

## Directors' report

The directors submit their report together with the audited financial statements for the year ended 31 March 2005.

### Principal activities and geographical analysis of operations

The company is an investment holding company. The principal activities of its subsidiaries and associated companies are set out in Note 14 and Note 15 to the financial statements.

### Results and appropriations

The results of the Group for the year are set out in the consolidated income statement on page 46.

The interim dividend of RMB25,838,000 was paid on 29 December 2004.

Subject to approval of the directors' recommendation by shareholders at annual general meeting to be held on 19 August 2005, the final dividend will be paid on 28 September 2005.

### Reserves

Movements in the reserves of the Group and of the Company during the year are set out on pages 49 and 82 respectively.

### Distributable reserves

At 31 March 2005, the Company's share premium reserve of approximately RMB838,535,000 (subject to Section 34 of the Cayman Companies Law and the Article of Association of the Company), and retained earnings of approximately RMB46,929,000 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 and the merger reserve 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.

### Dividends

The directors recommend the payment of a final dividend of HK\$0.045 per share to the shareholders on the register of members of 18 July 2005 amounting to approximately HK\$43,875,000.

### Property, plant and equipment

Additions to property, plant and equipment of the Group for the year totaled RMB389,954,000 (2004 : RMB284,830,000), 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 12 to the financial statements.

## Associated companies

On 25 November 2004, Norstar Holding, a wholly-owned subsidiary of the Company, entered into the Agreement with Profound Global and Mr. Liu Zhong Liang, pursuant to which Profound Global issued and allotted 8,000 shares to Norstar Holding at HK\$181,660,377.

The subscription shares represent 40% of the enlarged issued share capital of Profound Global. Profound Global is an investment holding company and the sole asset of which is its 100% shareholding interest in Profound Automotive Holdings Limited, which in turn owns 100% equity interests in companies established in PRC, namely, Grandwell Heavy Industry (Anhui) Company Limited (偉業重工(安徽)有限公司) (“**Grandwell**”) and Profound Automobile (Shenyang) Company Limited (偉業汽車零部件(瀋陽)有限公司) (“**Profound Automobile (Shenyang)**”).

Grandwell and Profound Automobile (Shenyang) were principally engaged in the manufacture and distribution of metal hardware products, and the trading and distribution of auto parts respectively.

## Share capital

Details of the movements in share capital of the Company are set out in Note 28 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 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 options 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**”), not exceed 10% 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 such number of shares which may be issued upon exercise of all options to be granted under the share option scheme not exceeding 83,000,000 shares.

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.

Since the adoption of the share option scheme, no options have been granted.

## Pre-emptive rights

There is no provision for pre-emptive rights under the Company's Article of Association and there was no restriction against such 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 87 to 88.

## Purchase, sale or redemption of securities

During the year, neither the Company nor any of its subsidiaries has purchased or redeemed any of the Company's listed shares.

On 29 April 2004, Ms Lilly Huang, the controlling shareholder of the Company, entered into an unconditional placing agreement with a placing agent, pursuant to which the placing agent procured purchasers to acquire, and Ms Lilly Huang sold in aggregate of up to 100,000,000 existing ordinary shares of HK\$0.10 each in the Company at a price of HK\$2.35 per share.

On the same date, the Company entered into a conditional subscription agreement with Ms Lilly Huang. Under the conditional subscription agreement, the Company allotted 100,000,000 new ordinary shares of HK\$0.10 each in the Company to Ms Lilly Huang, at a price of HK\$2.35 per share.

On 24 June 2004, Norstar Holding entered into a Share Purchase Agreement with Mr. Zhou Tian Bao, a director of the Company, for the purchase of the entire issued share capital of Smooth Ride International Limited, which was beneficially owned by Mr. Zhou Tian bao and holds a 10% of equity interest in Norstar Automotive, a subsidiary of the Company. Being part of the consideration, 45,000,000 consideration shares were allotted at the issue price HK\$1.94 per consideration share.

On 8 December 2004, the Company and ICEA entered into the Placing Agreement pursuant to which ICEA agreed to place the Zero Coupon Convertible Bonds due 2007 ("the Bonds") in an aggregate principal amount of US\$40,000,000 (equivalent to approximately HK\$312 million). The Bonds are convertible into ordinary shares of HK\$0.10 each in the issued share capital of the Company at an initial conversion price of HK\$2.70. None of the Bonds was offered to the public in Hong Kong and placed to any connected persons (as defined in the Listing Rules) of the Company or their associates.

## Directors

The directors during the year and up to the dates of this report are:

### Executive Directors

Ms. Lilly Huang (*Chairman*)

Mr. Zhou Tian Bao

Ms. Zhang Zhen Juan

Mr. Lee Cheuk Yin, Dannis

Mr. Yang Bin

### Independent Non-Executive Directors

Mr. Choi Tat Ying, Jacky

Mr. Liu Zhong Liang (resigned on 5 August 2004)

Mr. Wu Chao Ying (appointed on 5 August 2004)

Ms. Zhang Xin, Cindy (appointed on 28 September 2004)

Each independent non-executive director provided an annual confirmation of his or her independence to the Company for the year ended 31 March 2005 and the Company confirmed that each of them was still considered to be independent.

In accordance with Article 108 of the Company's Articles of Association, Mr. Choi Tat Ying, Jacky, will retire by rotation at the forthcoming annual general meeting of the Company and, being eligible, offer himself for re-election.

Pursuant to Article 112 of the Company's Articles of Association, Mr. Wu Chao Ying and Ms. Zhang Xin, Cindy will retire and offer themselves for re-election at the forthcoming annual general meeting of the Company.

## Directors' service contracts and letters of appointment

Each of the executive directors of the Company entered into a service agreement with the Company on 1 October 2003. Each of these service agreements is for an initial term of 3 years from 1 October 2003 renewable automatically for successive terms of one year each commencing from the day next after the expiry of the then current term. Each independent non-executive director entered into appointment letters with the Company for a term of 2 years from date of the appointment letter.

No director proposed for re-election at the forthcoming annual general meeting 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 obligations.

## Directors' emoluments

Details of the remuneration of the directors pursuant to Appendix 16 of the Listing Rules are set out in Note 11 to the financial statements.

## Directors' interests in contacts

Save for those transactions described in the note "Related Party Transaction" in Note 32 to the financial statements and the section "Connected Transactions" below, none of the directors had 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 24 to 27.

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

At 31 March 2005, 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 Companies were as follows:

Name of director	Number of shares held			Approximate percentage of shareholding
	Personal interest	Corporate interest	Total	
Ms. Lilly Huang (Note 1)	—	600,000,000 (L)	600,000,000	61.54%
Mr. Zhou Tian Bao (Note 2)	8,832,000 (L)	645,000,000 (L)	653,832,000	67.06%

The letter "L" denotes a long position in shares of the Company.

**Notes:**

- (1) The shares are held by Century Founders Group Limited in which Ms Lilly Huang owns 63% of the interests.
- (2) Mr. Zhou Tian Bao is deemed to be interested in 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.
  - (iii) 600,000,000 shares are held by Century Founders Group Limited in which 37% interest is owned by Mark Up Investments Limited.

## Shares held by substantial shareholders

So far as is known to any directors of the Company, at 31 March 2005, 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, or was otherwise, at 31 March 2005, interested in 5% or more of any class of the then issued share capital of the Company, or was otherwise, at 31 March 2005, a substantial shareholder (as defined in Listing Rule) of the Company.

Name of shareholder	Number of shares held	Approximate percentage of shareholding
Century Founders Group Limited (Note 1)	600,000,000 (L)	61.54%
Mark Up Investments Limited	645,000,000 (L)	66.15%
Ms. Lilly Huang (Note 1)	600,000,000 (L)	61.54%
Mr. Zhou Tian Bao	653,832,000 (L)	67.06%
J.P. Morgan Chase & Co (Note 2)	59,810,000 (L)	6.13%
Morgan Stanley (Note 3)	61,800,000 (L)	6.34%

The letter "L" denotes a long position in shares of the Company.

**Notes:**

- (1) Century Founders Group Limited owns 600,000,000 shares. Ms. Lilly Huang owns 63% of the interests in Century Founders Group Limited and the remaining 37% interest is owned by Mark Up Investments Limited, a company wholly-owned by Mr. Zhou Tian Bao.
- (2) J.P. Morgan Chase & Co has a lending pool position of 27,318,000 shares, representing approximately 2.80% of the issued share capital of the Company.
- (3) Morgan Stanley has a short position of 8,400,000 shares, representing approximately 0.86% of the issued share capital of the Company.

Save as disclosed above and so far as the directors are aware, at 31 March 2005, 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, or was otherwise a substantial shareholder of the Company.

## Management contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

## Major customers and suppliers

During the year, the Group purchased 79% and 25% of its goods and services from its 5 largest suppliers and its largest supplier respectively. Also, the Group sold 45% and 10% of its goods and services to its 5 largest customers and its largest customer respectively.

Save as disclosed in Note 32 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 32 to the financial statements.

## Continuing connected transactions

The following continuing connected transactions were entered into by members of the Group and a conditional waiver from compliance with requirements of Chapter 14 (replaced by Chapter 14A with effect from 31 March 2004) of the Listing Rules in respect of continuing connected transactions was granted by the Stock Exchange on 26 September 2003 for a period of three financial years ending 31 March 2006:

- (1) Pursuant to a lease agreement dated 6 August 2000 (the "Premises Lease Agreement") entered into between Anhui Industries and Trading Corporation ("AITC"), which is a PRC established company jointly owned and managed by Mr. Zhou Tian Bao, a director of the Company and his spouse, and Norstar Automotive, a wholly owned subsidiary of the Company at 31 March 2005, AITC has leased to Norstar Automotive a factory complex at 68 Shanxiang Road, Bengbu, Anhui Province, the PRC (the "Premises") for a term of five years commencing from 6 August 2000 to 5 August 2005 at an annual rent of RMB2.3 million. By a supplemental agreement dated 24 August 2002 (the "Supplemental Premises Lease Agreement") entered into between the parties, the term of the lease agreement was extended for a further five years up to 5 August 2010 with any increase in rent to be agreed between the parties on the basis that the increased rent for each of the five years during the extended term shall not be more than 120% of the rent payable immediately before the extension.

During the year ended 31 March 2005, the amount of rent paid by the Group to AITC for the Premises was approximately RMB2.3 million.

- (2) Pursuant to a lease agreement dated 20 December 1997 (the "First Equipment Lease Agreement") entered into between AITC and Norstar Automotive, AITC has leased to Norstar Automotive certain pressure machineries ("Pressure Machineries") for a term of eight years commencing from 20 December 1997 to 19 December 2005 at an annual rent of RMB3.1 million.

During the year ended 31 March 2005, the amount of rent paid by the Group to AITC for the Pressure Machineries was approximately RMB3.1 million.

- (3) Pursuant to a lease agreement dated 6 August 2000 (the "Second Equipment Lease Agreement") entered into between AITC and Norstar Automotive, AITC has leased to Norstar Automotive certain production machineries ("Production Machineries") for a term of five years commencing from 6 August 2000 to 5 August 2005 at an annual rent of RMB5.4 million.

During the year ended 31 March 2005, the amount of rent paid by the Group to AITC for the Production Machineries was approximately RMB5.4 million.

The directors, including the independent non-executive directors, have reviewed the connected transactions and confirmed that:

- (a) the connected transactions have been entered into by the Group in the ordinary and usual course of business;
- (b) the connected transactions have been entered into on an arm's length basis and, where there are comparable transaction, on normal commercial terms which are no less favorable than terms available to (or from) independent third party (to extent that there are comparable transactions);
- (c) the connected transactions are fair and reasonable so far as the shareholders of the Company are concerned;
- (d) the connected transactions have been entered into in accordance with the respective terms of the agreements relating to such transactions; and
- (e) the connected transactions are within the applicable upper limits as follows:
  - (i) in the financial year ended 31 March 2005, the annual aggregate consideration payable in respect of the Premises Lease Agreement (as supplemented by the Supplemental Premises Lease Agreement) did not exceed RMB 2.3 million;
  - (ii) in the financial year ended 31 March 2005, the annual aggregate consideration payable in respect of the First Equipment Lease Agreement and the Second Equipment Lease Agreement did not exceed RMB 8.5 million;
  - (iii) in the financial year ended 31 March 2005, the amount of the Group Guarantee did not exceed RMB 380 million; and
  - (iv) in the financial year ended 31 March 2005, the annual aggregate consideration payable (i) in respect of the Premises Lease Agreement and (ii) in respect of the First Equipment Agreement and Second Equipment Lease Agreement did not exceed the higher of either HK\$10 million or 3% of the latest published net tangible assets of the Group from time to time.

## Connected transactions

The following connected transactions were entered into by members of the Group during the year ended 31 March 2005:

- (1) On 24 June 2004, the Company, Norstar Holding, and Mr. Zhou Tian Bao, a director of the Company entered into the Share Purchase Agreement for the sale and purchase of the entire issued share capital of Smooth Ride International Limited ("Smooth Ride"), which was wholly owned by Mr. Zhou Tian Bao. Smooth Ride is an investment company and the sole asset of which is its 10% equity interest in Norstar Automotive. The consideration paid by Norstar Holding was HK\$19,000,000 in cash and the 45,000,000 Shares of the Company at issue price HK\$1.94 per share.

In view of various cooperation intents and/or supply agreements signed with various customers of Norstar Automotive in the first quarter of 2004, the directors anticipated steady growth in the business of Norstar Automotive in the foreseeable future. As Norstar Automotive is a principal subsidiary of the Group, the directors considered that consolidating the shareholding of Norstar Automotive was beneficial to the Company and the shareholders as a whole.

- (2) On 25 November 2004, Norstar Holding, Profound Global and Mr. Liu Zhong Liang, who is a former independent non-executive director of the Company within the past 12 months, entered into the Agreement for subscription 40% shares of enlarged issue share capital of Profound Global by Norstar Holding at subscription price of HK\$181,660,377. Profound Global is an investment company holding 100% equity interest in each of Grandwell and Profound Automotive (Shenyang), (together, the "Profound Group") which are engaged in the manufacture and distribution of metal hardware products, and trading and distribution of auto parts in the PRC respectively.

The directors noted that the increasing demand in the PRC domestic automotive market and the subscription would provide a strategic opportunity for the Group to penetrate into the auto parts market in the PRC. The directors believed that the subscription could bring synergy effect to both the Group and Profound Group in terms of sharing of resources such as technology know-how and machinery, and consolidation of the marketing, sales force and distribution network, as well as benefiting from the economies of scale.

## 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.

## Model code

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less excepting than the required standards set out in the Model Code for Securities Transactions (the "**Model Code**"). After having made specific enquiry of all directors, the directors have complied with the required standard set out in the Model Code and its code of conduct regarding securities transactions by directors.



## Retirement schemes

Details of the retirement schemes of the Group are set out in Note 2 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.

## Auditors

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

On behalf of the Board

**Lilly Huang**

*Chairman*

Hong Kong, 15 June 2005