1. BACKGROUND OF THE COMPANY

Norstar Founders Group Limited (the "Company") was incorporated as an exempted company with limited liability in the Cayman Islands under the Companies Law, Cap. 22 (law 3 of 1961, as consolidated and revised) of the Cayman Islands.

Pursuant to a group reorganisation, which was completed on 26 September 2003 (the "Group Reorganisation"), the Company became the holding company of the subsidiaries comprising the Group. The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited on 10 October 2003. Further details of the Group Reorganisation are set out in the prospectus of the Company dated 29 September 2003.

The Group Reorganisation has been reflected in the financial statements by regarding the Group comprising the Company and its subsidiaries as a continuing entity. Accordingly, the financial statements for the years ended 31 March 2003 and 2004 have been prepared using the merger basis of accounting and the consolidated results included the results of the subsidiaries comprising the Group as if the current structure had been in existence throughout the period presented.

The Company is an investment holding company. The principal activities of its subsidiaries are set out in Note 13 to the financial statements.

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below.

(a) Basis of preparation

The financial statements have been prepared under historical cost convention, and in accordance with accounting principles generally accepted in Hong Kong, and comply with accounting standards issued by the Hong Kong Society of Accountants ("HKSA") and the disclosure requirements of the Hong Kong Companies Ordinance.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(b) Changes in accounting policies

In the current year, the Group has adopted, for the first time, Statement of Standard Accounting Practice ("SSAP") No. 12 (Revised) "Income taxes" issued by the Hong Kong Society of Accountants.

SSAP 12 (Revised) Income Taxes

The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively, but the adoption of SSAP 12 (Revised) has not had any material effect on the results for the years ended 31 March 2003 and 2004.

(c) Basis of consolidation

As described above, the Group Reorganisation was among companies under common control and owned by the same shareholder, therefore, the transaction has been accounted for on the basis of merger accounting in accordance with Statement of Standard Accounting Practice No. 27 "Accounting for group reconstructions". Under the merger accounting method, the consolidated financial statements have been prepared as if the Company had been the holding company of the Group throughout the year ended 31 March 2004, rather than from the date on which the Group Reorganisation was completed.

The comparative figures as at and for the year ended 31 March 2003 have been presented on the same basis.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(c) Basis of consolidation *(Continued)*

Material intra-group balances and intra-group transactions are eliminated on consolidation.

A subsidiary is a company in which another company holds, directly or indirectly, more than 50% of the issued voting share capital or registered capital as a long term investment and/or otherwise has the power to control the financial and operating policies of the enterprise.

Minority interests represent the interests of outside shareholder in the operating results and net assets of the subsidiaries.

In the Company's balance sheet, the investment in subsidiaries is stated at cost less provision for impairment losses, if any. The results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(d) Related parties

Parties are considered to be related if one has the ability to control the other, directly or indirectly, or has the ability to exercise significant influence over the financial and operating decisions of the other. Parties are also considered to be related if they are subject to common control or common significant influence.

(e) Revenue recognition

(i) Sales of goods

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

(ii) Interest income

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(iii) Dividend

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

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(f) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to the consolidated income statement in the period in which they are incurred.

When the expenditure results in increase in the future economic benefits expected to be obtained from the use of the assets, the expenditures are capitalised. Depreciation of property, plant and equipment is provided using the straight-line method over their estimated useful lives, after taking into consideration their estimated residual values of 10% of cost. The estimated useful lives of property, plant and equipment are as follows:

Land use rights	Over the rights period
Moulding equipment	3 years
Machinery and equipment	5-10 years
Office equipment and fixtures	5-10 years
Motor vehicles	5-10 years

Gains and losses on disposals of property, plant and equipment are recognised in the consolidated income statement based on the net disposal proceeds less the carrying amount of the assets at the date of disposal.

The useful life and depreciation method are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits generated from the fixed assets.

(g) Construction in progress

Construction in progress represents buildings under construction and plant and machinery pending installation, and is stated at cost. Costs include construction and acquisition costs, and interest charges arising from borrowings used to finance the assets during the period of construction, installation or testing. No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and ready for use.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(h) Impairment of assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately, unless the relevant asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, 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.

(i) Inventories

Inventories are carried at the lower of cost and net realisation value.

Cost, calculated on the weighted average cost method, comprises all costs of purchase, costs of conversion, including direct labour and an appropriate proportion of production overheads, and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

When inventories are sold, the carrying amount of the inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(j) Trade receivables

Provision is made against trade receivables to the extent that they are considered to be doubtful. Trade receivables in the balance sheets are stated net of such provision.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(k) Foreign currencies

Companies within the Group maintain their books and records in the primary currencies of their respective operations ("functional currencies"). Transactions in other currencies are translated into their functional currencies at the rates of exchange prevailing at the time of the transactions. Monetary assets and liabilities denominated in other currencies are translated into their functional currencies at the rates of exchange in effect at the balance sheet date. Exchange gains or losses are recorded in the income statement of the individual companies.

The consolidated financial statements are presented in Renminbi. For the purpose of consolidation, all of the assets and liabilities of subsidiaries with functional currencies other than Renminbi are translated into Renminbi at the rates of exchange in effect at the balance sheet date; the income and expense items are translated into Renminbi at the average rates during the year; equity accounts are translated into Renminbi at historical rates of exchange. Exchange differences arising from such translation are dealt with in the exchange reserve.

(l) Taxation

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

Income tax is provided on the basis of the results for the year for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for income tax purposes.

Deferred taxation is provided in full, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investment in subsidiaries, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred taxation is charged or credited to the consolidated income statement, except when it relates to items charged or credited directly to equity, in which case the deferred taxation is also dealt with in equity.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(m) Research and development costs

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly defined project will be recovered through future commercial activity. The resultant asset is depreciated on a straight-line basis over its useful life, which is usually no more than five years.

Where no internally generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

There was no development costs capitalised during the financial year.

(n) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or 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.

Inter-segment pricing is based on similar terms as those available to other external parties.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment, segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidated process, except to that extent that such intra-group balances and transactions are between group enterprises within a single segment.

Segment capital expenditure is the total costs incurred during the period to acquire segment assets that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses and minority interests.

(o) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Rentals applicable to such operating leases are charged to the consolidated income statement on a straight-line basis over the lease term.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(p) Cash and cash equivalents

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 which are subject to an insignificant risk of change in value, having been within three months of maturity at acquisition. For the purpose of cash flow statement, bank overdrafts which are repayable on demand and form an integral part of an enterprise's cash management are also included as a component of cash and cash equivalents.

(q) 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 or paternity leave are not recognised until the time of leave.

(ii) Retirement benefits

Pursuant to the relevant regulations of the provincial governments in the PRC, Beijing Norstar Automotive Industries Inc. ("Beijing Norstar") participates in a government retirement benefit scheme (the "Scheme") whereby Beijing Norstar is required to contribute to the Scheme to fund the retirement benefits of the eligible employees. Contributions made to the Scheme are calculated based on certain percentages of the applicable payroll costs. The government of the PRC is responsible for the entire pension obligations payable to retired employees. The only obligation of the Group with respect to the Scheme is to pay the ongoing required contributions under the Scheme. Contributions under the Scheme are expensed as incurred.

With effect from 1 December 2000, Norstar Automobile Industrial Holding Limited ("Norstar Automobile"; formerly known as Norstar Industrial Limited) in Hong Kong also operates a mandatory provident fund scheme which is available to all Hong Kong employees. The assets of the scheme are held separately from those of Norstar Automobile in an independently administered fund. Monthly contributions made by Norstar Automobile are at fixed percentages of the applicable payroll, subject to a maximum of HK$1,000 per month per employee while the monthly contributions made by the employees are determined by respective qualified employees. Contributions under the mandatory provident fund scheme are expensed as incurred.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(r) Borrowing costs

All borrowing costs are charged to the operating results in the year in which they are incurred.

(s) Provisions and contingent liabilities

Provision are recognised for liabilities of uncertain timing or amount when the Group has a 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.

3. TURNOVER, REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in the manufacture and sale of automotive spare parts and construction decorative hardware products. The Group's turnover and revenue are as follows:

	2004	2003
	RMB'000	*RMB'000*
Turnover		
Automotive spare parts	**1,401,696**	1,073,752
Construction decorative hardware products	**309,746**	306,515
	1,711,442	1,380,267
Other revenue		
Interest income	**1,418**	1,819
Reversal of employees' welfare provision	**7,680**	—
Sundry income	**5,864**	2,999
	14,962	4,818
Total turnover and revenue	**1,726,404**	1,385,085

3. TURNOVER, REVENUE AND SEGMENT INFORMATION *(Continued)*

Primary reporting format - geographical segments

The Group operates within one geographical segment in 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 turnover and segment results. Segment turnover 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:

— Automotive spare parts

— Construction decorative hardware products

(i) Primary reporting format - geographical segments

For the year ended 31 March 2004

	United States *RMB'000*	Canada *RMB'000*	Europe *RMB'000*	Total *RMB'000*
Segment turnover	**998,700**	**390,988**	**321,754**	**1,711,442**
Segment results	**166,402**	**65,388**	**52,627**	**284,417**

For the year ended 31 March 2003

	United States *RMB'000*	Canada *RMB'000*	Europe *RMB'000*	Others *RMB'000*	Total *RMB'000*
Segment turnover	793,256	318,592	250,771	17,648	1,380,267
Segment results	140,884	57,550	46,744	3,289	248,467

3. TURNOVER, REVENUE AND SEGMENT INFORMATION *(Continued)*

Secondary reporting format - business segments *(Continued)*

(ii) Secondary reporting format - business segments

For the year ended 31 March 2004

	Segment turnover	Profit from operations	Carrying amount of segment assets	Carrying amount of segment liabilities	Reversal of provision for obsolete inventories	Depreciation	Capital expenditure
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Automotive spare parts	1,401,696	228,096	530,730		2,607	4,668	282,857
Construction decorative hardware products	309,746	56,321	56,004		918	489	230
	1,711,442	284,417	586,734		3,525	5,157	283,087
Unallocated assets			560,001				1,743
Unallocated liabilities				349,169			
Interest income		1,418					
Unallocated costs		(71,345)				3,076	
		214,490	1,146,735	349,169	3,525	8,233	284,830

For the year ended 31 March 2003

	Segment turnover	Profit from operations	Carrying amount of segment assets	Carrying amount of segment liabilities	Provision for obsolete inventories	Depreciation	Capital expenditure
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Automotive spare parts	1,073,752	195,684	214,837		3,230	5,578	4,262
Construction decorative hardware products	306,515	52,783	57,933		1,178	365	3,326
	1,380,267	248,467	272,770		4,408	5,943	7,588
Unallocated assets			444,481				16,598
Unallocated liabilities				370,647			
Interest income		1,819					
Unallocated costs		(76,507)				2,836	
		173,779	717,251	370,647	4,408	8,779	24,186

4. PROFIT FROM OPERATIONS

Profit from operations has been arrived at after charging/(crediting):

	2004	2003
	RMB'000	*RMB'000*
Auditors' remuneration	735	340
(Reversal of provision)/provision for obsolete inventories	(3,525)	4,408
Cost of inventories sold	1,430,550	1,131,800
Depreciation	8,233	8,779
Exchange losses	188	751
Research and development costs	44,887	34,951
Operating lease rentals in respect of:		
- Land and building	4,176	4,809
- Plant and machinery	8,500	8,500
Staff costs (including directors' emoluments - *(note 10)*)	56,946	46,053

5. FINANCE COSTS

	2004	2003
	RMB'000	*RMB'000*
Interest expenses on short term loans	13,353	16,185
Interest expenses on other loans	10	434
Discounting charges	3,513	5,721
Bank charges	182	569
Exchange losses	188	751
	17,246	23,660

6. TAXATION

The amount of taxation charged to the consolidated income statement represents:

	2004	2003
	RMB'000	*RMB'000*
PRC enterprise income tax	14,841	3,467

No provision for Hong Kong profits tax has been made as the Group had no assessable profits in Hong Kong during the year (2003: Nil).

On 15 August 2002, Beijing Norstar, a subsidiary of the Company in the PRC, obtained a written confirmation from the State Revenue Bureau of Beijing Economic and Technological Development Zone stating that Beijing Norstar is subject to enterprise income tax at the rate of 15% and is granted an exemption from enterprise income tax for two years commencing from the year ended 31 December 2001, and a 50% reduction in the enterprise income tax rate for the three years thereafter. Therefore, the PRC enterprise income tax for the year ended 31 March 2003 represented 7.5% tax charges on the taxable income of Beijing Norstar for the three months ended on the same date. The PRC enterprise income tax for the year ended 31 March 2004 represented 7.5% tax charges on the taxable income of Beijing Norstar.

6. TAXATION *(Continued)*

(a) Deferred taxation

As at 31 March 2003 and 2004 respectively, no provision for deferred tax has been recognised in the financial statements as there have been no material temporary differences for tax purposes.

(b) As the Group's major operation and income were located in the PRC, the applicable tax rate to the Group was the tax rate of 7.5% during the year applicable to the PRC subsidiary as mentioned above.

Reconciliation between tax expense and accounting profit at applicable tax rate:

	2004		2003	
	RMB'000	%	*RMB'000*	%
Profit before tax	197,244		150,119	
Tax at the applicable tax rate of 7.5%	14,793	7.5	11,259	7.5
Tax effect of profit exempted from income tax for the first two profitable years of operation	—	—	(7,991)	(5.3)
Tax effect of expenses/income that are not deductible/ taxable in determining taxable profit	(264)	(0.1)	33	—
Tax effect of unrecognised tax losses	312	0.1	166	0.1
Tax expense and effective tax rate for the year	14,841	7.5	3,467	2.3

7. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders includes a profit of approximately RMB24,956,000 (2003: nil) which has been dealt with in the financial statements of the Company.

8. DIVIDENDS

	2004 RMB'000	2003 RMB'000
Interim, paid	24,700	—
Final, proposed HK$0.024 per ordinary share	23,659	—
	48,359	—

At a meeting of the Board of Directors held on 23 June 2004, a final dividend of HK$0.024 per ordinary share has been 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 these financial statements, but will be reflected as an appropriation of retained profits for the year ended 31 March 2005.

On 4 September 2003, Norstar Automobile, a wholly owned subsidiary of the Company, declared a dividend of RMB24,700,000 to its then shareholder, Fullitech International Limited ("Fullitech"), and on the same day Fullitech declared the same amount to its then shareholder, Century Founders Group Limited.

9. EARNINGS PER SHARE

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

	2004 RMB'000	2003 RMB'000
Earnings		
Earnings for the purpose of calculating basic earnings per share	163,521	131,722
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	708,739,726	600,000,000

Basic earnings per share for the year ended 31 March 2003 was arrived at after dividing the profit attributable to shareholders of that year by 600,000,000 shares outstanding immediately prior to the public offerings.

No diluted earnings per share is presented as there were no potential dilutive ordinary shares in issue during the years ended 31 March 2004 and 2003.

10. STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	2004	2003
	RMB'000	*RMB'000*
Wages and salaries	53,788	43,522
Retirement benefit scheme contributions	3,158	2,531
	56,946	46,053

11. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

Details of the directors' emoluments for the year are as follows:

	2004	2003
	RMB'000	*RMB'000*
Fees		
Non-Executive directors	212	—
Other emoluments:		
Executive directors		
Basic salaries, other allowances and benefits in kind	1,683	700
Retirement benefits scheme contributions	15	3
	1,910	703

11. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS *(Continued)*

Emolument breakdown of each of the directors for the year is set out below:

	Directors' fee	Basic salaries, other allowances and benefits in kind	Discretionary bonus	Retirement benefits scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Lilly Huang	—	159	—	—	159
Zhou Tian Bao	—	300	—	1	301
Zhang Zhen Juan	—	229	—	1	230
Lee Cheuk Yin, Dannis	—	212	—	6	218
Wong Lit Chor, Alexis	—	583	—	6	589
Yang Bin	—	200	—	1	201
Liu Zhong Liang	106	—	—	—	106
Choi Tat Ying, Jacky	106	—	—	—	106
	212	1,683	—	15	1,910

The five highest paid individuals in the Group included three (2003: three) directors for the year whose emoluments were reflected in the analysis presented above. The emoluments of the remaining highest paid, non-director individuals during the year are set out below:

	2004	2003
	RMB'000	*RMB'000*
Basic salaries, other allowances and benefits in kind	890	537
Retirement benefits scheme contributions	25	27
	915	564

	2004 Number of employees	2003 Number of employees
Nil to HK$1,000,000	2	2

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

12. PROPERTY, PLANT AND EQUIPMENT

	The Group						
	Land use rights	Moulding equipment	Machinery and equipment	Office equipment and fixtures	Motor vehicles	Construction in progress (note 25(e))	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost							
At 1 April 2003	14,265	6,370	65,487	2,645	5,095	842	94,704
Additions	—	240	5,540	756	—	278,294	284,830
At 31 March 2004	14,265	6,610	71,027	3,401	5,095	279,136	379,534
Accumulated depreciation							
At 1 April 2003	808	5,527	22,889	534	1,185	—	30,943
Charge for the year	286	197	6,318	521	911	—	8,233
At 31 March 2004	1,094	5,724	29,207	1,055	2,096	—	39,176
Net book value							
At 31 March 2004	13,171	886	41,820	2,346	2,999	279,136	340,358
At 31 March 2003	13,457	843	42,598	2,111	3,910	842	63,761

The Group's land use rights are held in the PRC and cover a period of 50 years expiring in the year 2050.

13. INVESTMENT IN SUBSIDIARIES

	The Company	
	2004	2003
	RMB'000	*RMB'000*
Unlisted shares, at cost	309,804	—
Amounts due from subsidiaries	294,951	—
	604,755	—

The carrying value of the investment cost is based on the underlying net tangible assets of the subsidiaries at the time when they became members of the Group at the date of reorganisation.

The amounts due from subsidiaries are unsecured, non-interest bearing and the Company will not demand for repayment from the subsidiaries within the next twelve months from the balance sheet date.

Details of the Company's principal subsidiaries as at 31 March 2004 are as follows:

Name	Date and place of incorporation	Capital		Percentage of equity interest attributable to the Group		Principal activities/place of operation
		Anthorised/ Registered	Issued and fully paid share capital or registered capital	Direct	Indirect	
Fullitech International Limited	2 April 2001 British Virgin Islands	United States dollars ("US$") 50,000	US$100	100%	—	Investment holding in Hong Kong
Oriental New-Tech Limited	2 January 2001 British Virgin Islands	US$50,000	US$1	—	100%	Trading and distribution of automotive spare parts and construction decorative hardware products in Hong Kong
Perfect World Holdings Limited	3 December 1996 British Virgin Islands	US$50,000	US$1	—	100%	Trading and distribution of automotive spare parts and construction decorative hardware products in Hong Kong

13. INVESTMENT IN SUBSIDIARIES *(Continued)*

Name	Date and place of incorporation	Capital		Percentage of equity interest attributable to the Group		Principal activities/place of operation
		Anthorised/ Registered	Issued and fully paid share capital or registered capital	Direct	Indirect	
Norstar Automobile Industrial Holding Limited (formerly known as Norstar Industrial Limited)	17 March 1994 Hong Kong	Hong Kong dollars ("HK$") 100,000,000	HK$100,000,000	—	100%	Investment holding, marketing, trading and distribution of automotive spare parts and construction decorative hardware products in Hong Kong
Beijing Norstar Automotive Industries Inc.	11 June 1997 The PRC	Renminbi ("RMB") 246,000,000	RMB 228,830,000	—	90%	Manufacturing and sale of automotive spare parts and construction decorative hardware products in the PRC

Note: Beijing Norstar is a sino-foreign equity joint venture incorporated in the PRC with an operating period of 25 years commencing on 11 June 1997. The registered capital was increased from RMB44,000,000 to RMB246,000,000 on 27 October 2003. RMB228,830,000 was paid up as at 23 December 2003. The remaining unpaid capital of RMB17,170,000 will be paid up within three years commencing on 27 October 2003 in accordance with the Articles of Association of Beijing Norstar.

14. INVENTORIES

	The Group	
	2004	2003
	RMB'000	*RMB'000*
Raw materials	**11,583**	79,050
Work in progress	**8,707**	8,610
Finished goods	**27,922**	20,493
	48,212	108,153

As at 31 March 2004, the carrying amount of inventories that are carried at net realisable value amounted to RMB883,000(2003 : RMB4,408,000).

15. TAX RECEIVABLE

Tax receivable represented PRC value-added tax recoverable as at the year ends.

16. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2004	2003	**2004**	2003
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade receivables	**237,741**	209,233	**—**	—
Dividend receivable	**—**	—	**27,000**	—
Prepayments and other receivables	**125,026**	56,411	**106**	106
Due from related companies *(Note (21))*	**11,080**	34	**—**	—
Due from a director *(Note (17))*	**36**	353	**—**	—
	373,883	266,031	**27,106**	106

Aging analysis of trade receivables is as follows:

	The Group	
	2004	2003
	RMB'000	*RMB'000*
0 - 90 days	**236,963**	205,378
91 - 180 days	**765**	3,843
181 - 365 days	**13**	12
	237,741	209,233

Normally, 30 to 60 days credit term is granted to overseas customers.

17. DUE FROM A DIRECTOR

	The Group
	RMB'000
Mr. Zhou Tian Bao	
Amount outstanding at	
31 March 2004	36
31 March 2003	353
Maximum amount outstanding during the year	353

The amount due from a director is unsecured, interest free and without fixed repayment term.

18. CASH AND BANK BALANCES

	The Group	
	2004	2003
	RMB'000	*RMB'000*
Cash on hand	125	18
Cash in banks	318,589	218,131
	318,714	218,149
Pledged bank deposits	8,107	8,068
	326,821	226,217

As at 31 March 2004, a pledged bank deposit of approximately HK$7,648,000 (2003: HK$7,611,000) was secured for certain banking facilities of a subsidiary in Hong Kong.

As at 31 March 2004, approximately RMB309,384,000 (2003: RMB210,535,000) of the Group's cash and bank balances were denominated in Renminbi and kept in the PRC. The conversion of Renminbi denominated balances into foreign currencies is subject to rules and regulations of foreign exchange control promulgated by the PRC government.

19. SHORT-TERM BORROWINGS

	The Group	
	2004	2003
	RMB'000	*RMB'000*
Wholly repayable within one year	**260,000**	310,000

All short-term borrowings were borrowed from banks in the PRC. They were guaranteed by independent third parties and a related party and bore interest at 5.5% per annum. (2003: 5.9% per annum)

20. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2004	2003	**2004**	2003
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade payables	**11,910**	12,380	**—**	—
Accruals and other payables	**18,431**	21,275	**898**	—
Advances to customers	**—**	212	**—**	—
Due to related companies *(Note 21))*	**—**	201	**—**	—
Dividend payable	**3,500**	—	**—**	—
Due to directors *(Note (21))*	**210**	—	**—**	—
	34,051	34,068	**898**	—

Aging analysis of trade payables is as follows:

	The Group	
	2004	2003
	RMB'000	*RMB'000*
0 - 90 days	**4,810**	6,768
91 - 180 days	**7,100**	5,612
	11,910	12,380

21. DUE FROM/(TO) RELATED COMPANIES/DIRECTORS

The amounts due are unsecured, non-interest bearing and repayable on demand.

22. SHARE CAPITAL

		Number of shares		Ordinary shares of HK$0.1 each			
		2004	2003	2004	2004	2003	2003
				HK$	*RMB*	*HK$*	*RMB*
Authorised:							
At the beginning of year		4,000,000	4,000,000	400,000	424,000	400,000	424,000
Increase during the year	(a)	4,996,000,000	—	499,600,000	529,576,000	—	—
At the end of year		5,000,000,000	4,000,000	500,000,000	530,000,000	400,000	424,000
Issued and fully paid:							
At the beginning of year		1,000,000	1,000,000	100,000	106,000	100,000	106,000
Shares issued	(a)	1,000,000	—	100,000	106,000	—	—
Share issued pursuant to Group reorganisation	(a)	598,000,000	—	59,800,000	63,388,000	—	—
Shares issued upon listing	(b)	230,000,000	—	23,000,000	24,380,000	—	—
At the end of year		830,000,000	1,000,000	83,000,000	87,980,000	100,000	106,000

(a) On 4 September 2003, written resolutions of the shareholders of the Company were passed pursuant to which:

The authorised share capital of the Company was increased from HK$400,000 divided into 4,000,000 shares of HK$0.1 each, to HK$500,000,000 by the creation of 4,996,000,000 shares of HK$0.1 each;

The directors were authorised to allot and issue an aggregate of 599,000,000 shares credited as fully paid for 1,000,000 shares and capitalised HK$59,800,000 standing to the credit of the share premium account of the Company by applying such sum in paying up full at par 598,000,000 shares as consideration for the acquisition of the entire issued share capital of Fullitech from Ms. Lilly Huang ("Ms. Huang"), a director of the Company.

(b) On 10 October 2003, the Company was listed on the Main Board of The Stock Exchange of Hong Kong Limited by way of a placing of 230,000,000 shares for cash of HK$1.33 per share. The excess of the issued price over the par value of the shares issued has been credited to the share premium account of the Company.

23. RESERVES

Movements of reserves were:

	The Company		
	Share premium *RMB'000*	Retained profits *RMB'000*	Total *RMB'000*
As at 1 April 2002 and 31 March 2003	—	—	—
Capitalisation of share premium for Group Reorganisation	(63,388)	—	(63,388)
Effect of the Group Reorganisation	309,698	—	309,698
Issue of shares upon listing (net of listing expenses)	271,997	—	271,997
Profit for the year	—	24,956	24,956
As at 31 March 2004	518,307	24,956	543,263
Representing:			
2004 final dividend proposed		23,659	
Others		1,297	
		24,956	

24. CAPITAL COMMITMENTS

	The Group	
	2004 ***RMB'000***	2003 *RMB'000*
Contracted but not provided for		
- purchases of plant and machinery	**9,591**	1,542
- construction in progress	**3,516**	—
	13,107	1,542

25. RELATED PARTY TRANSACTIONS

During the year ended 31 March 2004, the Group's significant related party transactions are as summarised below:

	2004 *RMB'000*	2003 *RMB'000*
Purchases from Shanghai Topsun Industries Co. Ltd. (上海中順實業有限公司) (a)	34,476	87,924
Purchases from Shanghai Baon Investment Co. Ltd. (上海寶安投資發展有限公司) (b)	29,730	79,526
Rental for leased office building, manufacturing premises and plant and machinery and equipment paid to AITC (c)	10,800	10,800

Note:

(a) During the period from 1 April 2003 to 31 July 2003, Beijing Norstar purchased raw materials and semi-finished parts from Shanghai Topsun Industries Co. Ltd. (上海中順實業有限公司) amounting to approximately RMB34,476,000. (2003: RMB87,924,000)

(b) During the period from 1 April 2003 to 31 July 2003, Beijing Norstar purchased raw materials from Shanghai Baon Investment Co. Ltd. (上海寶安投資發展有限公司) amounting to approximately RMB29,730,000. (2003: RMB79,256,000)

(c) Pursuant to lease agreements entered into between Beijing Norstar and Anhui Industries and Trading Corporation ("AITC"), AITC has leased to Beijing Norstar certain office building, manufacturing premises and plant and machinery. 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. During the year, annual rental paid for leased office building, manufacturing premises and plant and machinery were RMB2,300,000 and RMB8,500,000 respectively (2003: RMB10,800,000 in total).

(d) A related company provided corporate guarantee of up to a maximum amount of RMB80 million in respect of short-term banking facilities given to the Group.

(e) Pursuant to an agreement dated 7 November 2003, Beijing Norstar engaged 恒基偉業控股（安徽）有限公司（「偉業」）as an agent for the land purchases and the cash disbursements for the construction of certain new factory premises on behalf of Beijing Norstar at nil remuneration. An independent non-executive director of the Company is also a director of 偉業. 偉業 is 10% owned by 天寶產業控股集團有限公司 in which one of the shareholders is also an executive director of the Company. Payment amounted to approximately RMB201 million has been made via 偉業. As at 31 March 2004, approximately RMB143 million was paid to a third party vendor via 偉業. The remaining RMB58 million were also subsequently disbursed to third party vendors for land purchases and construction payments via 偉業.

The directors of the Company are of the opinion that the above transactions with related parties were conducted on normal commercial terms in the ordinary course of the Group's business.

26. BANKING FACILITIES

(a) As at 31 March 2004, guarantees from independent third parties and a related party were maintained as security for short-term borrowings and notes payable of a subsidiary in the PRC.

(b) Other than the above, as at 31 March 2004, the Group had general import facilities and machinery loan facilities amounting to HK$89,000,000 and a corporate credit card with limit of HK$600,000 which were secured by:

i) bank deposit of approximately HK$7,648,000;

ii) corporate guarantee made by the Company to a Hong Kong subsidiary amounting to HK$90,000,000.

None of the above facilities were utilised as at 31 March 2004.

27. OPERATING LEASE COMMITMENTS

As at 31 March 2004, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases with AITC in respect of plant, office building and machinery and equipment as follows:

	2004	2003
	RMB'000	*RMB'000*
Within one year	10,025	9,900
After one year but within five years	11,000	14,525
After five years	3,067	5,367
	24,092	29,792

The Group also had outstanding commitments for 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:

	2004	2003
	RMB'000	*RMB'000*
Within one year	1,340	264
After one year but within five years	353	27
	1,693	291

28. POST BALANCE SHEET DATE EVENTS

Significant events took place subsequent to 31 March 2004 are as follows:

Placement of shares

(i) On 29 April 2004, Ms. Huang, the controlling shareholder of the Company entered into an unconditional placing agreement with a placing agent, pursuant to which the placing agent will procure, on a best efforts basis, purchasers to acquire, and Ms. Huang will sell in aggregate of up to 100,000,000 existing ordinary shares of HK$0.1 each in the Company at a price of HK$2.35 per share.

(ii) On 29 April 2004, Ms. Huang also entered into a conditional subscription agreement with the Company. Pursuant to the subscription agreement, Ms. Huang has conditionally agreed to subscribe for 100,000,000 new ordinary shares of HK$0.1 each in the Company, being such number of additional new ordinary shares as may be equivalent to the number of existing ordinary shares actually placed under the placing agreement, at a price of HK$2.35 per share. The net proceeds of the subscription were intended to be used for investment and general working capital for the Group.

Syndication loan

(iii) On 21 May 2004, the Group obtained a new transferable term loan facility amounting to HK$380,000,000 to finance its capital investment and working capital requirements.

29. ULTIMATE HOLDING COMPANY

The Company's ultimate holding company is Century Founders Group Limited, a company incorporated in the British Virgin Islands.

30. COMPARATIVE FIGURES

Comparative figures have been reclassified to conform to the current year's presentation.

31. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on 23 June 2004.