

interim report 2004/2005



NORSTAR FOUNDERS GROUP LIMITED
北 泰 創 業 集 團 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

The Board of Directors (the “Board”) of Norstar Founders Group Limited (the “Company”) is pleased to announce the unaudited interim financial results of the Company and its subsidiaries (collectively referred to as the “Group”) for the six months ended 30 September 2004. The unaudited interim financial results have been reviewed by the Company’s Audit Committee.

CONDENSED CONSOLIDATED INCOME STATEMENT FOR SIX MONTHS ENDED 30 SEPTEMBER 2004

		Six months ended	
		30 September	
		2004	2003
		<i>RMB'000</i>	<i>RMB'000</i>
	<i>Note</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Turnover	2	996,212	833,690
Cost of sales		(828,932)	(685,254)
		<hr/>	<hr/>
Gross profit		167,280	148,436
Other revenues	2	3,925	3,491
Distribution and selling costs		(21,236)	(31,101)
Administrative expenses		(13,301)	(9,724)
		<hr/>	<hr/>
Profit from operations	3	136,668	111,102
Finance costs	4	(13,983)	(11,139)
		<hr/>	<hr/>
Profit before taxation and minority interests		122,685	99,963
Taxation	5	16,873	(7,640)
		<hr/>	<hr/>
Profit after taxation but before minority interests		139,558	92,323
Minority interests		(10,378)	(9,422)
		<hr/>	<hr/>
Profit attributable to shareholders		129,180	82,901
		<hr/>	<hr/>
Dividends	6	25,838	24,700
		<hr/>	<hr/>
Earnings per share — basic	7	RMB14.11 cents	RMB13.82 cents
		<hr/>	<hr/>
Earnings per share — diluted	7	Not applicable	Not applicable
		<hr/>	<hr/>

CONDENSED CONSOLIDATED BALANCE SHEET

AS AT 30 SEPTEMBER 2004

		30 September 2004	31 March 2004
		<i>RMB'000</i>	<i>RMB'000</i>
	<i>Note</i>	<i>(Unaudited)</i>	<i>(Audited)</i>
Non-current assets			
Intangible asset	8	30,490	—
Property, plant and equipment	9	640,433	340,358
		<u>670,923</u>	<u>340,358</u>
Current assets			
Inventories		114,993	48,212
Tax receivable		39,129	57,461
Trade and other receivables	10	409,471	373,883
Short-term investment		2,680	—
Cash and bank balances	11	592,496	326,821
		<u>1,158,769</u>	<u>806,377</u>
Current liabilities			
Trade and other payables	12	47,730	34,051
Short-term borrowings	13	271,673	260,000
Notes payable		—	20,000
Tax payable		6,052	35,118
		<u>325,455</u>	<u>349,169</u>
Net current assets		833,314	457,208
Total assets less current liabilities		1,504,237	797,566
Non-current liability			
Long-term bank loans	14	317,219	—
Minority interests		—	51,499
		<u>1,187,018</u>	<u>746,067</u>
Financed by:			
Share capital	15	103,350	87,980
Reserves		1,083,668	658,087
SHAREHOLDERS' FUNDS		<u>1,187,018</u>	<u>746,067</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2004

	Reserve							Total
	Share capital	Merger Reserve	Share premium	Reserve fund	Enterprise expansion fund	Exchange reserve	Retained profits	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 April 2003	10,600	—	—	29,787	29,787	370	239,260	309,804
Profit for the period							82,901	82,901
Dividend							(24,700)	(24,700)
As at 30 September 2003	<u>10,600</u>	<u>—</u>	<u>—</u>	<u>29,787</u>	<u>29,787</u>	<u>370</u>	<u>297,461</u>	<u>368,005</u>
As at 1 April 2004	87,980	(299,310)	518,307	40,830	40,830	1,435	355,995	746,067
Issue of shares (note 15(a))	10,600		238,500					249,100
Issue of consideration shares (note 15(b))	4,770		87,768					92,538
Profit for the period							129,180	129,180
Share issue expenses			(6,040)					(6,040)
Dividend							(23,659)	(23,659)
Change in exchange rate						(168)		(168)
As at 30 September 2004	<u>103,350</u>	<u>(299,310)</u>	<u>838,535</u>	<u>40,830</u>	<u>40,830</u>	<u>1,267</u>	<u>461,516</u>	<u>1,187,018</u>

Note:

The merger reserve of the Group represents the difference between the aggregate net assets of the subsidiaries acquired by the Group and the nominal amount of the Company's shares issued under the group reorganisation. Further details of the group reorganization are set out in the prospectus of the Company dated 29 September 2003.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2004

	Six months ended	
	30 September	
	2004	2003
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Net cash inflow from operating activities	26,546	110,564
Net cash outflow from investing activities	(327,675)	(7,043)
Net cash inflow/(outflow) from financing activities	557,597	(86,903)
NET INCREASE IN CASH AND CASH EQUIVALENTS	<u>256,468</u>	<u>16,618</u>
Cash and cash equivalents at beginning of the period	<u>318,714</u>	<u>218,149</u>
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	<u><u>575,182</u></u>	<u><u>234,767</u></u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash on hand	73	49
Cash in bank	575,109	234,718
	<u><u>575,182</u></u>	<u><u>234,767</u></u>

1. Basis of preparation and accounting policies

These unaudited condensed consolidated financial statements are prepared in accordance with Hong Kong Statement of Standard Accounting Practice (“SSAP”) 25, “Interim Financial Reporting”, issued by the Hong Kong Institute of Certified Public Accountants.

These condensed financial statements should be read in conjunction with the 2004 annual financial statements.

The accounting policies and methods of computation used in the preparation of these interim financial statements are consistent with the 2004 annual financial statements.

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group’s share of the net assets of the acquired subsidiary and is amortised using the straight-line method over its estimated useful life of not more than 20 years.

2. Turnover, revenue and segment information

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

	Six months ended	
	30 September	
	2004	2003
	<i>RMB’000</i>	<i>RMB’000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Turnover		
Automotive spare parts	843,815	664,456
Construction decorative hardware products	152,397	169,234
	<hr/> 996,212	<hr/> 833,690
Other revenue		
Interest income	1,295	644
Sundry income	2,630	2,847
	<hr/> 3,925	<hr/> 3,491
Total turnover and revenue	<hr/> 1,000,137 <hr/>	<hr/> 837,181 <hr/>

2. Turnover, revenue and segment information (Continued)

Primary reporting format - geographical segments

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

Secondary reporting format - business segments

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

- Automotive spare parts
- Construction decorative hardware products

(i) Primary reporting format - geographical segments

For the six months ended 30 September 2004 (Unaudited)

	United States <i>RMB'000</i>	Canada <i>RMB'000</i>	Europe <i>RMB'000</i>	Total <i>RMB'000</i>
Segment turnover	<u>425,042</u>	<u>338,973</u>	<u>232,197</u>	<u>996,212</u>
Segment gross profit	<u>70,229</u>	<u>57,120</u>	<u>39,931</u>	<u>167,280</u>

For the six months ended 30 September 2003 (Unaudited)

	United States <i>RMB'000</i>	Canada <i>RMB'000</i>	Europe <i>RMB'000</i>	Total <i>RMB'000</i>
Segment turnover	<u>498,381</u>	<u>187,668</u>	<u>147,641</u>	<u>833,690</u>
Segment gross profit	<u>88,404</u>	<u>33,385</u>	<u>26,647</u>	<u>148,436</u>

2. Turnover, revenue and segment information (Continued)

(ii) *Secondary reporting format - business segments*

For the six months ended 30 September 2004 (Unaudited)

	*Automotive spare parts <i>RMB'000</i>	*Construction decorative hardware products <i>RMB'000</i>	Total <i>RMB'000</i>
Turnover	<u>843,815</u>	<u>152,397</u>	<u>996,212</u>
Segment gross profit	<u>143,688</u>	<u>23,592</u>	<u>167,280</u>
Interest income			1,295
Finance costs			(13,983)
Unallocated costs			<u>(31,907)</u>
Profit before taxation and minority interest			122,685
Taxation			<u>16,873</u>
Profit after taxation but before minority interest			139,558
Minority interest			<u>(10,378)</u>
Profit attributable to shareholders			<u>129,180</u>

* *including both trading, manufacture and distribution*

2. Turnover, revenue and segment information (Continued)

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

For the six months ended 30 September 2003 (Unaudited)

	*Automotive spare parts <i>RMB'000</i>	*Construction decorative hardware products <i>RMB'000</i>	Total <i>RMB'000</i>
Turnover	<u>664,456</u>	<u>169,234</u>	<u>833,690</u>
Segment gross profit	<u>119,924</u>	<u>28,512</u>	<u>148,436</u>
Interest income			644
Finance costs			(11,139)
Unallocated costs			<u>(37,978)</u>
Profit before taxation and minority interest			99,963
Taxation			<u>(7,640)</u>
Profit after taxation but before minority interest			92,323
Minority interest			<u>(9,422)</u>
Profit attributable to shareholders			<u>82,901</u>

* including both trading, manufacture and distribution

3. Profit from operations

Profit from operations has been arrived at after charging:

	Six months ended 30 September	
	2004 <i>RMB'000</i> <i>(Unaudited)</i>	2003 <i>RMB'000</i> <i>(Unaudited)</i>
Amortisation of goodwill	142	—
Depreciation	4,779	3,701
Operating lease rentals in respect of:		
— Land and building	1,590	2,014
— Plant and machinery	4,250	4,250
Staff costs	<u>21,198</u>	<u>28,346</u>

4. Finance costs

	Six months ended 30 September	
	2004 <i>RMB'000</i> <i>(Unaudited)</i>	2003 <i>RMB'000</i> <i>(Unaudited)</i>
Interest expenses on short-term bank loans	8,121	6,903
Interest expenses on long-term bank loans	2,290	—
Discounting charges	3,330	2,330
Bank charges	375	551
Exchange (gain)/loss	<u>(133)</u>	<u>1,355</u>
	<u>13,983</u>	<u>11,139</u>

5. Taxation

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

	Six months ended	
	30 September	
	2004	2003
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
PRC enterprise income tax (c)	(9,706)	(7,640)
Write-back of over-provision of PRC enterprise income tax in previous years (b)	26,579	—
	16,873	(7,640)

Notes:

- (a) No provision for Hong Kong profits tax has been made as the Group had no assessable profits in Hong Kong during the period (2003: Nil).
- (b) Beijing Norstar Automotive Industries Inc. (Beijing Norstar), a subsidiary of the Company in the PRC, was established and registered in Bengbu, Anhui Province, the PRC and would have been subject to PRC enterprise income tax at the rate of 30% with 3% local enterprise income tax being exempted pursuant to the approval document issued by Bengbu State Tax Bureau Municipal Foreign Affairs Office. As Beijing Norstar was entitled to exemption from PRC enterprise income tax for its first two profit-making years, no PRC enterprise income tax was paid by Beijing Norstar for the first two profit-making years ended 31 December 2000 since its establishment.

In July 1999, Beijing Norstar 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, Beijing Norstar had operated for less than 10 years since its establishment in Bengbu, Anhui Province, the PRC. Hence, Beijing Norstar 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 RMB26,579,000 had been made as Beijing Norstar 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 2004, Beijing Norstar was exempted from PRC enterprise income tax for the two years ended 31 December 2000. As such, the Group has decided to write back the provision in the current financial year.

5. Taxation (Continued)

Notes: (Continued)

(c) On 15 August 2002, Beijing Norstar obtained a written confirmation from the State Revenue Bureau of BETD Zone stating that Beijing Norstar is subject to enterprise income tax at the rate of 15% and is granted an exemption from enterprise income tax for two years commencing from the year ended 31 December 2001, and a 50% reduction in the enterprise income tax rate for the three years thereafter. Therefore, the PRC enterprise income tax for the six months ended 30 September 2004 represented 7.5% tax charges on the taxable income of Beijing Norstar.

(d) Deferred taxation

As at 30 September 2003 and 2004 respectively, no provision for deferred tax has been recognised in the financial statements as there have been no material temporary differences for tax purposes.

(e) 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:

	Six months ended	
	30 September	
	2004	2003
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Profit before taxation	122,685	99,963
Tax at the applicable tax rate of 7.5%	9,201	7,497
Write-back of over-provision of PRC enterprise income tax in previous years	(26,579)	—
Tax effect of unrecognised tax losses	505	143
Tax (income)/expense for the period	<u>(16,873)</u>	<u>7,640</u>

6. Dividends

	Six months ended 30 September	
	2004	2003
	RMB'000	RMB'000
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
2004 final dividend of HK\$0.024 per ordinary share declared	23,659	—
Interim, proposed HK\$0.025 per ordinary share	25,838	24,700
	49,497	24,700

At a meeting of the Board held on 15 November 2004, an interim dividend of HK\$0.025 per ordinary share has been declared by the directors for the year ending 31 March 2005. This interim dividend is not reflected as a dividend payable in these condensed financial statements, but will be reflected as an appropriation of retained profits for the year ending 31 March 2005.

7. Earnings per share

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

	Six months ended 30 September	
	2004	2003
	RMB'000	RMB'000
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Earnings		
Earnings for the purpose of calculating basic earnings per share	129,180	82,901
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	915,409,836	600,000,000

Basic earnings per share for the six months ended 30 September 2003 was arrived at after dividing the profit attributable to shareholders of that period by 600,000,000 shares outstanding immediately prior to the public offerings.

No diluted earnings per share is presented as there were no potential dilutive ordinary shares in issue during the six months ended 30 September 2004 and 2003.

8. Intangible asset

	<i>RMB'000</i>
	<i>(Unaudited)</i>
Goodwill	
Net book value as at 1 April 2004	—
Acquisition of the minority interest of a subsidiary	30,632
Amortisation charge	(142)
	<hr/>
Net book value as at 30 September 2004	30,490
	<hr/> <hr/>

9. Property, plant and equipment

	<i>RMB'000</i>
	<i>(Unaudited)</i>
Net book value as at 1 April 2004	340,358
Additions	304,854
Depreciation	(4,779)
	<hr/>
Net book value as at 30 September 2004	640,433
	<hr/> <hr/>

Approximately RMB279,355,000 represented addition to construction in progress of which no provision for depreciation is made until such time as the relevant assets are completed and ready for use.

Machinery and equipments with an aggregate net book value of approximately HK\$7,595,000 (31 March 2004: Nil) were pledged for the Group's banking facilities.

10. Trade and other receivables

	30 September	31 March
	2004	2004
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Audited)</i>
Trade receivables	253,953	237,741
Prepayments and other receivables	154,795	125,026
Due from related companies	680	11,080
Due from a director	43	36
	<hr/>	<hr/>
	409,471	373,883
	<hr/> <hr/>	<hr/> <hr/>

10. Trade and other receivables (Continued)

Aging analysis of trade receivables is as follows:

	30 September 2004 RMB'000 (Unaudited)	31 March 2004 RMB'000 (Audited)
0 - 90 days	250,367	236,963
91 - 180 days	3,573	765
181 - 365 days	13	13
	<u>253,953</u>	<u>237,741</u>

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

11. Cash and bank balances

	30 September 2004 RMB'000 (Unaudited)	31 March 2004 RMB'000 (Audited)
Cash on hand	73	125
Cash in banks	575,109	318,589
	<u>575,182</u>	<u>318,714</u>
Pledged bank deposits	17,314	8,107
	<u>592,496</u>	<u>326,821</u>

As at 30 September 2004, pledged bank deposits of approximately HK\$16,334,000 (31 March 2004: HK\$7,648,000) were secured for certain banking facilities of a subsidiary in Hong Kong.

12. Trade and other payables

	30 September 2004	31 March 2004
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Audited)</i>
Trade payables	27,254	11,910
Accruals and other payables	17,432	18,431
Dividend payable	3,044	3,500
Due to directors	—	210
	<u>47,730</u>	<u>34,051</u>

Aging analysis of trade payables is as follows:

	30 September 2004	31 March 2004
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Audited)</i>
0 - 90 days	17,282	4,810
91 - 180 days	5,005	7,100
Over 180 days	4,967	—
	<u>27,254</u>	<u>11,910</u>

13. Short-term borrowings

	30 September 2004	31 March 2004
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Audited)</i>
Short-term bank loans	180,000	260,000
Current portion of long-term bank loans	91,673	—
	<u>271,673</u>	<u>260,000</u>

The short-term bank loans were borrowed from banks in the PRC and bore interest at 4.8% per annum (31 March 2004: 5.5% per annum). Refer to Note 19 for details of the Group's banking facilities.

14. Long-term bank loans

As at 30 September 2004, long-term bank loans were repayable as follows:

	30 September 2004	31 March 2004
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Audited)</i>
Within one year	91,673	—
In the second year	181,302	—
In the third to fifth year inclusive	135,917	—
	<u>408,892</u>	<u>—</u>
Less: portion due within one year included under current liabilities	<u>(91,673)</u>	<u>—</u>
	<u><u>317,219</u></u>	<u><u>—</u></u>

The long-term bank loans bore interest at rates ranging from approximately 1.7% to 5% per annum (31 March 2004: Nil). Refer to Note 19 for details of the Group's banking facilities.

15. Share capital

	No of shares	HK\$	RMB
Authorised:			
As at 1 April and 30 September 2004	<u>5,000,000,000</u>	<u>500,000,000</u>	<u>530,000,000</u>
Issued and fully paid:			
As at 1 April 2004	830,000,000	83,000,000	87,980,000
Issue of shares (<i>note a</i>)	100,000,000	10,000,000	10,600,000
Issue of consideration shares (<i>note b</i>)	<u>45,000,000</u>	<u>4,500,000</u>	<u>4,770,000</u>
As at 30 September 2004	<u><u>975,000,000</u></u>	<u><u>97,500,000</u></u>	<u><u>103,350,000</u></u>

15. Share capital (Continued)

- (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 of 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.

Subsequent to the placement of shares as described above, the paid up capital was increased by HK\$10,000,000.

- (b) On 24 June 2004, a wholly-owned subsidiary of the Company 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 Beijing Norstar, a subsidiary of the Company. Being part of the consideration, 45,000,000 consideration shares were allotted at the issue price of HK\$2.35 per consideration share.

16. Capital commitments

	30 September 2004	31 March 2004
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Audited)</i>
Contracted but not provided for		
— purchases of plant and machinery	82,257	9,591
— construction in progress	6,328	3,516
	<u>88,585</u>	<u>13,107</u>

17. Operating lease commitments

As at 30 September 2004, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases with Anhui Industries and Trading Corporation (“AITC”) in respect of plant, office buildings, machinery and equipment as follows:

	30 September 2004 RMB'000 (Unaudited)	31 March 2004 RMB'000 (Audited)
Within one year	7,575	10,025
After one year but within five years	9,200	11,000
After five years	1,917	3,067
	<u>18,692</u>	<u>24,092</u>

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:

	30 September 2004 RMB'000 (Unaudited)	31 March 2004 RMB'000 (Audited)
Within one year	77	1,340
After one year but within five years	—	353
	<u>77</u>	<u>1,693</u>

18. Related party transactions

During the six months ended 30 September 2004, the Group’s significant related party transactions are summarised below:

	Six months ended 30 September 2004 RMB'000 (Unaudited)	2003 RMB'000 (Unaudited)
Rental for leased office building, manufacturing premises and plant and machinery and equipment paid to AITC (a)	5,400	5,400
	<u>5,400</u>	<u>5,400</u>

18. Related party transactions (Continued)

Notes:

- (a) Pursuant to lease agreements entered into between Beijing Norstar and AITC, AITC has leased to Beijing Norstar certain office building, manufacturing premises and plant and machinery. AITC, a company established in the PRC, is jointly owned and managed by Mr. Zhou Tian Bao, a director of the Company, and his spouse. During the six months ended 30 September 2004, rental paid for leased office building, manufacturing premises and plant and machinery were RMB1,150,000 and RMB4,250,000 respectively.
- (b) A related company provided corporate guarantee of up to a maximum amount of RMB200,000,000 (31 March 2004: RMB80,000,000) in respect of short-term banking facilities given to the Group.

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

19. Banking facilities

- (a) As at 30 September 2004, guarantees from independent third parties and a related party were maintained as security for short-term borrowings of a subsidiary in the PRC.
- (b) Other than the above, as at 30 September 2004, the Group had aggregate banking facilities of approximately HK\$570,218,000 (31 March 2004: HK\$89,000,000) from several banks for loans and trade financing. Unused facilities as at the same date amounted to approximately HK\$117,990,000 (31 March 2004: HK\$89,000,000). These facilities were secured by:
 - (i) bank deposits of approximately HK\$16,334,000 (31 March 2004: HK\$7,648,000);
 - (ii) certain machinery and equipments with an aggregate net book value of approximately HK\$7,595,000 (31 March 2004: Nil);
 - (iii) corporate guarantees made by the Company and two wholly owned subsidiaries.

In addition, the Group has agreed with a bank to comply with certain financial covenants.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Group's turnover for the six months ended 30 September 2004 amounted to approximately RMB996,212,000, representing a 19.5% increase from approximately RMB833,690,000 for the same period last year. The Group's gross profit for the six months ended 30 September 2004 amounted to approximately RMB167,280,000, representing a 12.7% increase from approximately RMB148,436,000 for the same period last year. Profit attributable to shareholders surged by 55.8% from approximately RMB82,901,000 to approximately RMB129,181,000. Earnings per share were RMB14.11 cents.

During the period under review, the Group continued to extend overseas market in North America and Europe. Riding on the surging demand for high quality auto parts around the world, the Group successfully forged various auto parts supply arrangements with both existing and new customers. During the review period, the Group continued to enlarge its production capacity for existing products. The production line for composite friction material commenced operation in September 2004, while the suspension system assembly line is expected to commence operation in first half of 2005.

The Group's gross profit margin for the period slightly declined from 17.8% to 16.8% on a year on year basis, but represented a marked improvement from 15.5% of the second half of last year. Gross profit margin for braking system products actually improved slightly on a year on year basis. This was attributable to the improvement in product mix such as the increased proportion of high value added products especially composite friction material, and stringent internal cost control plus rising economies of scale from capacity expansion, which have mitigated the impact from higher steel purchasing cost. Sales through the Group's export agency continued to decline, accounting for 30% of total sales for the period.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Business Review (Continued)

Selling and distribution costs declined from RMB31,101,000 to RMB21,236,000 for the six months ended 30 September 2004. General and administrative expenses rose from RMB9,724,000 to RMB13,301,000 due to additional administrative expenses incurred in association with the Group's listing in October 2003. Total finance costs increased from RMB11,139,000 to RMB13,983,000 as a result of higher interest expenses due to the increase in the Group's total borrowing. Profit before taxation and minority interests registered a promising growth of 22.7% as compared with the same period last year. Taking into account a write-back of over-provision of PRC enterprise income tax of RMB26,579,000, and contribution from Beijing Norstar which became a wholly-owned subsidiary of the Group on 27 August 2004, the Group's total profit attributable to shareholders surged by 55.8% over the same period last year.

The Board recommended an interim dividend of HK\$0.025 per share for the six months ended 30 September 2004 payable to shareholders whose names appear on the Register of Members of the Company on 22 December 2004.

Automotive spare parts

Driven by strong demand for quality auto parts worldwide, more sizeable orders were received during the review period. Turnover from the sales of automotive spare parts grew by 26% to RMB772,738,000, compared with RMB612,771,000 during the same period last year. The segment remained as the Group's flagship business and accounted for 77.6% of the total turnover for the period. North America and Europe continued to be the major markets.

As the PRC gradually turns into the global sourcing and purchasing center for automotive spare parts, the Group had succeeded in forging auto parts supply co-operations with internationally renowned automobile system integrators and spare parts manufacturers such as Honeywell Inc. and Lemforder International AG & Co. KG. Furthermore, the Group has started receiving orders for its newly developed composite friction materials from existing clients, enabling it to move towards the objective of becoming a one-stop supplier for brake system product. At the same time, part of the proceeds from the Group's main board listing was spent on enlarging the production capacities for brake system products. Driven by the increasing global demand and overall competitiveness of the Group, management believes the Group's automotive spare parts business will continue to flourish.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Automotive spare parts (Continued)

The Group plans to diversify its product spectrum, and composite friction material is the first item developed under this plan. The annual production capacity of composite friction material at the Anhui production plant is approximately 36,000,000 pieces. At present, orders of composite friction material products are on par. The management expects the composite friction material business to bring more remarkable contributions to the Group in the second half of the financial year.

The new production plant in the Beijing Economic and Technological Development Zone, which will focus primarily on suspension system assembly operations, is expected to commence production in the first half of 2005. The management is confident of the development of this project.

Construction decorative hardware products

During the period under review, construction decorative hardware products generated a turnover of approximately RMB152,397,000 (2003: approximately RMB157,188,000), representing about 15.3% of the Group's overall turnover. The Group focused its efforts on developing the automotive spare parts business during the period, and its strategy for the construction decorative hardware business was to satisfy demand of existing customers. The management expects the business to continue to provide a reliable source of income.

Trading and distribution

The Group's trading and distribution income increased by 11.5% during the review period, accounting for approximately 7.1% of the Group's total turnover. Distribution of auto parts, including transmission shafts, brake drums, universal joints and brake rotors surged by 37.4% year on year. To concentrate on developing the automotive spare parts business, the Group reduced distribution of construction decorative products since the current financial year. The management expects income from the trading and distribution business to continue to increase in the second half of the financial year, as the Group commenced distribution of products from Fawer Automotive Parts Company Limited, a subsidiary of China First Automotive Works Group in October 2004.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Group financial position, liquidity and capital structure

The Group raised a total net proceeds of approximately HK\$229,000,000 from the placement of 100,000,000 ordinary shares on 29 April 2004. On 21 May 2004, the Group obtained a syndication loan facility amounting to HK\$380,000,000. During the period under review, the Group continued to hold a solid financial position, and maintain strong and steady cash flows for its operating activities. In terms of cash outlay, around RMB304,854,000 was used in capital investments of the Group's new projects. As at 30 September 2004, the cash and bank balances of the Group stood at RMB592,496,000, and total bank loans amounted to RMB588,892,000. The Group's current ratio (current assets over current liabilities) registered a significant improvement from 2.31x as at 31 March 2004 to 3.56x as at 30 September 2004. As at 30 September 2004, the Group's total unutilized banking facilities amounted to HK\$117,990,000.

Foreign exchange risk

Income of the Group is denominated in US dollars, RMB and Euro. It settles most of its purchasing requirement in RMB, and certain capital expenditures in US dollars. The Group's bank borrowings are denominated in both RMB and HK dollars. During the six months ended 30 September 2004, the Group had not experienced any material difficulties or effects on its operations or liquidity as a result of fluctuations in currency exchange rates. The Board believes that the Group will have sufficient foreign exchange to meet its foreign exchange requirements.

Employees and the remuneration policy

As at 30 September 2004, the Group had over 2,100 employees. Remuneration packages are determined with reference to the qualifications and experience of the staff concerned and are reviewed annually by the management with reference to market conditions and performance of the staff. The Group also participates in the Mandatory Provident Fund Scheme in Hong Kong and state-managed retirement benefit scheme in the PRC. Besides, the Group will consider granting share options to senior management staff in the future. As at 30 September 2004, no options have been granted or agreed to be granted under the share option scheme.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

About the share transfer

In June this year, the Group acquired the remaining 10% equity interest in Beijing Norstar. With Beijing Norstar now the Group's wholly-owned subsidiary, the Group will be able to more effectively operate its manufacturing business. In October this year, Mr. Zhou Tian-bao took a 37% stake in Century Founders Group Limited, which holds 600,000,000 Norstar shares and was wholly owned by Ms. Lilly Huang. Subsequent to this exercise, the effective shareholding of Ms. Huang was reduced to 38.77% while Mr. Zhou's effective shareholding was increased from 5.22% to 27.99%. The resulting shareholding structure truly reflects the long term partnership between Ms. Huang and Mr. Zhou since the establishment of Norstar and such partnership will continue to provide solid foundation to fuel the growth of Norstar in the future. With his extensive industry experience, Mr. Zhou, playing a pivotal management role and as a major shareholder of the Group, will be able to assist the Group in accelerating its business developments.

Prospects

The next few years will be Norstar's high-growth period. The Group will, on one hand, continue to expand its market share in North America and Europe, and on the other, actively develop the PRC and Japan markets. The Group has established business co-operations with internationally renowned auto parts enterprises which extend global coverage to the American, European, as well as the Japanese automobile markets.

As for product portfolio expansion, the Group has been developing automobile chassis system products with higher profit margins. This move allows the Group to better cope with the increasing demand from customers, enlarge its income stream and turnover base, as well as further improve its overall gross profit margin. The new products successfully developed by the Group or under development include the followings:

- Composite friction material — commenced operation in the second half of 2004
- Assembly of suspension system — production is expected to begin in the first half of 2005

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Prospects (Continued)

- Suspension system spare parts — expected to commence operation in the second half of the 2006 financial year
- Brake system spare parts — expected to commence operation in the second half of the 2006 financial year

As high quality auto parts manufacturers in the PRC continue to gain the confidence of international system integrators, and enjoy cost advantage over their overseas counterparts, the Group boasts obvious competitive edges in the international arena. The “China Auto Forum 2004” jointly held in September by the Group and the Hong Kong and Shanghai Banking Corporation was a big success. The aim of the forum was to deepen the understanding and recognition of the PRC’s automobile and automotive spare parts industry by the Hong Kong and international community. Its success testified to investors’ confidence in the future development of the automobile and automotive spare parts industry in the PRC. The management is confident about the Group’s long-term development.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the six months ended 30 September 2004, neither the Company nor any of its subsidiaries has purchased or redeemed any of the Company’s listed shares.

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 of HK\$0.1 each in the Company at a price of HK\$2.35 per share.

On 29 April 2004, the Company entered into a conditional subscription agreement with Ms Huang, a director of the Company. Under the conditional subscription agreement, the Company allotted 100,000,000 new ordinary shares of HK\$0.1 each in the Company to Ms Huang, at a price of HK\$2.35 per share.

PURCHASE, SALE OR REDEMPTION OF SECURITIES (Continued)

On 24 June 2004, a wholly-owned subsidiary of the Company 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 Beijing Norstar, a subsidiary of the Company. Being part of the consideration, 45,000,000 consideration shares were allotted at the issue price of HK\$2.35 per consideration share.

COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

In the opinion of the Directors, the Company was in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules since the listing of its shares on the Main Board of The Stock Exchange of Hong Kong Limited (“the Stock Exchange”)

MODEL CODE FOR SECURITIES TRANSACTION

The Company has adopted a code of conduct regarding securities transactions by officers of the Group on terms no less exacting than the Model Code for Securities Transactions by Directors of Listed Companies contained in Appendix 10 of the Listing Rules.

AUDIT COMMITTEE

The Company has established an audit committee in accordance with the requirements of the paragraph 14 of Code of Best Practice. The primary duties of the audit committee are to review and supervise the accounting principles and practices adopted by the Group, the financial reporting process and internal controls systems of the Group.

The audit committee comprises three independent non-executive directors, namely Mr. Choi Tat Ying, Mr. Wu Chao Ying and Ms. Zhang Xin. The audit committee held a meeting on 15 November 2004 to review the interim report of the Company and to give opinion and advice to the board of directors of the Company.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 September 2004, the interests and short positions of each director and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance (“SFO”)), as recorded in the register maintained by the Company under Section 352 of the SFO or as notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

Name of director	Number of shares			Approximate percentage of shareholding
	Personal Interest	Corporate	Total	
Ms. Lilly Huang	—	600,000,000(L)	600,000,000	61.54%
Mr. Zhou Tian Bao	5,874,000(L)	45,000,000(L)	50,874,000	5.22%

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

SHARES HELD BY SUBSTANTIAL SHAREHOLDERS

So far as is known to any Directors of the Company, as at 30 September 2004, other than the interests of the Directors of the Company as disclosed above, the following persons had interests in the Shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO, or was otherwise, as at 30 September 2004, interested in 5% or more of any class of the then issued share capital of the Company, or was otherwise, as at 30 September 2004, a substantial shareholder (as defined in Listing Rule) of the Company:

Name	Number of shares held	Percentage of issued shares
Century Founders Group Limited	600,000,000	61.54
Ms. Lilly Huang	600,000,000	61.54
Mr. Zhou Tian Bao	50,874,000	5.22
J.P. Morgan Chase & Co	164,650,000	16.89
Government of Singapore Investment Corporation Pte Ltd	56,342,000	5.78
Morgan Stanley	50,484,000	5.18

INTERIM DIVIDEND

The Board is pleased to declare an interim dividend of HK\$0.025 per ordinary share for the six months ended 30 September 2004. The dividend will be payable on 29 December 2004 to shareholders whose names appear on the Register of Members of the Company on 22 December 2004.

CLOSURE OF REGISTER OF MEMBERS

The Company's register of members will be closed from Monday 20 December 2004 to Wednesday 22 December 2004, both days inclusive, during which period no transfer of shares can be registered. In order to qualify for the proposed interim dividend, all transfers of shares accompanied by the relevant share certificates and the appropriate share transfer forms must be lodged with the Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-6, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:00p.m. on Friday 17 December 2004.

ACKNOWLEDGEMENT

The Directors would like to take this opportunity to express our sincere gratitude to our shareholders for their support and to our staff for their commitment and hard work during the period.

By Order of the Board

Zhou Tian Bao

Executive Director and Chief Executive Officer

15 November 2004

As at the date of this report, the executive Directors are (i) Ms. Lilly Huang, (ii) Mr. Zhou Tian Bao, (iii) Ms. Zhang Zhen Juan, (iv) Mr. Lee Cheuk Yin, Dannis and (v) Mr. Yang Bin and the independent non-executive Directors are (i) Mr. Choi Tat Ying, Jacky, (ii) Mr. Wu Chao Ying and (iii) Ms. Zhang Xin, Cindy.