the assets are located.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(y) Impairment of assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets except goodwill, 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 the income statement, 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 the income statement, 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.

(z) 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.

(aa) Events after the balance sheet date

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, 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) Property, plant and equipment and depreciation

The Group determines the estimated useful lives and related depreciation charges for the Group's property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will revise the depreciation charge where useful lives are different to those previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(b) Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating unit to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

5. 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 transactions are mainly denominated in Hong Kong Dollars ("HKD"), RMB and United States Dollars ("USD"). Certain trade receivables and payables and borrowings of the Group are denominated in USD and is therefore exposed to USD currency risk. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

(b) Credit risk

The Group has no significant concentrations of credit risk. It has policies in place to ensure that sales are made to customers with an appropriate credit history.

The carrying amount of the trade and other receivables included in the consolidated balance sheet represents the Group's maximum exposure to credit risk in relation to the Group's financial assets.

(c) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

5. FINANCIAL RISK MANAGEMENT (continued)

(d) Interest rate risk

The Group's exposure to interest rate risk arises from the Group's interest-bearing bank deposits and bank borrowings. These deposits and borrowings bear interests at variable rates varied with the then prevailing market condition.

(e) Fair values

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

6. TURNOVER

The Group is principally engaged in the manufacture and sale of auto parts and construction decorative hardware products. The Group's turnover which represents the sales of goods to customers are as follows:

	2007 **RMB'000**	2006 RMB'000
Auto parts	**3,116,595**	2,297,521
Construction decorative hardware products	**380,564**	361,472
	3,497,159	2,658,993

7. OTHER INCOME

	2007 **RMB'000**	2006 RMB'000
Fair value gains (realised) on financial assets at fair value through profit or loss	**941**	—
Interest income	**22,940**	9,507
Income from scrap sales	**22,277**	11,550
Rental income	**1,950**	—
Sundry income	**460**	10
	48,568	21,067

8. SEGMENT INFORMATION

Primary reporting format - geographical segments

The Group operates within one geographical segment which is the PRC. All segment assets, liabilities and capital expenditure are located in the PRC and therefore no geographical segments are presented, except for the segment revenue and segment results. Segment revenue and segment results are presented based on the geographical location of customers.

Secondary reporting format – business segments

The Group's business is mainly categorised into two business segments:

— Auto parts; and

— Construction decorative hardware products.

(i) Primary reporting format – geographical segments

For the year ended 31 March 2007

	United States RMB'000	Canada RMB'000	Europe RMB'000	The PRC and others RMB'000	Total RMB'000
Segment revenue	1,430,245	886,027	739,096	441,791	3,497,159
Segment results	252,976	164,930	131,293	66,046	615,245

For the year ended 31 March 2006

	United States RMB'000	Canada RMB'000	Europe RMB'000	The PRC and others RMB'000	Total RMB'000
Segment revenue	1,222,501	789,423	623,620	23,449	2,658,993
Segment results	226,841	153,435	111,057	2,442	493,775

8. SEGMENT INFORMATION (continued)

(ii) Secondary reporting format - business segments

For the year ended 31 March 2007

	Revenue RMB'000	Carrying amount of segment assets RMB'000	Capital expenditure RMB'000
Auto parts	3,116,595	1,371,061	149,625
Construction decorative hardware products	380,564	146,005	14,155
	3,497,159	1,517,066	163,780
Unallocated assets		2,532,943	3,871
		4,050,009	167,651

For the year ended 31 March 2006

	Revenue RMB'000	Carrying amount of segment assets RMB'000	Capital expenditure RMB'000
Auto parts	2,297,521	1,142,558	93,027
Construction decorative hardware products	361,472	133,265	265
	2,658,993	1,275,823	93,292
Unallocated assets		1,914,617	8,524
		3,190,440	101,816

9. FINANCE COSTS

	2007 RMB'000	2006 RMB'000
Bank charges	**1,054**	972
Finance charges on obligations under finance leases	**2,737**	2,464
Interest on bank borrowings	**63,110**	42,281
Interest on convertible bonds	**4,145**	20,672
	71,046	66,389

10. INCOME TAX EXPENSE

	2007 RMB'000	2006 RMB'000
(a) Current tax – PRC		
Provision for the year	**49,835**	34,851

No provision for Hong Kong profits tax has been made as the Group had no assessable profits in Hong Kong during the year (2006: Nil).

Pursuant to relevant laws and regulations in the PRC, the principal subsidiaries, Norstar Automotive Industries, Inc. ("Norstar Automotive") and Norstar Auto Suspension Manufacturing (Beijing) Inc. ("Norstar Auto Suspension"), in the PRC are exempted from PRC enterprise income tax for the two years from its first profit-making year and thereafter are entitled to a 50% relief from the PRC enterprise income tax for the following three years.

In current year, Norstar Automotive was granted a tax relief with a tax rate of 11.5% (2006: 7.5%). Norstar Auto Suspension was in the first profit-making year for the financial year ended 31 March 2007, and was therefore exempted from PRC enterprise income tax.

10. INCOME TAX EXPENSE (continued)

(b) The reconciliation between the income tax expense and the product of profit before tax (excluding share of profits of an associate) multiplied by the PRC enterprise income tax rate is as follows:

	2007 RMB'000	2006 RMB'000
Profit before tax (excluding share of profits of an associate)	**418,330**	339,409
Tax at the PRC enterprise income tax rate of 11.5% (2006: 7.5%)	**48,108**	25,456
Tax effect of income that is not taxable	**(2,511)**	(1,176)
Tax effect of expenses that are not deductible	**2,738**	2,902
Tax effect of temporary differences not recognised	**(96)**	—
Tax effect of unrecognised tax losses	**10,191**	3,032
Tax effect of profit exempted from income tax	**(7,633)**	(10)
Effect of different tax rates of subsidiaries	**(962)**	4,647
Income tax expense	**49,835**	34,851

(c) No provision for deferred taxation has been made in the financial statements as the tax effect of taxable temporary differences is immaterial to the Group.

At the balance sheet date, the Group has estimated unused tax losses of RMB116,268,000 (2006: RMB57,471,000) available for offset against future profits. No deferred tax assets has been recognised (2006: Nil) due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of RMBNil (2006: RMB1,292,000) that will be expired within five years. Other losses may be carried forward indefinitely.

11. PROFIT FOR THE YEAR

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

	2007 **RMB'000**	2006 RMB'000
Auditors' remuneration	**1,660**	975
Cost of inventories sold *(note (a))*	**2,881,914**	2,165,218
Depreciation	**51,452**	22,794
Amortisation of other intangible assets	**39**	—
Research and development costs *(note (b))*	**115,635**	95,537
Operating lease charges in respect of:		
– Land	**1,248**	1,248
– Factory and office premises	**7,164**	4,192
– Plant and machinery	**5,100**	8,500
Net exchange losses	**24,941**	8,024
Staff costs including Directors' emoluments:		
Salaries, bonus and allowances	**62,178**	49,553
Share-based payments	**3,554**	—
Retirement benefit scheme contributions	**9,669**	4,078

Notes:

(a) Cost of inventories sold includes staff costs, depreciation and operating lease charges of approximately RMB86,759,000 (2006: RMB62,190,000) which are included in the amounts disclosed separately above.

(b) Research and development costs are included in staff costs, cost of inventories sold and depreciation which are disclosed separately above.

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

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

For the year ended 31 March 2007

	Fees RMB'000	Basic salaries, other allowances and benefits in kind RMB'000	Discretionary bonus RMB'000	Share-based payments RMB'000	Retirement benefit scheme contributions RMB'000	Total RMB'000
Executive Directors						
Lilly Huang	–	305	–	–	–	305
Zhou Tian Bao	–	1,980	–	–	8	1,988
Zhang Zhen Juan	–	660	–	900	8	1,568
Yang Bin	–	300	–	90	8	398
Dai Wei	–	528	–	450	8	986
Chen Xiang Dong	–	528	–	450	8	986
Non-executive Director						
Lee Cheuk Yin, Dannis	264	–	–	45	–	309
Independent non-executive Directors						
Choi Tat Ying, Jacky	101	–	–	45	–	146
Zhang Jian Chun *(note)*	101	–	–	–	–	101
Zhang Xin, Cindy	101	–	–	–	–	101
Total for 2007	567	4,301	–	1,980	40	6,888

Note: appointed on 1 April 2006

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

For the year ended 31 March 2006

	Fees RMB'000	Basic salaries, other allowances and benefits in kind RMB'000	Discretionary bonus RMB'000	Share-based payments RMB'000	Retirement benefit scheme contributions RMB'000	Total RMB'000
Executive Directors						
Lilly Huang	—	314	—	—	—	314
Zhou Tian Bao	—	2,042	—	—	—	2,042
Zhang Zhen Juan	—	680	—	—	3	683
Yang Bin	—	300	—	—	1	301
Dai Wei	—	299	—	—	3	302
Chen Xiang Dong	—	299	—	—	3	302
Non-executive Director						
Lee Cheuk Yin, Dannis	176	96	—	—	—	272
Independent non-executive Directors						
Choi Tat Ying, Jacky	105	—	—	—	—	105
Wu Chao Ying *(note)*	105	—	—	—	—	105
Zhang Xin, Cindy	105	—	—	—	—	105
Total for 2006	491	4,030	—	—	10	4,531

Note: resigned on 1 April 2006

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

There was no arrangement under which a Director waived or agreed to waive any emoluments during the year (2006: RMB Nil).

The six (2006: five) highest paid employees in the Group included four (2006: two) Directors whose emoluments were reflected in the analysis presented above. The emoluments of the remaining two (2006: three) employees are set out below:

	2007 RMB'000	2006 RMB'000
Basic salaries, other allowances and benefits in kind	**2,112**	2,680
Share-based payments	**314**	—
Retirement benefit scheme contributions	**24**	25
	2,450	2,705

The emoluments fell within the following band:

	2007 Number of employees	2006 Number of employees
Nil to HK$1,000,000	**—**	3
HK$1,000,001 to HK$1,500,000	**2**	—

During the year, no emoluments were paid by the Group to any of the Directors or the highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office.

The above emoluments include the value of share options granted to certain Directors and employees under the Company's share option scheme as estimated at the date of grant. Further details are disclosed under the section "Share option scheme" in the Directors' Report and in note 31 to the financial statements.

13. RETIREMENT BENEFIT SCHEME

The Group operates a mandatory provident fund scheme (the "MPF Scheme") under the Hong Kong Mandatory Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF Scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF Scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000. Contributions to the plan vest immediately.

In addition to the participation in the MPF Scheme, the Group is required to contribute to a defined contribution retirement scheme for its employees in the PRC based on the applicable basis and rates with the relevant government regulations.

14. DIVIDENDS

	2007 **RMB'000**	2006 RMB'000
Interim of HK$0.022 per ordinary share (2006: HK$0.020 per ordinary share)	**27,871**	20,417
Proposed final of HK$0.065 per ordinary share (2006: HK$0.057 per ordinary share)	**80,773**	73,586
	108,644	94,003

A final dividend of HK$0.065 per ordinary share will be proposed by the Directors and is subject to approval by the shareholders in the forthcoming annual general meeting. This proposed dividend is not reflected as a dividend payable in the financial statements, but will be reflected as an appropriation of retained profits for the year ending 31 March 2008.

Dividends payable to equity holders of the Company attributable to the previous financial year, approved and paid during the year:

	2007 **RMB'000**	2006 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year, of HK$0.057 per ordinary share (2006: HK$0.045 per ordinary share)	**73,278**	45,937

15. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following:

	2007 **RMB'000**	2006 RMB'000
Earnings		
Earnings for the purpose of calculating basic earnings per share	**404,150**	347,313
Finance costs saving on exercise of convertible bonds	**1,839**	1,202
Earnings for the purpose of calculating diluted earnings per share	**405,989**	348,515

	2007	2006
Number of shares		
Issued ordinary shares at beginning of year	**1,077,320,976**	975,000,000
Effect of issue of shares	**154,164,384**	—
Effect of conversion of convertible bonds	**911,378**	10,609,492
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**1,232,396,738**	985,609,492
Effect of dilutive potential ordinary shares arising from convertible bonds outstanding	**21,853,125**	25,580,246
Effect of dilutive potential ordinary shares in respect of share options	**3,110,917**	—
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	**1,257,360,780**	1,011,189,738

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Moulds RMB'000	Machinery and equipment RMB'000	Office equipment and fixtures RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
Cost							
At 1 April 2005	—	6,610	160,659	6,709	7,739	526,811	708,528
Reclassification	271,023	—	13,871	—	—	(284,894)	—
Additions	—	—	50,366	6,320	1,828	43,302	101,816
Exchange differences	—	—	—	(5)	(39)	—	(44)
At 31 March 2006	271,023	6,610	224,896	13,024	9,528	285,219	810,300
Reclassification	206,624	—	26,453	—	—	(233,077)	—
Additions	—	—	97,441	3,456	36	65,936	166,869
Exchange differences	—	—	—	(13)	(72)	—	(85)
At 31 March 2007	477,647	6,610	348,790	16,467	9,492	118,078	977,084
Accumulated depreciation							
At 1 April 2005	—	5,818	36,884	2,295	3,322	—	48,319
Charge for the year	4,996	80	14,708	1,557	1,453	—	22,794
Exchange differences	—	—	—	(3)	(8)	—	(11)
At 31 March 2006	4,996	5,898	51,592	3,849	4,767	—	71,102
Charge for the year	15,170	712	31,808	2,351	1,411	—	51,452
Exchange differences	—	—	—	(6)	(31)	—	(37)
At 31 March 2007	20,166	6,610	83,400	6,194	6,147	—	122,517
Carrying amount							
At 31 March 2007	457,481	—	265,390	10,273	3,345	118,078	854,567
At 31 March 2006	266,027	712	173,304	9,175	4,761	285,219	739,198

The Group leases machinery and equipment under finance leases expiring from one to three years. At the end of each lease term the Group has the option to purchase the machinery and equipment at a price deemed to be a bargain purchase option. None of the leases included contingent rentals.

At 31 March 2007 the carrying amount of machinery and equipment held by the Group under finance leases amounted to RMB141,637,000 (2006: RMB90,566,000).

16. PROPERTY, PLANT AND EQUIPMENT (continued)

The Group's total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	2007 RMB'000	2006 RMB'000
Within one year	3,600	—
In the second to fifth years inclusive	6,900	—
	10,500	—

17. PREPAID LAND LEASE PAYMENTS

The Group's prepaid land lease payments represent payments for land use rights situated in the PRC under medium-term leases.

18. GOODWILL

Goodwill acquired through business combination has been allocated to the auto parts cash-generating unit, which is a reportable segment, for impairment testing.

The recoverable amount of the auto parts cash-generating unit has been determined based on a value-in-use calculation using cash flow projections based on financial budgets approved by senior management covering a period of five years. The discount rate applied to cash flow projects is 9.5% and cash flows beyond five year period are extrapolated using a growth rate of 3% which is determined with reference to the prevailing inflation rate in the PRC. Senior management estimated the budgeted gross margin based on past performance and their expectations for market development. The discount rate used is before tax and reflects specific risks relating to the auto parts cash-generating unit.

19. OTHER INTANGIBLE ASSETS

Other intangible assets represent the cost of acquiring license for production technology and technical assistance and training.

	RMB'000
Cost	
At 1 April 2005 and 31 March 2006	—
Additions	782
At 31 March 2007	782
Accumulated amortisation	
At 1 April 2005 and 31 March 2006	—
Charge for the year	39
At 31 March 2007	39
Carrying amount	
At 31 March 2007	743
At 31 March 2006	—

20. INVESTMENT IN AN ASSOCIATE

	2007 RMB'000	2006 RMB'000
Unlisted investments outside Hong Kong:		
Share of net assets	**423,357**	396,690

Details of the Group's associate at 31 March 2007 are as follows:

Company	Form of business structure	Place of incorporation and operation	Class of shares	Proportion of ownership interest Group's effective interest	 Held by a subsidiary	Principal activities
Profound Global Limited	Incorporated	British Virgin Islands	Ordinary	40%	40%	Investment holding

Profound Global Limited is an investment holding company and its principal subsidiaries are engaged in manufacturing and distribution of metal hardware products, trading and distribution of auto parts. Details of the principal subsidiaries of the associate as at 31 March 2007 are as follows:

Company	Form of business structure	Place of incorporation and operation	Proportion of registered capital held by the associate Direct	 Indirect	Principal activities
偉業重工（安徽）有限公司 Grandwell Heavy Industry (Anhui) Company Limited*	Incorporated	The PRC	—	100%	Manufacture and distribution of metal hardware products
偉業汽車零部件（瀋陽）有限公司 Profound Automobile (Shenyang) Company Limited*	Incorporated	The PRC	—	100%	Trading and distribution of auto parts

* *name for reference only.*

20. INVESTMENT IN AN ASSOCIATE (continued)

Summarised consolidated financial information in respect of the Group's associates is set out below:

	2007 RMB'000 (unaudited)	2006 RMB'000 (unaudited)
At 31 March		
Total assets	**1,154,394**	1,075,293
Total liabilities	**(96,001)**	(83,568)
Net assets	**1,058,393**	991,725
Group's share of an associate's net assets	**423,357**	396,690
Year ended 31 March		
Total revenue	**1,360,807**	1,588,480
Total profit for the year	**89,138**	106,888
Group's share of an associate's profit for the year	**35,655**	42,755

21. INVENTORIES

	2007 RMB'000	2006 RMB'000
Raw materials	**32,516**	15,090
Work in progress	**5,217**	—
Finished goods	**43,469**	29,760
	81,202	44,850

22. VAT RECEIVABLE

VAT receivable represented PRC value-added tax recoverable at the balance sheet dates.

23. TRADE AND OTHER RECEIVABLES

	2007 RMB'000	2006 RMB'000
Trade receivables (note a and b)	**641,509**	513,308
Dividend receivable	**7,914**	8,280
Prepayments and other receivables	**65,636**	192,390
Due from a related company (note c)	**—**	1,554
	715,059	715,532

(a) The aging analysis of trade receivables, based on the invoice date, and net of allowance, is as follows:

	2007 RMB'000	2006 RMB'000
0 - 90 days	**641,005**	503,777
91 - 180 days	**504**	9,429
181 - 365 days	**—**	102
	641,509	513,308

Normally, 30 to 90 days credit term is granted to customers.

(b) Included in trade receivables are the following amounts denominated in a currency other than RMB:

	2007 USD'000	2006 USD'000
Trade receivables in other currency	**72,576**	63,400

(c) The amount due from a related company disclosed pursuant to section 161B of the Hong Kong Companies Ordinance is as follows:

Name of company	Name of director having the beneficial interest	Balance at 1 April 2006 RMB'000	Balance at 31 March 2007 RMB'000	Maximum amount outstanding during the year RMB'000
Anhui Industries and Trading Corporation ("AITC")	Mr. Zhou Tian Bao	1,554	—	1,554

The above advance was unsecured, interest-free and had no fixed repayment terms.

24. CASH AND BANK BALANCES

	2007 **RMB'000**	2006 RMB'000
Cash and bank balances	**965,592**	866,463
Time deposits	**777,943**	213,370
	1,743,535	1,079,833
Less: Pledged bank deposits	**(16,450)**	(16,670)
	1,727,085	1,063,163

(a) As at 31 March 2007, the pledged bank deposits were used as security for certain banking facilities. The deposits are in HKD and at fixed interest rates ranging from 2.75% to 4% per annum (2006: 3.05% to 3.75% per annum), and therefore are subject to foreign currency risk and fair value interest rate risk.

(b) As at 31 March 2007, approximately RMB1,653,940,000 (2006: RMB1,042,591,000) of the Group's cash and bank balances and short term time deposits were denominated in RMB. The conversion of RMB denominated balances into foreign currencies is subject to rules and regulations of foreign exchange control promulgated by the PRC government. The carrying amounts of the remaining cash and bank balances and short term time deposits are denominated in the following currencies:

	2007 **RMB'000**	2006 RMB'000
USD	**40,181**	7,555
HKD	**31,597**	13,017
EURO	**1,367**	—
	73,145	20,572

(c) Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made depending on the immediate cash requirement of the Group, and earn interest at the respective short term time deposit rates ranged from 2.75% to 5.31% per annum (2006: 1.71% to 2.25% per annum).

25. TRADE AND OTHER PAYABLES

	2007 RMB'000	2006 RMB'000
Trade payables *(note a)*	**94,303**	42,203
Accruals and other payables	**84,804**	57,020
VAT payables	**6,428**	—
Due to Directors *(note b)*	**1,332**	361
	186,867	99,584

(a) Aging analysis of trade payables, based on the date of receipt of goods, is as follows:

	2007 RMB'000	2006 RMB'000
0 - 90 days	**84,946**	37,270
91-180 days	**7,573**	2,025
181 - 365 days	**—**	1,112
Over 1 year	**1,784**	1,796
	94,303	42,203

(b) The amounts due are unsecured, interest-free and have no fixed repayment terms.

26. SHORT-TERM BORROWINGS

	2007 RMB'000	2006 RMB'000
Bank loans, wholly repayable within one year		
– Guaranteed by the Company [(a)]	**56,978**	25,875
– Guaranteed by a related party [(b)]	**130,000**	150,000
	186,978	175,875

(a) Denominated in HKD and bore effective interest ranging from 4.2% to 6.4% per annum (2006: 5.9% per annum).

(b) Denominated in RMB and bore effective interest of 5.5% per annum (2006: 5.9% per annum).

27. NON-CURRENT BORROWINGS

	2007 RMB'000	2006 RMB'000
Bank loans		
Syndicated loan	**565,146**	752,766
Other bank loans	**47,579**	1,352
	612,725	754,118
Finance lease payables *(note 28)*	**28,260**	50,658
	640,985	804,776
Current portion of non-current borrowings	**(361,265)**	(188,440)
	279,720	616,336
The bank loans are repayable as follows:		
Within one year	**341,734**	165,631
In the second year	**265,214**	336,317
In the third to fifth years, inclusive	**5,777**	252,170
	612,725	754,118

The syndicated loan is denominated in USD, and other bank loans are denominated in a currency other than RMB as follows:

	2007 '000	2006 '000
Other bank loans	**USD1,737**	USD168
	EURO1,650	—
	HKD17,535	—

The interest rates per annum of bank loans were as follows:

	2007	2006
Syndicated loan	**LIBOR plus 1.05%**	LIBOR plus 1.05%
Other bank loans	**5.90% to 7.75%**	7% to 7.25%

27. NON-CURRENT BORROWINGS (continued)

Other bank loans of approximately RMB47,579,000 (2006: RMB1,352,000) are arranged at floating interest rates and expose the Group to cash flow interest rate risk. The syndicated loan is also arranged at floating rates, thus exposing the Group to cash flow interest rate risk.

Other bank loans are secured by a charge over the Group's certain bank deposits (note 24(a)) and corporate guarantee given by the Company. The syndicated loan was secured by the following:

(i) continuing guarantee given by the Company; and

(ii) comply with certain financial covenants throughout term life of the facilities.

28. FINANCE LEASE PAYABLES

	Minimum lease payments		Present value of minimum lease payments	
	2007 RMB'000	2006 RMB'000	**2007 RMB'000**	2006 RMB'000
Within one year	**20,786**	25,784	**19,531**	22,809
In the second to fifth years, inclusive	**9,069**	21,177	**8,729**	19,857
After five years	**—**	8,295	**—**	7,992
	29,855	55,256	**28,260**	50,658
Less: Future finance charges	**(1,595)**	(4,598)	**N/A**	N/A
Present value of lease obligations	**28,260**	50,658	**28,260**	50,658
Less: Amount due for settlement within 12 months (shown under current liabilities)			**(19,531)**	(22,809)
Amount due for settlement after 12 months			**8,729**	27,849

It is the Group's policy to lease certain of its machinery and equipment under finance leases. The average lease term is three years. As at 31 March 2007, the effective borrowing rate was ranged 2.75% p.a. to 8.25% p.a. (2006: 2.75% p.a. to 8% p.a.). Finance lease payables of approximately RMB12,990,000 (2006: RMB23,408,000) are arranged at fixed interest rates and expose the Group to fair value interest rate risk. Interest rates of the remaining finance lease payables are floating and determined at the contract dates and thus expose the Group to cash flow interest rate risk. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments. At the end of each lease term, the Group has the option to purchase the machinery and equipment at nominal prices.

All finance lease payables are denominated in HKD.

The Group's finance lease payables are secured by the lessor's titles to the leased assets.

29. CONVERTIBLE BONDS

On 16 December 2004, the Company issued US$40 million worth of zero coupon Convertible Bonds with maturity date on 16 December 2007 (the "Maturity Date"). The bonds are convertible, at the option of their holders, into ordinary shares of the Company, par value HK$0.1 per share, at the conversion price of the equivalent of HK$2.70 per share at any time on or after 15 June 2005 and prior to 6 December 2007. On 16 December 2005, the conversion price was adjusted to HK$2.43 per share in accordance to the terms of the indenture. On 4 May 2006, the conversion price was further adjusted to HK$2.40 per share. Unless previously redeemed, converted or purchased and cancelled, these bonds will be redeemed in USD at 112.4864% of their principal amount on the Maturity Date.

The fair value of the liability component of the convertible notes was determined at the issuance date, using the prevailing market interest rate for similar debt without a conversion option of 4.75% and is carried as a long term liability. The remaining portion was allocated to the conversion option that was recognised and included in shareholders' equity.

The interest charged for the year is calculated by applying an effective interest rate of 4.75% per annum to the liability component for the 36 month period since the loan notes were issued.

The Directors estimate the fair value of the liability component of the convertible bonds at 31 March 2007 to be approximately RMB56,753,000. This fair value has been calculated by discounting the future cash flows at the market rate.

The convertible bonds will mature on 16 December 2007 and hence they are reclassified to current liabilities.

30. SHARE CAPITAL

		Number of shares		Ordinary share capital at HK$0.1 each			
		2007 (in millions)	2006 (in millions)	**2007 HK$'000**	**2007 RMB'000**	2006 HK$'000	2006 RMB'000
Authorised:							
At the beginning and at the end of year		**5,000**	5,000	**500,000**		500,000	
Issued and fully paid:							
At the beginning of year		**1,077**	975	**107,732**	**113,940**	97,500	103,350
Shares issued	(a)	**170**	—	**17,000**	**17,255**	—	—
Shares issued upon conversion of convertible bonds	(b)	**4**	102	**405**	**403**	10,232	10,590
At the end of year		**1,251**	1,077	**125,137**	**131,598**	107,732	113,940

Note:

(a) Century Founders Group Limited ("the Vendor") was the controlling shareholder of the Company holding 600,000,000 shares representing 55.69% of the Company's issued share capital as at 24 April 2006. The Vendor and the Company had entered into a placing and subscription agreement ("Placing and Subscription Agreement") dated 24 April 2006 with The Hongkong and Shanghai Banking Corporation Limited ("the Placing Agent"), pursuant to which the Placing Agent procured, on an underwritten basis, purchasers to acquire, and the Vendor sold, 170,000,000 existing shares of the Company at the placing price of HK$3.625 per share. Pursuant to the Placing and Subscription Agreement, the Vendor had conditionally agreed to subscribe for 170,000,000 new shares at the placing price. Immediately after the placing and subscription, the Vendor's shareholding in the Company's shares was reduced to 48.1% and the total number of issued share of the Company was increased from 1,077,320,976 to 1,247,320,976. The Vendor remained as the controlling shareholder of the Company after completion of the Placing and Subscription Agreement. Net proceeds from the subscription was approximately HK$597 million (RMB606 million).

(b) During the year, convertible bonds with total nominal value of USD1,250,000 (2006: USD32,000,000) were converted into ordinary shares of the Company. The conversions were conducted on predetermined exchange rate and conversion price of HK$2.40 (2006: HK$2.43) per ordinary share of the Company. Totally 4,046,875 (2006: 102,320,976) new ordinary shares of HK$0.1 each were issued as a result of the conversions.

31. SHARE-BASED PAYMENTS

The Company adopted a share option scheme on 4 September 2003 ("the Scheme") whereby the Directors of the Company are authorized, 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 scheme is to provide incentives and rewards to eligible participants who contribute to the success of the Group's operations. Details of the Scheme are disclosed in the Directors' Report under the heading of "Share option scheme".

		Number of share options				
Share option holders	**Date of grant**	**As at 1 April 2006**	**Granted during the year**	**Exercised during the year**	**Lapsed during the year**	**As at 31 March 2007**
Director						
Ms. Zhang Zhen Juan	26/09/2006	—	5,000,000	—	—	5,000,000
Mr. Dai Wei	26/09/2006	—	2,500,000	—	—	2,500,000
Mr. Chen Xiang Dong	26/09/2006	—	2,500,000	—	—	2,500,000
Mr. Yang Bin	26/09/2006	—	500,000	—	—	500,000
Mr. Lee Cheuk Yin, Dannis	26/09/2006	—	250,000	—	—	250,000
Mr. Choi Tat Ying, Jacky	26/09/2006	—	250,000	—	—	250,000
		—	11,000,000	—	—	11,000,000
Employees of the Group						
In aggregate	26/09/2006	—	10,025,000	—	—	10,025,000
Total for all categories		—	21,025,000	—	—	21,025,000

31. SHARE-BASED PAYMENTS (continued)

Details of options granted during the year:

Date of grant	Number of options granted	Vesting period	Exercise period	Exercise price
26/09/2006	7,004,000	26/09/2006 - 25/09/2008	26/09/2008 - 03/09/2013	HK$2.57
26/09/2006	7,004,000	26/09/2006 - 25/09/2009	26/09/2009 - 03/09/2013	HK$2.57
26/09/2006	7,017,000	26/09/2006 - 25/09/2010	26/09/2010 - 03/09/2013	HK$2.57

Notes:

(1) Consideration paid to the Company for each grant of options was HK$1.00.

(2) The closing price of the shares of the Company quoted on the Stock Exchange on 25 September 2006, being the trading date immediately before the date on which the share options were granted during the year, was HK$2.55.

(3) There was no exercisable share option at the end of the year. The options outstanding at the end of the year have a remaining contractual life of 6.5 years (2006: Nil) and the exercise price is HK$2.57 (2006: Nil).

(4) The Binomial model was applied to estimate the fair value of share options granted by the Company. This pricing model requires the input of highly subjective assumptions, including the volatility of the share price and expected life of option. Expected volatility was determined by calculating the historical volatility of the Company's share price over the previous three years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, effective exercise price, exercise restrictions and behavioural considerations. The changes in input assumptions can materially affect the fair value estimate. The following significant assumptions were used to deliver the fair value.

Share price at grant date:	HK$2.56
Expected life:	4.0-6.3 years from grant date
Expected volatility:	43.7% based on historical volatility
Expected dividend yield:	1.5% on semi-annual basis, based on historical dividend payments
Risk free interest rate:	3.816% based on 7-year Exchange Fund Notes
Exit rate	0% for Directors; 20% for employees
Trigger price multiple	2 times for Directors; 1.5 times for employees

All the options forfeited before expiry of the options will be treated as lapsed options under the relevant share option scheme.

Based on the above assumptions, the computed fair value under the options granted during the year was approximately HK$0.908 per option share. The expenses recognised in the consolidated income statement for share options during the year ended 31 March 2007 was approximately RMB3,554,000 (2006: Nil).

32. BALANCE SHEET OF THE COMPANY

	2007 **RMB'000**	2006 RMB'000
Investment in subsidiaries	**289,112**	302,498
Due from subsidiaries	**1,682,451**	1,069,310
Other current assets	**1,925**	3,062
Convertible bonds	**(56,753)**	(66,645)
Other current liabilities	**(895)**	(1,227)
NET ASSETS	**1,915,840**	1,306,998
Share capital	**131,598**	113,940
Reserves	**1,784,242**	1,193,058
TOTAL EQUITY	**1,915,840**	1,306,998

33. RESERVES

(a) Company

	Share premium RMB'000	Capital reserve RMB'000	Foreign currency translation reserve RMB'000	Share-based payment reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 April 2005	838,535	7,053	—	—	46,929	892,517
Issue of shares upon conversion of convertible bonds	261,463	(5,642)	—	—	—	255,821
Profit for the year	—	—	—	—	135,222	135,222
Dividends paid	—	—	—	—	(66,354)	(66,354)
Translation difference	—	—	(24,148)	—	—	(24,148)
At 31 March 2006	1,099,998	1,411	(24,148)	—	115,797	1,193,058
At 1 April 2006	1,099,998	1,411	(24,148)	—	115,797	1,193,058
Issue of shares	608,239	—	—	—	—	608,239
Share issue expenses paid	(19,453)	—	—	—	—	(19,453)
Issue of shares upon conversion of convertible bonds	10,233	(221)	—	—	—	10,012
Recognition of shared-based payments	—	—	—	3,554	—	3,554
Profit for the year	—	—	—	—	163,955	163,955
Dividends paid	—	—	—	—	(101,149)	(101,149)
Translation difference	—	—	(73,974)	—	—	(73,974)
At 31 March 2007	1,699,017	1,190	(98,122)	3,554	178,603	1,784,242

33. RESERVES (continued)

(b) Nature and purpose of reserves

(i) Share premium

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

(ii) Capital reserve

The value of the unexercised equity component of convertible bonds issued by the Group recognised in accordance with the accounting policy adopted for convertible bonds in note 3(o) to the financial statements.

(iii) 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 3(d)(iii) to the financial statements.

(iv) Share-based payment reserve

The fair value of the actual or estimated number of unexercised share options granted to employees of the Group recognised in accordance with the accounting policy adopted for share-based payments in note 3(t) to the financial statements.

(v) 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 reorgansiation as set out in the prospectus of the Company dated 29 September 2003.

(vi) General reserve fund and enterprise expansion fund

Two subsidiaries of the Group established in the PRC, being foreign investment enterprises, are required to appropriate an amount from the net profit reported in their statutory accounts to two statutory reserves, namely general reserve fund and enterprise expansion fund. Both funds are designated for specific purposes. Based on Directors' resolutions, the PRC subsidiaries appropriated 10% of their statutory net profit to the general reserve fund and the enterprise expansion fund respectively for the years ended 31 March 2006 and 2007.

34. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries as at 31 March 2007 are as follows:

Name	Date and place of incorporation	Issued and paid up capital	Percentage of ownership interest/ voting power/ profit sharing Direct	Indirect	Principal activities/ place of operation
Fullitech International Limited	2 April 2001 British Virgin Islands	US$100	100%	—	Investment holding/ Hong Kong
Norstar Automobile Industrial Holding Limited ("Norstar Holding")	17 March 1994 Hong Kong	HK$100,000,000	—	100%	Investment holding, marketing, trading and distribution of auto parts and construction decorative hardware products/Hong Kong
北泰汽車工業有限公司 * ("Norstar Automotive")	11 June 1997 The PRC	RMB710,000,000	—	100%	Manufacturing and sale of auto parts and construction decorative hardware products/The PRC
北泰汽車懸架製造 (北京)有限公司 * ("Norstar Auto Suspension")	29 June 2004 The PRC	HK$400,000,000 (2006: US$15,000,000)	—	100%	Design, development, and sales of auto suspension system/The PRC

* *These principal subsidiaries are registered as wholly-foreign owned enterprise under the PRC law.*

35. MAJOR NON-CASH TRANSACTIONS

(i) Finance leases

During the year the Group entered into finance leases in respect of machinery and equipment amounted to approximately RMB1,741,000 (2006: RMB25,620,000).

(ii) During the year, 4,046,875 (2006: 102,320,976) ordinary shares of the Company of HK$0.1 each were issued as a result of conversion of convertible bonds (Note 30(b)).

36. CAPITAL COMMITMENTS

The Group's capital commitments at the balance sheet date are as follows:

	2007 RMB'000	2006 RMB'000
Contracted but not provided for		
– purchases of machinery and equipment	**144,217**	128,818
– construction in progress	**3,851**	9,204
	148,068	138,022

37. LEASE COMMITMENTS

At 31 March 2007, the total future minimum lease payments under non-cancellable operating leases in respect of plant and office building and machinery and equipment are payable as follows:

	2007 RMB'000	2006 RMB'000
Within one year	**8,250**	7,800
In the second to fifth years inclusive	**7,800**	15,600
	16,050	23,400

The Group also had the future minimum lease payments under non-cancellable operating leases in respect of its office premises and staff quarters located in the PRC and Hong Kong as follows:

	2007 RMB'000	2006 RMB'000
Within one year	**1,800**	1,334
In the second to fifth years inclusive	**2,328**	1,863
	4,128	3,197

The Group leases a number of properties and items of plant, machinery and equipment under operating leases. The leases run for an initial period from one to three years, with an option to renew the lease and renegotiate. The terms at the expiring date or dates as mutually agreed between the Group and respective lessors. None of these include contingent rentals.

38. RELATED PARTY TRANSACTIONS

In addition to those related party transactions and balances disclosed elsewhere in the financial statements, the Group had the following transactions with its related parties during the year:

	2007 **RMB'000**	2006 RMB'000
Rental for leased office building, manufacturing premises, plant and machinery and equipment paid to AITC [a]	**7,800**	10,800
Rental for leased office building and staff quarters paid to related companies [b]	**1,488**	1,131

Note:

(a) Pursuant to lease agreements entered into between Norstar Automotive and AITC, AITC has leased to Norstar Automotive certain office buildings, manufacturing premises and plant and machinery and equipment. AITC, a company established in the PRC, is jointly owned and managed by Mr. Zhou Tian Bao, a director of the Company, and his spouse.

(b) Those premises are beneficially owned by Mr. Zhou Tian Bao.

A related company provided corporate guarantee of up to a maximum amount of RMB200 million (2006: RMB200 million) in respect of short-term banking facilities given to the Group (note 26(b)).

39. EVENTS AFTER BALANCE SHEET DATE

On 30 April 2007, the Group entered into a Facility Agreement ("the Facility") with a syndicate of banks, pursuant to which a loan facility of up to HK$1,450,000,000 is granted. The final maturity date of any sums outstanding under the Facility is 29 April 2011. The Group subsequently utilised a partial facility of HK$1,150,000,000 in order to repay in full of an outstanding syndicated loan previously obtained in November 2005 and use for general working capital.

40. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 28 June 2007.

FINANCIAL SUMMARY

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

Consolidated income statements

For the year ended 31 March (RMB'000)	2003	2004	2005 (Restated)	2006	**2007**
Turnover	1,380,267	1,711,442	2,206,041	2,658,993	**3,497,159**
Cost of goods sold	(1,131,800)	(1,427,025)	(1,837,349)	(2,165,218)	**(2,881,914)**
Gross profit	248,467	284,417	368,692	493,775	**615,245**
Other income	4,818	14,962	11,196	21,067	**48,568**
Distribution and selling expenese	(49,978)	(55,597)	(36,653)	(49,135)	**(57,508)**
Administrative expenses	(29,528)	(29,292)	(38,380)	(59,909)	**(116,929)**
Profit from operations	173,779	214,490	304,855	405,798	**489,376**
Finance costs	(23,660)	(17,246)	(33,697)	(66,389)	**(71,046)**
	150,119	197,244	271,158	339,409	**418,330**
Share of profits of an associate	—	—	12,024	42,755	**35,655**
Profit before tax	150,119	197,244	283,182	382,164	**453,985**
Income tax expense	(3,467)	(14,841)	683	(34,851)	**(49,835)**
Profit for the year	146,652	182,403	283,865	347,313	**404,150**
Attributable to :					
Equity holders of the Company	131,722	163,521	273,487	347,313	**404,150**
Minority interests	14,930	18,882	10,378	—	**—**
	146,652	182,403	283,865	347,313	**404,150**

Consolidated balance sheets

At 31 March (RMB'000)	2003	2004	2005 (Restated)	2006	**2007**
Non-current assets:					
Property, plant and equipment	50,304	327,187	660,209	739,198	**854,567**
Prepaid land lease payments	13,457	13,171	58,778	57,530	**56,282**
Goodwill	—	—	29,639	29,639	**29,639**
Other Intangible assets	—	—	—	—	**743**
Interest in an associate	—	—	206,539	396,690	**423,357**
	63,761	340,358	955,165	1,223,057	**1,364,588**
Current assets:					
Inventories	108,153	48,212	32,846	44,850	**81,202**
VAT receivable	53,089	57,461	117,541	127,168	**145,625**
Trade and other receivables	266,031	373,883	515,912	715,532	**715,059**
Pledged bank deposits	—	—	—	16,670	**16,450**
Cash and bank balances	226,217	326,821	754,918	1,063,163	**1,727,085**
	653,490	806,377	1,421,217	1,967,383	**2,685,421**
Current liabilities:					
Trade and other payables	34,068	34,051	99,171	99,584	**186,867**
Short-term borrowings	310,000	260,000	146,800	175,875	**186,978**
Current portion of non-current borrowings	—	—	203,633	188,440	**361,265**
Notes payable	—	20,000	—	—	**—**
Convertible bonds	—	—	—	—	**56,753**
Current tax liabilities	26,579	35,118	6,688	13,330	**14,128**
	370,647	349,169	456,292	477,229	**805,991**
Net current assets	282,843	457,208	964,925	1,490,154	**1,879,430**
Total assets less current liabilities	346,604	797,566	1,920,090	2,713,211	**3,244,018**

Consolidated balance sheets (continued)

At 31 March (RMB'000)	2003	2004	2005 (Restated)	2006	2007
Non-current liabilities:					
Non-current borrowings	—	—	280,568	616,336	**279,720**
Convertible bonds	—	—	327,541	66,645	**—**
	—	—	608,109	682,981	**279,720**
Net assets	346,604	797,566	1,311,981	2,030,230	**2,964,298**
Capital and reserves:					
Share Capital	106	87,980	103,350	113,940	**131,598**
Reserve	309,698	658,087	1,208,631	1,916,290	**2,832,700**
Attributable to equity holders of the Company	309,804	746,067	1,311,981	2,030,230	**2,964,298**
Minority interests	36,800	51,499	—	—	**—**
	346,604	797,566	1,311,981	2,030,230	**2,964,298**