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's registered office is located at Century Yard, Cricket Square, Hutchins Drive, P.O.Box 2681 GT, George Town, Grand Cayman, British West Indies. The Company's principal place of business is 16th Floor, Tower II Admiralty Centre, 18 Harcourt Road, Admiralty, Hong Kong.

The Company is an investment holding company. The principal activities of its subsidiaries and associate are set out in Note 19 and Note 20 to the financial statements respectively.

In the opinion of the directors of the Company, as at 31 March 2006, Century Founders Group Limited, a company incorporated in the British Virgin Islands, is the ultimate holding company.

2. Basis of Preparation of Financial Statements

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the applicable disclosures required by the Rules Governing the Listing of Securities on the Main Board of the Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

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

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

3. Adoption of New and Revised HKFRS

In the current year, the Group has adopted all the new and revised HKFRSs issued by the HKICPA that are relevant to its operations and effective for accounting periods beginning on or after 1 January 2005. The adoption of these new and revised HKFRSs did not result in substantial changes to the Group's accounting polices and amounts reported for the current year and prior years except as stated below.

a HKAS 1 – Presentation of financial statements

(i) Presentation of share of taxation of associates

In prior years, the Group's share of taxation of associates accounted for using the equity method was included as part of the Group's taxation in the consolidated income statement. With effect from 1 April 2005, in accordance with HKAS 1, the Group has changed the presentation and includes the share of taxation of associates accounted for using the equity method in the respective share of profit or loss reported in the consolidated income statement before arriving at the Group's profit or loss before taxation.

(ii) Minority interests

In prior years, minority interests at the balance sheet date were presented in the consolidated balance sheet separately from liabilities and as deduction from net assets. Minority interests in the results of the Group for the year were also separately presented in the consolidated income statement as a deduction before arriving at the profit attributable to equity holders of the Company.

With effect from 1 April 2005, in order to comply with HKAS 1 and HKAS 27, the Group has changed its accounting policy relating to presentation of minority interests. Under the new policy, minority interests are presented as part of equity, separately from interest attributable to equity holders of the Company.

b HKAS 17 – Leases

In prior years, owner-occupied leasehold land and buildings were included in property, plant and equipment and were stated at cost less accumulated depreciation and any impairment losses.

With effect from 1 April 2005, in order to comply with HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid land lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis.

3. Adoption of New and Revised HKFRS continued

c HKFRS – 3 Business combinations

In prior periods:

– positive or negative goodwill which arose prior to 1 January 2001 was taken directly to reserves at the time it arose, and was not recognised in the consolidated income statement until disposal or impairment of the acquired business;

– positive goodwill which arose on or after 1 January 2001 was amortised on a straight-line basis over its useful life and was subject to impairment testing when there were indications of impairment; and

– negative goodwill which arose on or after 1 January 2001 which was attributable to losses or expenses anticipated at the date of acquisition, were released to income in the period in which those losses or expenses arise. The remaining negative goodwill was 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 was recognised as income immediately.

With effect from 1 January 2005, in order to comply with HKFRS 3, the Group changed its accounting policies relating to goodwill. Under the new policy, the Group no longer amortises positive goodwill which will be subject to testing at least annually for impairment. Also with effect from 1 January 2005 and in accordance with HKFRS 3, if the fair value of the net assets acquired in a business combination exceeds the consideration paid (i.e. an amount arises which would have been known as negative goodwill under the previous accounting policy), the excess is recognised immediately in consolidated income statement as it arises.

d HKAS 32 – Financial Instruments: Disclosure and Presentation and HKAS 39 – Financial Instruments: Recognition and Measurement

In the current year, the Group has applied HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement". HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1 January 2005, generally does not permit to recognise, derecognise or measure financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 32 and HKAS 39 are related to convertible bonds.

HKAS 32 requires an issuer of a compound financial instrument (that contains both financial liability and equity components) to separate the compound financial instruments into its liability and equity components on its initial recognition and to account for these components separately. In subsequent periods, the liability component is carried at amortised cost using the effective interest method. The principal impact of HKAS 32 on the Group is in relation to convertible bonds issued by the Company that contain both liability and equity components. Previously, convertible bonds were classified as liabilities on the balance sheet. As HKAS 32 requires retrospective application, the relevant comparative figures have been restated.

3. Adoption of New and Revised HKFRS continued

e Summary of the effects of the changes in accounting policies

(i) Consolidated income statement

(RMB'000)	HKAS 1	HKAS 17	HKAS 32 & 39	HKFRS 3	Total
For the year ended 31 March 2006					
Increase/(decrease) in profit					
Decrease in goodwill amortisation	—	—	—	1,702	1,702
Decrease in share of profits of an associate	(6,000)	—	—	—	(6,000)
Decrease in taxation	6,000	—	—	—	6,000
Decrease in depreciation	—	1,248	—	—	1,248
Decrease in release of negative goodwill	—	—	—	(7,882)	(7,882)
Increase in operating lease payment	—	(1,248)	—	—	(1,248)
Increase in finance costs	—	—	(14,281)	—	(14,281)
Total decrease in profit	**—**	**—**	**(14,281)**	**(6,180)**	**(20,461)**
Decrease in:					
- basic earnings per share (RMB cents)	—	—	(1.45)	(0.63)	(2.08)
- diluted earnings per share (RMB cents)	—	—	(1.41)	(0.61)	(2.02)
For the year ended 31 March 2005					
Increase/(decrease) in profit					
Decrease in share of profits of an associate	(1,787)	—	—	—	(1,787)
Decrease in taxation	1,787	—	—	—	1,787
Decrease in depreciation	—	1,088	—	—	1,088
Increase in operating lease payment	—	(1,088)	—	—	(1,088)
No change in profit	**—**	**—**	**—**	**—**	**—**

3. Adoption of New and Revised HKFRS continued

e Summary of the effects of the changes in accounting policies continued

(ii) Consolidated balance sheet

(RMB'000)	HKAS 17	HKAS 32 & 39	HKFRS 3	Total
At 31 March 2006				
Decrease in property, plant and equipment	(57,530)	—	—	(57,530)
Increase in prepaid land lease payments	57,530	—	—	57,530
Increase in goodwill	—	—	(1,702)	(1,702)
Derecognition of negative goodwill	—	—	(155,660)	(155,660)
Interest in an associate	—	—	7,882	7,882
Recognition of equity component of convertible bonds	—	1,411	—	1,411
Decrease in other long term liabilities	—	(3,472)	—	(3,472)
Increase in convertible bonds	—	2,061	—	2,061
Share premium	—	13,717	—	13,717
Effect on foreign exchange rate changes	—	564	—	564
Increase/(decrease) in retained profits	—	(14,281)	149,480	135,199
At 31 March 2005				
Decrease in property, plant and equipment	(58,778)	—	—	(58,778)
Increase in prepaid land lease payments	58,778	—	—	58,778
Recognition of equity component of convertible bonds	—	7,053	—	7,053
Decrease in other long term liabilities	—	(3,874)	—	(3,874)
Decrease in convertible bonds	—	(3,179)	—	(3,179)

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

4. Principal Accounting Policies

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

a Consolidation

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

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

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

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

Minority interests represent the interests of minority shareholders in the operating results and net assets of subsidiaries. Minority interests are presented in the consolidated balance sheet and consolidated statement of changes in equity within equity. Minority interests are presented in the consolidated income statement as an allocation of profit or loss for the year between minority and shareholders of the Company. Losses applicable to the minority in excess of the minority's interests in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

In the Company's balance sheet the investments in subsidiaries are stated at cost less allowance for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

b Business combination and goodwill

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

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

The interests of minority shareholders in the subsidiary is initially measured at the minority's proportion of the net fair value of the subsidiary's identifiable assets, liabilities and contingent liabilities at the acquisition date.

4. Principal Accounting Policies continued

c Associates

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

Investment in an associate is accounted for in the consolidated financial statements by the equity method of accounting and is initially recognised at cost. Identifiable assets, liabilities and contingent liabilities of the associate in an acquisition are measured at their fair values at the acquisition date. The excess of the cost of acquisition over the Group's share of the net fair value of the associate's identifiable assets, liabilities and contingent liabilities is recorded as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recognised in profit or loss.

The Group's share of its associate's post-acquisition profits or losses is recognised in the consolidated income statement, and its share of post-acquisition movements in consolidated reserves is recognised in consolidated reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interests in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

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

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

d Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Renminbi ("RMB"), which is the Company's presentation currency.

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

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

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

4. Principal Accounting Policies continued

d Foreign currency translation continued

(iii) Translation on consolidation

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

– assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

– income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and

– all resulting exchange differences are recognised in the foreign currency translation reserve.

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

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

e Property, plant and equipment

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

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

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

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

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

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

4. Principal Accounting Policies continued

f Construction in progress

Construction in progress represents buildings under construction and plant and machinery pending installation, and is stated at cost less impairment losses. Costs include construction and acquisition costs. No depreciation is made on construction in progress until such time as the relevant assets are completed and ready for use.

g Assets under leases

(i) Operating leases

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

(ii) Finance leases

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets, other than legal title, are accounted for as finance leases. At the inception of the lease, the finance lease is capitalised at the lower of the fair value of the leased asset or, if lower, the present value of the minimum lease payments.

Lease payments are allocated between the capital and finance charges. The corresponding rental obligations, net of finance charges, are recorded as obligations under finance leases. Finance charges are charged to the income statement in proportion to the capital balances outstanding.

h Internally-generated intangible assets – research and development expenditure

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

- an asset is created that can be identified (such as software and new processes);
- it is probable that the asset created will generate future economic benefits; and
- the development cost of the asset can be measured reliably.

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

i Inventories

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

4. Principal Accounting Policies continued

j Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. An allowance for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the allowance is recognised in the income statement.

k 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 subject to an insignificant risk of change in value. For the purpose of the cash flow statement, bank overdrafts which are repayable on demand and form the integral part of the Group's cash management are also included as a component of cash and cash equivalents.

l Financial liabilities and equity instruments

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

m Borrowings

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

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

n Convertible loan notes

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

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

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

o Trade and other payables

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

4. Principal Accounting Policies continued

p Equity instruments

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

q Revenue recognition

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

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

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

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 leave are not recognised until the time of leave.

(ii) Pension obligations

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

(iii) Termination benefits

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

s Borrowing costs

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

4. Principal Accounting Policies continued

t Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

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

4. Principal Accounting Policies continued

u Segment reporting

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

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

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to the segment.

Unallocated costs represent corporate expenses. Segment assets consist primarily of property, plant and equipment, prepaid land lease payments, goodwill, inventories and trade receivables. Segment liabilities comprise operating liabilities. They exclude items such as taxation and corporate borrowings.

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

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

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

v Related parties

Two parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans for the benefit of employees of the Group or of any entity that is a related party of the Group.

4. Principal Accounting Policies continued

w Impairment of assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets except goodwill to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

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

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

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

x Provisions and contingent liabilities

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

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

y Events after the balance sheet date

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

5. Critical Accounting Judgement and Key Sources of Estimation Uncertainty

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and judgements concerning the future. (The resulting accounting estimates will seldom equal the related actual results). The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below:

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

6. Financial Risk Management Objectives and Policies

The Group's major financial instruments comprise convertible bonds, interest-bearing loans and borrowings. The Group has other financial assets and liabilities such as trade and other receivables, trade and other payables and equity instruments. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk

The Group's transactions are mainly denominated in Hong Kong Dollars ("HKD"), RMB and United States Dollars ("USD") and the exchange rate fluctuation between RMB and USD is not significant.

Certain trade receivables and payables and borrowings of the Group are denominated in USD and is therefore exposed to USD currency risk. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates related primarily to the Group's bank borrowings with a floating interest rate. The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arises.

Credit risk

The Group has no significant concentrations of credit risk. The carrying amount of the trade and other receivables included in the consolidated balance sheet represents the Group's maximum exposure to credit risk in relation to its financial assets.

Liquidity risk

Liquidity risk is the risk of non-availability of funds to meet all contractual financial commitments as they fall due. The Group's objective is to maintain a prudent financial policy, to monitor liquidity ratios against risk limits and to maintain contingency plan for funding to ensure that the Group maintains sufficient cash to meet its liquidity requirements.

6. Financial Risk Management Objectives and Policies continued

Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price.

Fair value of financial assets and liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

The fair values of cash and cash equivalents, trade and other receivables, trade and other payables and short-term borrowings are not materially different from their carrying amounts because of the immediate or short term maturity of these financial instruments.

7. Turnover, Other Income and Segment Information

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

(RMB'000)	2006	2005
Turnover		
Auto parts	2,297,521	1,843,883
Construction decorative hardware products	361,472	362,158
	2,658,993	2,206,041
Other income		
Interest income	9,507	4,595
Income from scrap sales	11,550	3,129
Net exchange gains	—	825
Sundry income	10	677
Release of negative goodwill of interest in an associate	—	1,970
	21,067	11,196

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 revenue and segment results. Segment revenue and segment results are presented based on the geographical location of customers.

7. Turnover, Other Income and Segment Information continued

Secondary reporting format – business segments

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

- Auto parts; and
- Construction decorative hardware products.

(i) Primary reporting format – geographical segments

For the year ended 31 March 2006

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

For the year ended 31 March 2005

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

7. Turnover, Other Income and Segment Information continued
Secondary reporting format – business segments continued

(ii) Secondary reporting format – business segments

For the year ended 31 March 2006

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

For the year ended 31 March 2005

(RMB'000)	Revenue	Carrying amount of segment assets	Capital expenditure
Auto parts	1,843,883	935,946	343,273
Construction decorative hardware products	362,158	65,969	10,514
	2,206,041	1,001,915	353,787
Unallocated assets		1,374,467	36,167
		2,376,382	389,954

8. Profit from Operations

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

(RMB'000)	2006	2005 (restated)
Auditors' remuneration	975	821
Amortisation of goodwill	—	993
Allowance for obsolete inventories	—	2,849
Cost of inventories sold	2,165,218	1,834,500
Depreciation	22,794	10,237
Research and development costs*	95,537	76,531
Operating lease rentals in respect of:		
– Land	1,248	1,088
– Factory and office premises	4,192	3,826
– Plant and machinery	8,500	8,500
Net exchange loss/(gain)	8,024	(825)
Share of tax of an associate	6,000	1,787

* *already included in cost of sales and staff costs*

9. Finance Costs

(RMB'000)	2006	2005
Interest on bank borrowings	42,281	22,063
Interest on convertible bonds	20,672	4,834
Finance charges on obligations under finance leases	2,464	560
Discounting charges	—	5,111
Bank charges	972	1,129
	66,389	33,697

10. Taxation

The amount of taxation charged/(credited) to the consolidated income statement represents:

(RMB'000)	2006	2005 (restated)
PRC enterprises income tax	34,851	22,429
Write-back of over-provision of PRC enterprise income tax in previous years	—	(23,112)
	34,851	(683)

No provision for Hong Kong profits tax has been made as the Group had no assessable profits in Hong Kong during the year (2005: Nil).

In July 1999, the Group's PRC subsidiary, Norstar Automotive Industries, Inc. ("Norstar Automotive") changed its registration from Bengbu, Anhui Province, the PRC to the Beijing Economic and Technological Development ("BETD") Area. At the time when its registration was changed, Norstar Automotive had operated for less than ten 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 approval document obtained from Bengbu State Tax Bureau Municipal Foreign Affairs Office in 2005, 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 had decided to write back the provision in the financial year ended 31 March 2005.

10. Taxation continued

a 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)	2006	2005 (restated)
Profit before taxation (excluding share of profits of an associate)	339,409	271,158
Tax at the applicable tax rate of 7.5%	25,456	20,337
Tax effect of different tax rate for a subsidiary	4,647	—
Tax effect of expenses/(income) that are not deductible/(taxable) in determining taxable profit	1,716	1,388
Tax effect of unrecognised tax losses	3,032	704
Write-back of over-provision of PRC enterprise income tax in previous years	—	(23,112)
Tax expense/(credit) for the year	**34,851**	**(683)**

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

At the balance sheet date the Group has estimated unused tax losses of RMB57,471,000 (2005: RMB17,264,000) available for offset against future profits. No deferred tax assets has been recognised (2005: Nil) due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of RMB1,292,000 (2005: RMB173,000) that will be expired within five years. Other losses may be carried forward indefinitely.

11. Profit Attributable to Equity Shareholders

The profit attributable to equity shareholders includes a profit of approximately RMB135,222,000 (2005: RMB71,470,000) which has been dealt with in the financial statements of the Company.

12. Dividends

a Dividend payable to equity shareholders of the Company attributable to the year:

(RMB'000)	2006	2005
Interim, declared and paid of HK$0.020 per ordinary share (2005: HK$0.025 per ordinary share)	20,417	25,838
Final, proposed after balance sheet date of HK$0.057 per ordinary share (2005: HK$0.045 per ordinary share)	73,586	46,508
	94,003	72,346

A final dividend of HK$0.057 per ordinary share will be proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting. This proposed dividend is not reflected as a dividend payable in these financial statements, but will be reflected as an appropriation of retained profits for the year ending 31 March 2007.

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

(RMB'000)	2006	2005
Final dividend in respect of the previous financial year, approved and paid during the year, of HK$0.045 per ordinary share (2005: HK$0.024 per ordinary share)	45,937	23,659

13. Earnings Per Share

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

(RMB'000)	2006	2005
Earnings		
Earnings for the purpose of calculating basic earnings per share	347,313	273,487
Finance costs saving/(incurred) on exercise of convertible bonds	1,202	(4,963)
Earnings for the purpose of calculating diluted earnings per share	**348,515**	**268,524**

	2006	2005
Number of shares		
Issued ordinary shares at 1 April	975,000,000	830,000,000
Effect of consideration shares issued	—	115,123,288
Effect of conversion of convertible bonds	10,609,492	—
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	985,609,492	945,123,288
Effect of dilutive potential ordinary shares arising from convertible bonds outstanding	25,580,246	33,114,154
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	1,011,189,738	978,237,442

14. Staff Costs (Including Directors' Emoluments)

(RMB'000)	2006	2005
Wages and salaries	49,553	45,258
Retirement benefits scheme contributions	4,078	3,763
	53,631	49,021

15. Directors' and Senior Executives' Emoluments

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

(RMB'000)	2006	2005
Fees		
Non-executive directors	491	265
Other emoluments:		
Executive directors		
Basic salaries, other allowances and benefits in kind	4,030	1,273
Discretionary bonus	—	1,924
Retirement benefits scheme contributions	10	23
	4,531	3,485

Emolument breakdown of each of the directors for the year 2006 is set out below:

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

15. Directors' and Senior Executives' Emoluments continued

Emolument breakdown of each of the directors for the year 2005 is set out below:

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

The five highest paid individuals in the Group included two (2005: 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)	2006	2005
Basic salaries, other allowances and benefits in kind	2,680	1,325
Retirement benefits scheme contributions	25	24
	2,705	1,349

	2006 Number of employees	2005 Number of Employees
Nil to HK$1,000,000	3	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 director waived any emoluments during the year.

16. Property, Plant and Equipment

	The Group						
(RMB'000)	Buildings	Moulds	Machinery and equipment	Office equipment and fixtures	Motor vehicles	Construction in progress	Total
Cost							
At 1 April 2004	—	6,610	71,027	3,401	5,095	232,441	318,574
Reclassification	—	—	32,910	2,535	—	(35,445)	—
Additions	—	—	56,722	773	2,644	329,815	389,954
At 31 March 2005	—	6,610	160,659	6,709	7,739	526,811	708,528
Reclassification	271,023	—	13,871	—	—	(284,894)	—
Additions	—	—	50,366	6,320	1,828	43,302	101,816
Exchange realignment	—	—	—	(5)	(39)	—	(44)
At 31 March 2006	271,023	6,610	224,896	13,024	9,528	285,219	810,300
Accumulated depreciation							
At 1 April 2004	—	5,724	29,207	1,055	2,096	—	38,082
Reclassification	—	—	(202)	202	—	—	—
Charge for the year	—	94	7,879	1,038	1,226	—	10,237
At 31 March 2005	—	5,818	36,884	2,295	3,322	—	48,319
Charge for the year	4,996	80	14,708	1,557	1,453	—	22,794
Exchange realignment	—	—	—	(3)	(8)	—	(11)
At 31 March 2006	4,996	5,898	51,592	3,849	4,767	—	71,102
Net book value							
At 31 March 2006	266,027	712	173,304	9,175	4,761	285,219	739,198
At 31 March 2005	—	792	123,775	4,414	4,417	526,811	660,209

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

Machinery and equipment with net book value of approximately RMB90,566,000 (2005: RMB58,011,000) were held under finance leases.

17. Prepaid Land Lease Payments

Prepaid land lease payments were paid for a parcel of land situated in the PRC held under medium-term lease.

18. Goodwill

a

(RMB'000)	The Group
Cost:	
At 1 April 2004	—
Acquisition of the minority interest of a subsidiary	30,632
At 31 March 2005	30,632
Opening balance adjustment to eliminate accumulated amortisation	(993)
At 31 March 2006	29,639
Accumulated amortisation:	
At 1 April 2004	—
Amortisation for the year	993
At 31 March 2005	993
Eliminated against cost at 1 April 2005	(993)
At 31 March 2006	—
Carrying amount:	
At 31 March 2006	29,639
At 31 March 2005	29,639

In 2005, positive goodwill amounting to RMB30,632,000 arising on the acquisition of the minority interest of a subsidiary, was recognised in the consolidated balance sheet and the amount was to be amortised in the consolidated income statement on a straight-line basis over 18 years.

As explained further in note 3(c), with effect from 1 April 2005 the Group no longer amortises goodwill. In accordance with the transitional provisions set out in HKFRS 3, the accumulated amortisation of goodwill as at 1 April 2005 has been eliminated against the cost of goodwill as at that date.

b Impairment testing of goodwill

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

The recoverable amount of the auto parts cash-generating unit has been determined based on a value-in-use calculation using cash flow projections based on financial budgets approved by senior management covering a period of five years. The discount rate applied to cash flow projects is 9.4% and cash flows beyond five year period are extrapolated using a growth rate of 3% which is determined with reference to the prevailing inflation rate in the PRC. Senior management estimated the budgeted gross margin based on past performance and their expectations for market development. The discount rate used is before tax and reflects specific risks relating to the auto parts cash-generating unit.

19. Interests in Subsidiaries

	The Company	
(RMB'000)	2006	2005
Unlisted shares, at cost	302,498	309,804

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.

Details of the Company's principal subsidiaries as at 31 March 2006 are as follows:

Name	Date and place of incorporation	Capital		Percentage of equity interest attributable to the Company		Principal activities/place of operation
		Registered	Paid-up	Direct	Indirect	
Fullitech International Limited	2 April 2001 British Virgin Islands	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%	Dormant
Norstar Automobile Industrial Holding Limited ("Norstar Holding")	17 March 1994 Hong Kong	HK$100,000,000	HK$100,000,000	—	100%	Investment holding, marketing, trading and distribution of auto parts and construction decorative hardware products in Hong Kong
Norstar Automotive Industries Inc.* ("Norstar Automotive")	11 June 1997 The PRC	RMB710,000,000	RMB710,000,000	—	100%	Manufacturing and sale of auto parts and construction decorative hardware products in the PRC
Smooth Ride International Limited	27 November 2003 British Virgin Islands	US$50,000	US$1	—	100%	Investment holding in Hong Kong
Norstar Shock Absorber (Anhui) Inc.*	19 June 2004 The PRC	US$12,500,000	US$12,500,000	—	100%	Not yet commenced business
Norstar Brake System (Anhui) Inc.*	19 June 2004 The PRC	US$12,500,000	US$12,500,000	—	100%	Not yet commenced business

19. Interests in Subsidiaries continued

Name	Date and place of incorporation	Capital		Percentage of equity interest attributable to the Company		Principal activities/place of operation
		Registered	Paid-up	Direct	Indirect	
Norstar Transmission System (Anhui) Inc.*	19 June 2004 The PRC	US$24,000,000	US$24,000,000	—	100%	Not yet commenced business
Norstar Auto Suspension Manufacturing (Beijing) Inc.*	29 June 2004 The PRC	US$15,000,000	US$15,000,000	—	100%	Design, development, and sales of auto suspension systems in the PRC

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

20. Interest in an Associate

a

(RMB'000)	The Group 2006	2005
Share of net assets	396,690	362,215
Due to associate (Note (i))	—	(16)
Carrying value of negative goodwill on acquisition (Note (ii))	(155,660)	(155,660)
Derecognition of negative goodwill to retained earnings (Note (ii))	155,660	—
	396,690	206,539

Notes:

(i) *The amounts due to associate is interest free and has no fixed terms of repayment.*

(ii) *In 2005, negative goodwill amounted to RMB157,630,000 arising on the acquisition of 40% interest in an associate, was recognised in the consolidated balance sheet and the amount is to be recognised in the consolidated income statement on a straight-line basis over 20 years. Negative goodwill released and recognised for the year ended 31 March 2005 amounted to RMB1,970,000.*

As explained further in note 3(c), with effect from 1 April 2005 the Group no longer amortises goodwill. In accordance with the transitional provisions set out in HKFRS 3, the negative goodwill included in balance sheet was derecognised at 1 April 2005 with the corresponding adjustment being made to the opening balance of retained earnings.

20. Interest in an Associate continued

b Details of the associate at 31 March 2006 are as follows:

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

Profound Global Limited is an investing holding company and its principal subsidiaries are engaged in manufacturing and distribution of metal hardware products, trading and distribution of auto parts. Details of the principal subsidiaries of the associate as at 31 March 2006 are as follows:

Company	Form of business structure	Place of incorporation and operation	Proportion of registered capital held by the associate: Direct	Proportion of registered capital held by the associate: Indirect	Principal activities
Grandwell Heavy Industry (Anhui) Company Limited	Incorporated	The PRC	—	100%	Manufacture and sales of metal hardware products
Profound Automobile (Shengyang) Company Limited	Incorporated	The PRC	—	100%	Trading and distribution of auto parts

20. Interest in an Associate continued

c Summarised financial information of the associate is set out below:

(RMB'000)	For the year ended 31 March 2006 (unaudited)	For the 3 months ended 31 March 2005 (unaudited)
Consolidated income statement		
Revenue	1,588,480	368,699
Profit for the year/period	106,888	28,251

(RMB'000)	At 31 March 2006	At 31 March 2005
Consolidated balance sheet		
Total assets	1,075,293	964,234
Total liabilities	(83,568)	(58,734)
Net assets	991,725	905,500

21. Inventories

	The Group	
(RMB'000)	2006	2005
Raw materials	15,090	5,238
Finished goods	29,760	27,608
	44,850	32,846

22. VAT Receivable

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

23. Trade and Other Receivables

(RMB'000)	The Group 2006	The Group 2005	The Company 2006	The Company 2005
Trade receivables	513,308	304,564	—	—
Dividend receivable	8,280	—	—	76,000
Prepayments and other receivables	192,390	207,417	2,196	9,108
Due from related companies	1,554	3,931	—	—
Due from holding company	—	—	—	2
	715,532	515,912	2,196	85,110

a Aging analysis of trade receivables is as follows:

(RMB'000)	The Group 2006	The Group 2005
0 - 90 days	503,777	304,564
91 - 180 days	9,429	—
181 - 365 days	102	—
	513,308	304,564

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

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

(USD'000)	The Group 2006	The Group 2005
Trade receivables in other currencies	63,400	33,538

c The amounts due from related companies disclosed pursuant to Section 161B of the Companies Ordinance are as follows:

Company/ related directors	Interest rate	Terms	Security	Balance at 1 April 2005 RMB'000	Maximum balance RMB'000	Balance at 31 March 2006 RMB'000
Anhui Industries and Trading Corporation/ Mr. Zhou Tian Bao	Nil	Nil	Nil	3,770	3,770	1,554
Mark Up Investments Limited/ Mr. Zhou Tian Bao	Nil	Nil	Nil	161	161	—

24. Amounts Due from Subsidiaries

The amounts due from subsidiaries are unsecured, non-interest bearing and are repayable within the next twelve months from the balance sheet dates.

25. Cash and Bank Balances

	The Group		The Company	
(RMB'000)	2006	2005	2006	2005
Cash and bank balances	866,463	528,075	866	902
Time deposits	213,370	226,843	—	—
	1,079,833	754,918	866	902
Less: Pledged bank deposits	(16,670)	(16,631)	—	—
	1,063,163	738,287	866	902

(a) As at 31 March 2006, the pledged bank deposits of approximately RMB16,670,000 (2005: RMB16,631,000) were used as security for certain banking facilities of a subsidiary in Hong Kong.

(b) As at 31 March 2006, approximately RMB1,042,591,000 (2005: RMB724,928,000) of the Group's cash and bank balances and time deposits were denominated in RMB and kept in the PRC. The conversion of RMB denominated balances into foreign currencies is subject to rules and regulations of foreign exchange control promulgated by the PRC government.

(c) Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term time deposits are made depending on the immediate cash requirement of the Group, and earn interest at the respective short-term time deposit rates. The carrying amounts of the cash and bank balances and time deposits approximate to their fair values.

26. Trade and Other Payables

	The Group		The Company	
(RMB'000)	2006	2005	2006	2005
Trade payables	42,203	63,156	—	—
Accruals and other payables	57,020	32,716	773	940
Due to a related company (Note 31)	—	106	—	—
Due to directors (Note 31)	361	3,193	454	902
	99,584	99,171	1,227	1,842

26. Trade and Other Payables continued

Aging analysis of trade payable is as follows:

	The Group	
(RMB'000)	2006	2005
0 - 90 days	37,270	57,038
91-180 days	2,025	5,615
181 - 365 days	1,112	—
Over 1 year	1,796	503
	42,203	63,156

27. Short-Term Borrowings

	The Group	
(RMB'000)	2006	2005
Wholly repayable within one year		
- Guaranteed by the Company (a)	25,875	—
- Guaranteed by a related party (b)	150,000	146,800
	175,875	146,800

(a) Denominated in HKD and bore effective interest of 5.9% per annum.

(b) Denominated in RMB and bore effective interest of 5.9% per annum (2005: 5.8% per annum).

28. Non-Current Borrowings

	The Group	
(RMB'000)	2006	2005
Interest bearing borrowings		
Bank loans - unsecured	754,118	443,080
Obligations under finance leases	50,658	41,121
	804,776	484,201
Current portion of long term borrowings	(188,440)	(203,633)
	616,336	280,568

a The bank loans are repayable as follows:

	The Group	
(RMB'000)	2006	2005
Within one year	165,631	189,092
In the second year	336,317	209,232
In the third to fifth years	252,170	44,756
	754,118	443,080

Included in bank loans are the following amounts denominated in a currency other than RMB:

	The Group	
	2006	2005
Bank loans in other currencies	USD93,906,000	HKD418,000,000

28. Non-Current Borrowings continued

b Obligations under finance leases are repayable as follows:

	2006			2005		
(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 1 year	22,809	2,975	25,784	14,541	1,708	16,249
In the second year	19,857	1,320	21,177	15,042	975	16,017
In the third to fifth year	7,992	303	8,295	11,538	267	11,805
	50,658	4,598	55,256	41,121	2,950	44,071

29. Convertible Bonds

On 16 December 2004, the Company issued US$40 million at equivalent RMB330,720,000 worth of zero coupon Convertible Bonds with maturity date on 16 December 2007 (the "Maturity Date"). The bonds are convertible, at the option of their holders, into ordinary shares of the Company, par value HK$0.1 per share, at the conversion price of the equivalent of HK$2.70 per share at any time on or after 15 June 2005 and prior to 6 December 2007. On 16 December 2005, the conversion price was adjusted to HK$2.43 per share in accordance to the terms of the indenture. Unless previously redeemed, converted or purchased and cancelled, these bonds will be redeemed in US dollars at 112.4864% of their principal amount on the Maturity Date.

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

30. Retirement Benefits Scheme

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

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

31. Amounts Due From/(To) Related Companies/Directors

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

32. Share Capital

		Number of shares		Ordinary share capital at HK0.1 each			
	Note	2006 (in millions)	2005 (in millions)	2006 HK$'000	2006 RMB'000	2005 HK$'000	2005 RMB'000
Authorised:							
At the beginning and 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		975	830	97,500	103,350	83,000	87,980
Shares issued	(a)	—	100	—	—	10,000	10,600
Consideration shares issued	(b)	—	45	—	—	4,500	4,770
Shares issued upon conversion of convertible bonds	(c)	102	—	10,232	10,590	—	—
At the end of year		1,077	975	107,732	113,940	97,500	103,350

Note:

(a) *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 procured purchasers to acquire, and Ms. Huang sold in aggregate of up to 100,000,000 existing ordinary shares HK$0.1 each in the Company at a price of HK$2.35 per share.*

On 29 April 2004, Ms. Huang also entered into a conditional subscription agreement with the Company. Pursuant to the conditional subscription agreement, Ms. Huang had 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.

(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 and holds a 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.*

(c) *During the period from 20 January 2006 to 24 March 2006, convertible bonds with total nominal value of USD32,000,000 were converted into ordinary shares of the Company. The conversions were conducted on predetermined exchange rate and conversion price of HK$2.43 per ordinary share of the Company. Totally 102,320,976 new ordinary shares of HK$0.1 each were issued as a result of the conversions.*

33. Reserves

Movements of reserves were:

	The Company				
(RMB'000)	Share premium	Capital reserve	Foreign currency translation reserve	Retained profits	Total
As 1 April 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)
Equity component of convertible bonds restated	—	7,053	—	—	7,053
Profit for the year	—	—	—	71,470	71,470
Dividends paid	—	—	—	(49,497)	(49,497)
At 31 March 2005, as restated	838,535	7,053	—	46,929	892,517
At 1 April 2005:					
- as previously reported	838,535	—	—	46,929	885,464
- retrospective application in respect of HKAS 32 and 39	—	7,053	—	—	7,053
- as restated	838,535	7,053	—	46,929	892,517
Conversion of convertible bonds	261,463	(5,642)	—	—	255,821
Profit for the year	—	—	—	135,222	135,222
Dividends paid	—	—	—	(66,354)	(66,354)
Exchange translation	—	—	(24,148)	—	(24,148)
At 31 March 2006	1,099,998	1,411	(24,148)	115,797	1,193,058

34. Major Non-Cash Transactions

i Finance leases

During the year the Group entered into finance leases in respect of plant and equipment amounted to approximately RMB25,620,000 (2005: RMB44,774,000) at the inception date of the lease.

ii During the year, 102,320,976 ordinary shares of the Company of HK$0.1 each were issued as a result of conversion of convertible bonds (Note 32(c)).

35. Capital Commitments

	The Group	
(RMB'000)	2006	2005
Contracted but not provided for		
- purchases of machineries and equipment	128,818	84,931
- construction in progress	9,204	37,984
	138,022	122,915

36. Related Party Transactions

During the year ended 31 March 2006, the Group had significant related party transactions as summarised below:

	The Group	
(RMB'000)	2006	2005
Rental for leased office building, manufacturing premises and plant and machinery and equipment paid to AITC (a)	10,800	10,800
Rent for leased office building and staff quarters paid to related companies (b)	1,131	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 buildings, 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 (2005: 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 which no security over the assets of the Group is granted in respect of the guarantees.*

37. Contingent Liabilities

(RMB'000)	The Group 2006	The Group 2005	The Company 2006	The Company 2005
At the balance sheet date, there were contingent liabilities in respect of guarantees for the banks and other loans provided to - subsidiary	—	—	1,192,165	774,436

38. Operating Lease Commitments

As at 31 March 2006, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases in respect of plant, factory and machinery and equipment in the PRC as follows:

(RMB'000)	2006	2005
Within one year	7,800	6,875
After one year but within five years	15,600	9,200
After five years	—	958
	23,400	17,033

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)	2006	2005
Within one year	1,334	1,321
After one year but within five years	1,863	768
	3,197	2,089

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

39. Comparative Figures

Certain comparative figures have been adjusted or reclassified as a result of the changes in accounting policies. Further details are disclosed in note 3 to the financial statements.

40. Events After Balance Sheet Date

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

Net proceeds from the subscription was approximately HK$597 million (approximately RMB617 million). It is the Directors' intention to utilize the proceeds (i) for expansion of production capacity of suspension systems, axle modules and other related auto parts in the next 3 years; (ii) for purchase of a piece of land in the BETD and construction of a new factory to house the production systems in (i) above; and (iii) as general working capital of the Company.

b The conversion price of convertible bonds was subsequently amended to HK$2.40 per ordinary share of the Company as a result of the placing and subscription as described in (a) above.

c On 20 April 2006, Norstar Auto Suspension System (Beijing) Inc. ("Norstar Suspension"), a wholly-owned subsidiary of the Company signed an agreement ("the Agreement") with a third party ("the Seller") to acquire certain chassis assets ("the Assets") for a consideration of RMB96,222,000. Pursuant to the agreement, the Seller had obligation to transfer the Assets to Norstar Suspension within 90 days of the Agreement date and Norstar Suspension would pay the consideration within 30 days upon completion of the transfer.

41. Approval of Financial Statements

The financial statements were approved by the Board of Directors on 22 June 2006.