Notes to the financial statements

For the year ended 31 March 2005

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. The Company was listed on Main Board of The Stock Exchange of Hong Kong Limited on 10 October 2003.

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

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 Institute of Certified Public Accountants ("HKICPA") and the disclosure requirements of the Hong Kong Companies Ordinance.

In 2004, HKICPA has issued a number of new or revised Hong Kong Accounting Standards ("HKASs") and Hong Kong Financial Reporting Standards ("HKFRSs") (herein collectively referred to as "new HKFRSs") which are effective for the accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 March 2005.

The Group has commenced considering the potential impact of these new HKFRSs but is not yet in a position to determine whether these new HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These new HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

(b) Basis of consolidation

Consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 March 2005.

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.

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

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

Goodwill represents the excess of the cost of investments over the fair value of identifiable net assets of subsidiaries and associates when acquired, and is amortised on a straight-line basis over a period of 18 years.

2. Principal accounting policies (continued)

(b) Basis of consolidation (continued)

On disposal of a subsidiary or an associate, the attributable amount of unamortized goodwill is included in the determination of the profit or loss on disposal.

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or an associate at the date of acquisition over the cost of acquisition.

Negative goodwill is presented as a deduction from assets and is released to income based on an analysis of the circumstances from which the balance resulted.

To the extent that the negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight-line basis over the remaining average useful life of the identifiable acquired depreciable assets, which is 20 years. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised as income immediately.

(c) Associates

An associate is a company, not being a subsidiary or a joint venture, in which an equity interest is held for the long-term and significant influence is exercised in its management.

The Group's interest in an associate includes the Group's share of the net assets of the associates (plus the premium paid/less any discount on acquisition in so far as it has not already been written off or amortised). The Group's share of post-acquisition profits or losses of associates is included in the consolidated income statement.

In the Company's balance sheet, the interest in an associate is stated at cost less impairment losses, if any. The result of associate is accounted for by the Company on the basis of dividends received and receivable.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associate, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised in the consolidated income statement.

2. Principal accounting policies (continued)

(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 titles have been 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.

(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 of 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
Moulds	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.

2. Principal accounting policies (continued)

(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.

(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 realisable 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 expenses 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. Tax 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 investments 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 5 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.

No development costs were 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) Finance leases

A lease is classified as a finance lease when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. Assets held under finance leases are capitalised at their fair values at the dates of acquisition. The corresponding liability to the lessor, net of interest charges, is included in the balance sheet as a finance lease. Finance costs, which represent the difference between the total commitments and the fair value of the assets acquired, are charged to the income statement over the period of the relevant leases so as to produce a constant periodic rate of charge on the remaining balances of the obligations for each accounting period.

2. Principal accounting policies (continued)

(p) 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.

(q) 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 3 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.

(r) 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, Norstar Automotive Industries Inc. ("Norstar Automotive") participates in a government retirement benefit scheme (the "Scheme") whereby Norstar Automotive 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 Holding") 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 Holding in an independently administered fund. Monthly contributions made by Norstar Holding are at fixed percentages of the applicable payroll costs, 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.

(s) Borrowing costs

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

2. Principal accounting policies (continued)

(t) Provisions and contingent liabilities

Provisions 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 auto parts and construction decorative hardware. The Group's turnover and revenue are as follows:

(RMB'000)	**2005**	2004
Turnover		
Auto parts	**1,843,883**	1,401,696
Construction decorative hardware	**362,158**	309,746
	2,206,041	1,711,442
Other revenues		
Interest income	**4,595**	1,418
Reversal of employees' welfare provision	**—**	7,680
Net exchange gains	**825**	—
Sundry income	**3,806**	5,864
	9,226	14,962
Release of negative goodwill on acquisition of interest in an associate	**1,970**	—
Total turnover and other revenues	**2,217,237**	1,726,404

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:

- Auto parts and
- Construction decorative hardware

(i) Primary reporting format - geographical segments

For the year ended 31 March 2005

(RMB'000)	United States	Canada	Europe	Other	Total
Segment turnover	**1,098,991**	**673,576**	**432,171**	**1,303**	**2,206,041**
Segment results	**183,864**	**117,915**	**66,692**	**221**	**368,692**

For the year ended 31 March 2004

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

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 2005

(RMB'000)	Turnover	Profit from operations	Carrying amount of segment assets	Carrying amount of segment liabilities	Depreciation	Capital expenditure
Auto parts	1,843,883	320,782	946,383	—	7,647	343,273
Construction decorative hardware	362,158	47,910	20,436	—	515	10,514
	2,206,041	368,692	966,819	—	8,162	353,787
Unallocated assets		—	1,409,563	—	—	36,167
Unallocated liabilities		—	—	1,071,454	—	—
Interest income		4,595	—	—	—	—
Unallocated costs		(68,432)	—	—	3,163	—
		304,855	2,376,382	1,071,454	11,325	389,954

3. Turnover, revenue and segment information (continued)

Secondary reporting format - business segments (continued)

(ii) Secondary reporting format - business segments (continued)

For the year ended 31 March 2004

(RMB'000)	Turnover	Profit from operations	Carrying amount of segment assets	Carrying amount of segment liabilities	Reversal of provision for obsolete inventories	Depreciation	Capital expenditure
Auto parts	1,401,696	228,096	530,730	—	2,607	4,668	282,857
Construction decorative hardware	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

4. Profit from operations

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

(RMB'000)	**2005**	2004
Auditors' remuneration	**821**	735
Amortisation of goodwill	**993**	—
Provision/(Reversal of provision) for obsolete inventories	**2,849**	(3,525)
Cost of inventories sold	**1,834,500**	1,430,550
Depreciation	**11,325**	8,233
Research and development costs	**76,531**	44,887
Operating lease rentals in respect of:		
– Land and building	**3,826**	4,176
– Plant and machinery	**8,500**	8,500

5. Finance costs

(RMB'000)	**2005**	2004
Interest expenses on short term loans	**13,689**	13,353
Interest expenses on non-current borrowings	**7,092**	—
Interest expenses on other loans	**—**	10
Finance lease charges	**560**	—
Redemption premium on convertible bonds	**3,874**	—
Discounting charges	**5,111**	3,513
Bank charges	**1,129**	182
Exchange losses	**13**	188
Amortisation of loan arrangement fees	**2,229**	—
	33,697	17,246

6. Taxation

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

(RMB'000)	**2005**	2004
PRC enterprises income tax	**(22,429)**	(14,841)
Write-back of over-provision of PRC enterprise income tax in previous years	**23,112**	—
Share of tax on results of an associate	**(1,787)**	—
	(1,104)	(14,841)

No provision for Hong Kong profits tax has been made as the Group had no assessable profits in Hong Kong during the year (2004: Nil).

In July 1999, the Group's PRC subsidiary, Norstar Automotive Industries, Inc. ("Norstar Automotive") (formerly known as Beijing Norstar Automotive Industries, Inc.) changed its registration from Bengbu, Anhui Province, the PRC to the Beijing Economic and Technological Development ("BETD") Zone. At the time when its registration was changed, Norstar Automotive had operated for less than 10 years since its establishment in Bengbu, Anhui Province, the PRC. Hence, Norstar Automotive ceased to be entitled to the tax holiday granted by the Bengbu State Tax Bureau in Anhui Province, the PRC and a tax provision of the amount RMB23,112,000 had been made as Norstar Automotive became subject to PRC enterprise income tax for the period from the date of its establishment to 31 December 2000.

In accordance with the approval document obtained from Bengbu State Tax Bureau, Auhui Province, in 2004, Norstar Automotive was exempted from PRC enterprise income tax for the period from the date of its establishment to 31 December 2000. As such, the Group has decided to write back the provision in the current financial year.

(a) Deferred taxation

As at 31 March 2004 and 2005 respectively, no provision for deferred tax has been recognised in the financial statements as there have been no material temporary differences for tax purposes.

6. Taxation (continued)

(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:

(RMB'000)	2005	2004
Profit before tax	**284,969**	197,244
Tax at the applicable tax rate of 7.5%	**21,373**	14,793
Tax effect of expenses/(income) that are not deductible/ (taxable) in determining taxable profit	**2,843**	(264)
Tax effect of unrecognised tax losses	**—**	312
Write-back of over-provision of PRC enterprise income tax in previous years	**(23,112)**	—
Tax expense for the year	**1,104**	14,841

7. Profit attributable to shareholders

The profit attributable to shareholders includes a profit of approximately RMB71,470,000 (2004: RMB24,956,000) which has been dealt with in the financial statements of the Company.

8. Dividends

(RMB'000)	2005	2004
Interim, paid of HK$0.025 per ordinary share	**25,838**	24,700
Final, proposed of HK$0.045 per ordinary share	**46,508**	23,659
	72,346	48,359

At a meeting of board of directors held on 15 June 2005, a final dividend of HK$0.045 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 2006.

9. Earnings per share

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

	2005	2004
Earnings (RMB'000)		
Earnings for the purpose of calculating basic earnings per share	**273,487**	163,521
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**945,123,288**	708,739,726

The computation of earnings per share does not assume the conversion of convertible bonds since the conversion price of the Company's convertible bonds was higher than the average market price of the shares of the Company throughout the year ended 31 March 2005.

10. Staff costs (including directors' emoluments)

(RMB'000)	2005	2004
Wages and salaries	**45,258**	53,788
Retirement benefit scheme contributions	**3,763**	3,158
	49,021	56,946

11. Directors' and senior executives' emoluments

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

(RMB'000)	**2005**	2004
Fees:		
Non-executive directors	**265**	212
Other emoluments:		
Executive directors		
Basic salaries, other allowances and benefits in kind	**3,197**	1,683
Retirement benefits scheme contributions	**23**	15
	3,485	1,910

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

(RMB'000)	**Directors' fee**	**Basic salaries, other allowances and benefits in kind**	**Discretionary bonus**	**Retirement benefits scheme contributions**	**2005 Total**	2004 Total
Lilly Huang	—	318	—	—	**318**	159
Zhou Tian Bao	—	300	1,720	5	**2,025**	301
Zhang Zhen Juan	—	296	204	5	**505**	230
Lee Cheuk Yin, Dannis	—	159	—	8	**167**	218
Wong Lit Chor, Alexis	—	—	—	—	**—**	589
Yang Bin	—	200	—	5	**205**	201
Liu Zhong Liang	37	—	—	—	**37**	106
Choi Tat Ying, Jacky	106	—	—	—	**106**	106
Wu Chao Ying	69	—	—	—	**69**	—
Zhang Xin, Cindy	53	—	—	—	**53**	—
	265	1,273	1,924	23	**3,485**	1,910

11. Directors' and senior executives' emoluments (continued)

The five highest paid individuals in the Group included three (2004: 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:

(RMB'000)	**2005**	2004
Basic salaries, other allowances and benefits in kind	**1,325**	890
Retirement benefits scheme contributions	**24**	25
	1,349	915

	2005 Number of employees	2004 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						
(RMB'000)	Land use rights	Moulds	Machinery and equipment	Office equipment and fixtures	Motor vehicles	Construction in progress	Total
Cost							
At 1 April 2004	14,265	6,610	71,027	3,401	5,095	279,136	379,534
Reclassification	46,695	—	32,910	2,535	—	(82,140)	—
Additions	—	—	56,722	773	2,644	329,815	389,954
At 31 March 2005	60,960	6,610	160,659	6,709	7,739	526,811	769,488
Accumulated depreciation							
At 1 April 2004	1,094	5,724	29,207	1,055	2,096	—	39,176
Reclassification	—	—	(202)	202	—	—	—
Charge for the year	1,088	94	7,879	1,038	1,226	—	11,325
At 31 March 2005	2,182	5,818	36,884	2,295	3,322	—	50,501
Net book value							
At 31 March 2005	58,778	792	123,775	4,414	4,417	526,811	718,987
At 31 March 2004	13,171	886	41,820	2,346	2,999	279,136	340,358

The Group's land use rights are held in the PRC.

Machinery and equipment with net book value of approximately RMB58,011,000 (2004: Nil) were held under finance leases.

13. Goodwill

(RMB'000)	The Group
Net book value at 1 April 2004	—
Acquisition of the minority interests of a subsidiary	30,632
Amortisation charge	(993)
Net book value at 31 March 2005	29,639

The amortisation period adopted was 18 years as determined by the estimated foreseeable useful life of the goodwill arising on acquisition.

14. Interests in subsidiaries

	The Company	
(RMB'000)	**2005**	2004
Unlisted shares, at cost	**309,804**	309,804
Amounts due from subsidiaries	**929,434**	294,951
	1,239,238	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 12 months from the balance sheet date.

14. Interests in subsidiaries (continued)

Details of the Company's principal subsidiaries as at 31 March 2005 are as follows:

Name	Date and place of incorporation	Capital		Percentage of equity interest attributable to the Group		Principal activities
		Registered	Paid-up	Direct	Indirect	
Fullitech International Limited	2 April 2001 British Virgin Islands	United States dollars ("US$") 50,000	US$100	100%	—	Investment holding
Oriental New-Tech Limited	2 January 2001 British Virgin Islands	US$50,000	US$1	—	100%	Dormant
Norstar Automobile Industrial Holding Limited	17 March 1994 Hong Kong	Hong Kong dollars ("HK$") 100,000,000	HK$100,000,000	—	100%	Investment holding, marketing, trading and distribution of auto parts and construction decorative hardware
Norstar Automotive Industries Inc. (北泰汽車工業有限公司) (Note i)	11 June 1997 The PRC	Renminbi ("RMB") 710,000,000	RMB662,316,707	—	100%	Manufacturing and sale of auto parts and construction decorative hardware
Smooth Ride International Limited (Note ii)	27 November 2003 British Virgin Islands	US$50,000	US$1	—	100%	Investment holding
Norstar Shock Absorber (Anhui) Inc. (北泰減振器(安徽)有限公司)	19 June 2004 The PRC	US$12,500,000	US$8,675,000	—	100%	Not yet commenced business
Norstar Brake System (Anhui) Inc. (北泰制動系(安徽)有限公司)	19 June 2004 The PRC	US$12,500,000	US$8,675,000	—	100%	Not yet commenced business

14. Interests in subsidiaries (continued)

Name	Date and place of incorporation	Capital		Percentage of equity interest attributable to the Group		Principal activities
		Registered	Paid-up	Direct	Indirect	
Norstar Transmission System (Anhui) Inc. (北泰傳動系（安徽）有限公司)	19 June 2004 The PRC	US$24,000,000	US$13,000,000	—	100%	Not yet commenced business
Norstar Auto Suspension Manufacturing (Beijing) Inc. (北泰汽車懸架製造（北京）有限公司)	29 June 2004 The PRC	US$6,000,000	US$6,000,000	—	100%	Not yet commenced business

Notes:

(i) Norstar Automotive 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 RMB246,000,000 to RMB710,000,000 on 24 November 2004. RMB662,316,707 was paid up as at 24 February 2005. The remaining unpaid capital of RMB47,683,293 will be paid up within 18 months commencing on 5 February 2005 in accordance with the agreement regarding the amendment of Articles of Association of Norstar Automotive.

(ii) 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% equity interest in Norstar Automotive, a subsidiary of the Company.

15. Interest in an associate

(RMB'000)	2005	2004
(a) Share of net assets	**362,215**	—
Due to associate	**(16)**	—
Carrying value of negative goodwill on acquisition (Note 16)	**(155,660)**	—
	206,539	—

On 25 November 2004, Norstar Holding entered into the agreement to subscribe for the subscription shares of Profound Global Limited. The subscription shares represent 40% of the enlarged issued share capital of Profound Global Limited.

The acquisition of 40% interest in Profound Global Limited resulted in a negative goodwill which amounted to RMB157,630,000. Such amount is to be recognised in the consolidated income statement on a straight-line basis over 20 years. Negative goodwill released and recognised in the year amounted to RMB1,970,000.

The amount due to associate is unsecured, interest free and has no fixed terms of repayment.

(b) Details of the associate at 31 March 2005 are as follows:

Company	Place of incorporation and operation	Class of shares	Percentage of interest in ownership	Nature of business
Profound Global Limited	British Virgin Islands	Ordinary	40%	Investment holding

Profound Global Limited is an investment holding company and its principal subsidiaries are engaged in the manufacture and distribution of metal hardware products, and the trading and distribution of auto parts.

15. Interest in an associate (continued)

Extracts from the unaudited consolidated financial statements for the 3 months ended 31 March 2005 of Profound Global Limited and its subsidiaries are as follows:

(RMB'000) (unaudited)	**For the 3 months ended 31 March 2005**
Income statement	
Turnover	**368,699**
Profit before taxation	**32,489**
Taxation	**(4,238)**
Profit retained for the period	**28,251**
Balance sheet	**At 31 March 2005**
Non-current assets	**373,632**
Net current assets	**531,868**
Total net assets	**905,500**
Share capital	**165**
Reserves	**905,335**
Total capital and reserves	**905,500**

16. Negative goodwill

(RMB'000)	
Net book value at 1 April 2004	—
Arising from acquisition of 40% interest in an associate	157,630
Released to income	(1,970)
Net book value at 31 March 2005	155,660

17. Inventories

	The Group	
(RMB'000)	**2005**	2004
Raw materials	**5,238**	11,583
Work in progress	**—**	8,707
Finished goods	**27,608**	27,922
	32,846	48,212

At 31 March 2005, the carrying amount of inventories that are carried at net realisable value amounted to Nil (2004 : RMB883,000).

18. Tax receivable

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

19. Trade and other receivables

(RMB'000)	The Group 2005	The Group 2004	The Company 2005	The Company 2004
Trade receivables	**304,564**	237,741	**—**	—
Dividend receivable	**—**	—	**76,000**	27,000
Prepayments and other receivables	**207,417**	125,026	**9,108**	106
Due from related companies (Note 26)	**3,931**	11,080	**—**	—
Due from a director (Note 21)	**—**	36	**—**	—
Due from the holding company	**—**	—	**2**	—
	515,912	373,883	**85,110**	27,106

Aging analysis of trade receivables is as follows:

(RMB'000)	The Group 2005	The Group 2004
0 – 90 days	**304,564**	236,963
91 – 180 days	**—**	765
181 – 365 days	**—**	13
	304,564	237,741

Normally, credit terms of 30 to 90 days are granted to customers.

20. Cash and bank balances

(RMB'000)	The Group 2005	2004
Cash on hand	**43**	125
Cash in banks	**738,244**	318,589
	738,287	318,714
Pledged bank deposits	**16,631**	8,107
	754,918	326,821

At 31 March 2005, pledged bank deposits of approximately RMB16,631,000 (2004: RMB8,107,000) were used as security for certain banking facilities of a subsidiary in Hong Kong.

21. Due from a director

(RMB'000)	The Group
Mr. Zhou Tian Bao	
Amount outstanding:	
At 31 March 2005	—
At 31 March 2004	36
Maximum amount outstanding during the year	36

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

22. Short-term borrowings

	The Group	
(RMB'000)	**2005**	2004
Wholly repayable within one year	**146,800**	260,000

All short-term borrowings were borrowed from banks in the PRC. They were guaranteed by an independent third party and a related party and bore interest at 5.8% per annum (2004: 5.5% per annum).

23. Non-current borrowings

(RMB'000)	**2005**	2004
Interest bearing borrowings		
Bank loans – unsecured (Note a)	**443,080**	—
Obligations under finance leases (Note b)	**41,121**	—
	484,201	—
Current portion of non-current borrowings	**(203,633)**	—
	280,568	—

(a) The bank loans are repayable as follows:

(RMB'000)	**2005**	2004
Within one year	**189,092**	—
In the second year	**209,232**	—
In the third to fifth years	**44,756**	—
	443,080	—

23. Non-current borrowings (continued)

(b) Obligations under finance leases are repayable as follows:

	2005			2004		
(RMB'000)	**Present value of the minimum lease payments**	**Interest expenses relating to future periods**	**Total minimum lease payments**	Present value of the minimum lease payments	Interest expenses relating to future periods	Total minimum lease payments
Within one year	**14,541**	**1,708**	**16,249**	—	—	—
In the second to fifth years	**26,580**	**1,242**	**27,822**	—	—	—
	41,121	**2,950**	**44,071**	—	—	—

24. Convertible bonds

On 16 December 2004, the Company issued US$40 million (equivalent to approximately RMB330,720,000) worth of zero coupon Convertible Bonds which will be due on 16 December 2007. The bonds are convertible, at the option of the holders, into ordinary shares of HK$0.10 per share each in the issued share capital of the Company at an initial conversion price of HK$2.70 per share at any time on or after 15 June 2005 and prior to 6 December 2007. Unless previously redeemed, converted or purchased and cancelled, these bonds will be redeemed in US dollars at 112.4864% of their principal amount on 16 December 2007. The redemption premium is being accrued on a straight-line basis from the date of issuance to the final redemption date of 16 December 2007. At 31 March 2005, redemption premium of approximately US$468,500 (equivalent to approximately RMB3,874,000) is included as other long term liabilities in the consolidated balance sheet.

25. Trade and other payables

	The Group		The Company	
(RMB'000)	**2005**	2004	**2005**	2004
Trade payables	**63,156**	11,910	**—**	—
Accruals and other payables	**32,716**	18,431	**940**	898
Due to a related company (Note 26)	**106**	—	**—**	—
Dividend payable	**—**	3,500	**—**	—
Due to directors (Note 26)	**3,193**	210	**902**	—
	99,171	34,051	**1,842**	898

Aging analysis of trade payables is as follows:

	The Group	
(RMB'000)	**2005**	2004
0 – 90 days	**57,038**	4,810
91 – 180 days	**5,615**	7,100
Over 1 year	**503**	—
	63,156	11,910

26. Amounts due from/(to) related companies/directors

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

27. Minority interests

Subsequent to 24 June 2004 when the Group acquired 100% equity interest in Smooth Ride International Limited, which holds 10% of equity interest in Norstar Automotive, Norstar Automotive became a wholly owned subsidiary of the Group. As a result, there were no minority interests as at 31 March 2005.

28. Share capital

	Note	Number of shares		Ordinary share capital at HK0.10 each			
		2005	2004	**2005**	**2005**	2004	2004
	Note	**(in millions)**	(in millions)	**HK$'000**	**RMB'000**	HK$'000	RMB'000
Authorised:							
At the beginning of year		**5,000**	4	**500,000**	**530,000**	400	424
Increase during the year		**—**	4,996	**—**	**—**	499,600	529,576
At the end of year		**5,000**	5,000	**500,000**	**530,000**	500,000	530,000
Issued and fully paid:							
At the beginning of year		**830**	1	**83,000**	**87,980**	100	106
Shares issued	(a)	**100**	1	**10,000**	**10,600**	100	106
Consideration shares issued	(b)	**45**	—	**4,500**	**4,770**	—	—
Shares issued pursuant to Group reorganisation		**—**	598	**—**	**—**	59,800	63,388
Shares issued upon listing		**—**	230	**—**	**—**	23,000	24,380
At the end of year		**975**	830	**97,500**	**103,350**	83,000	87,980

Notes:

(a) 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 at HK$0.10 each in the Company at a price of HK$2.35 per share.

On 29 April 2004, Ms. Lilly Huang also entered into a conditional subscription agreement with the Company. Pursuant to the conditional subscription agreement, Ms. Lilly Huang had conditionally agreed to subscribe for 100,000,000 new ordinary shares of HK$0.10 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.

(b) 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 10% 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 of HK$1.94 per consideration share.

29. Reserves

Movements of reserves were:

(RMB'000)	The Company Share premium	Retained profits	Total
At 1 April 2003	—	—	—
Capitalisation of share premium for shares issued pursuant to Group reorganisation	(63,388)	—	(63,388)
Issue of shares pursuant to 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
At 31 March 2004	518,307	24,956	543,263
Issue of shares	238,500	—	238,500
Issue of consideration shares	87,768	—	87,768
Share issue expense	(6,040)	—	(6,040)
Profit for the year	—	71,470	71,470
2004 Final dividend paid	—	(23,659)	(23,659)
2005 Interim dividend paid	—	(25,838)	(25,838)
At 31 March 2005	838,535	46,929	885,464
Representing:			
2005 Final dividend proposed		46,508	
Others		421	
		46,929	

30. Major non-cash transactions

(i) Finance leases

During the year the Group entered into finance lease in respect of plant and machinery and a motor vehicle with a total capital value of approximately RMB58 million (2004: Nil) at the inception date of the lease.

(ii) Acquisition of a subsidiary

During the year, 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. Being part of the consideration, 45,000,000 consideration shares were allotted. As at the day of the transaction, the market price of such shares was HK$1.94 each.

31. Capital commitments

	The Group	
(RMB'000)	**2005**	2004
Contracted but not provided for		
– Purchases of plant and machineries	**84,931**	9,591
– Construction in progress	**37,984**	3,516
	122,915	13,107

32. Related party transactions

During the year ended 31 March 2005, the Group had significant related party transactions as summarised below:

(RMB'000)	**2005**	2004
Rental for office building, manufacturing premises and plant and machinery paid to AITC (Note a)	**10,800**	10,800
Rental for office building and staff quarters paid to related companies (Note b)	**413**	—

Notes:

(a) Pursuant to lease agreements entered into between Norstar Automotive and Anhui Industries and Trading Corporation ("AITC"), AITC has leased to Norstar Automotive 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 (2004: RMB10,800,000 in total).

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

(c) A related company provided corporate guarantee of up to a maximum amount of RMB200 million in respect of short-term banking facilities given to the Group on normal commercial terms. No security over the assets of the Group is granted in respect of such guarantees.

(d) Acquisition of interest in a subsidiary, Smooth Ride International Limited, which holds 10% equity interest in Norstar Automotive, from Mr. Zhou Tian Bao at a consideration satisfied by cash payment of HK$19 million and the issuance of 45 million consideration shares.

(e) Acquisition of 40% equity interest in Profound Global Limited at a consideration of approximately HK$181,660,000.

Immediately before the acquisition, Profound Global Limited was 100% owned by Mr. Liu Zhong Liang, a former independent non-executive director of the Company.

33. Banking facilities

At 31 March 2005, the Group had aggregate banking facilities of approximately RMB845,000,000 (2004: RMB95,000,000) from several banks for loans and trade financing. Unused facilities as at the same date amounted to approximately RMB141,000,000 (2004: RMB95,000,000). These facilities were secured by:

(i) bank deposits of approximately RMB16,631,000 (2004: RMB8,107,000);

(ii) certain machinery and equipments with an aggregate net book value of approximately RMB58,011,000 (2004: Nil);

(iii) corporate guarantees made by the Company and two wholly owned subsidiaries;

(iv) guarantees from independent third parties and a related party for the short-term borrowings of a subsidiary in the PRC on normal commercial terms. No security over the assets of the Group is granted in respect of such guarantees.

In addition, the Group has agreed with a syndicate of banks to comply with certain financial covenants.

34. Operating lease commitments

At 31 March 2005, 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:

(RMB'000)	**2005**	2004
Within one year	**6,875**	10,025
After one year but within five years	**9,200**	11,000
After five years	**958**	3,067
	17,033	24,092

34. Operating lease commitments (continued)

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:

(RMB'000)	**2005**	2004
Within one year	**1,321**	1,340
After one year but within five years	**768**	353
	2,089	1,693

35. Ultimate holding company

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

36. Comparative figures

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

37. Approval of financial statements

The financial statements were approved by the Board of Directors on 15 June 2005.