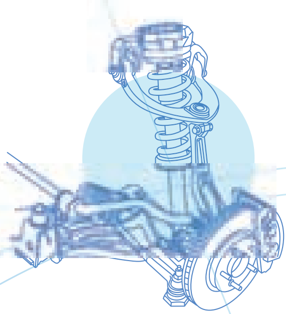
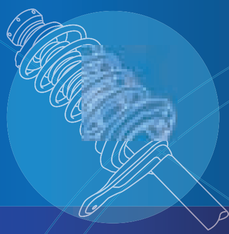
NORSTAR FOUNDERS GROUP LIMITED
北 泰 創 業 集 團 有 限 公 司

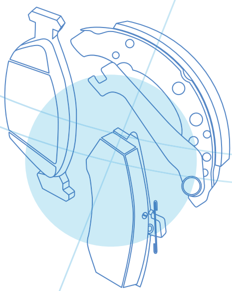




Building a world-class auto parts corporation

建立世界級汽車零部件企業

Interim Report 2005/2006
中期報告



Shareholders' enquiries

Any matters relating to your shareholding, such as transfer of shares, change of address, loss of share certificates, should be addressed to the Hong Kong Branch Registrar, contact details of which are set out as follows:

Computershare Hong Kong Investor Services Limited
Shop 1712 – 1716
17th Floor, Hopewell Centre
183 Queen's Road East
Wan Chai, Hong Kong
Tel: (852) 2862 8628
Fax: (852) 2865 0990

Financial highlights

		For the six months period ended 30 September		
		2005 (Unaudited)	2004 (Unaudited and restated)	Change %
Operating results				
Turnover	RMB'000	**1,249,466**	996,212	+25.4
Gross profit	RMB'000	**229,077**	167,280	+36.9
EBITDA	RMB'000	**196,159**	140,294	+39.8
Profit attributable to shareholders	RMB'000	**173,358**	125,713	+37.9
Ratio				
Gross profit margin	%	**18.3**	16.8	+9.2
Net profit margin	%	**13.9**	12.6	+9.9
Interest cover	times	**12.9**	13.1	-1.7
Current ratio	times	**3.0**	3.5	-14.6
Net debt / equity ratio	%	**12.1**	Not applicable	Not applicable
Share data				
Shares in issue	thousands	**975,000**	975,000	—
Share closing price (as at period end)	HK$	**2.25**	1.74	+29.3
Market capitalization	HK$'000	**2,193,750**	1,696,500	+29.3
Basic earnings per share	RMB cents	**17.78**	13.73	+29.5
Interim dividend per share	HK cents	**2.00**	2.50	-20.0
Net asset value per share	RMB	**1.65**	1.29	+27.3

Glossary

EBITDA = Earnings before net interest, tax, depreciation, amortisation and redemption premium of convertible bonds

$$\text{Gross profit margin} = \frac{\text{Gross profit}}{\text{Turnover}}$$

$$\text{Net profit margin} = \frac{\text{Profit attributable to shareholders}}{\text{Turnover}}$$

$$\text{Return on average shareholders' fund} = \frac{\text{Profit attributable to shareholders}}{\text{Average shareholders' fund}}$$

$$\text{Interest cover} = \frac{\text{Profit from operations}}{\text{Interest expenses}}$$

$$\text{Current ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}$$

$$\text{Net debt / equity ratio} = \frac{\text{Gross debt - cash and bank balances}}{\text{Shareholders' funds}}$$

Management discussion and analysis

Business and financial review

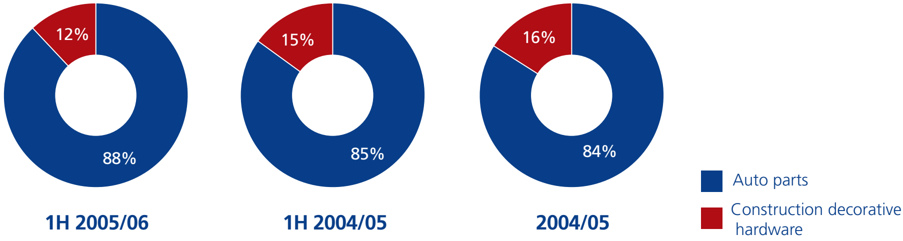
For the first six months of the financial year ended 31 March 2006 (the "Period"), the Group recorded a total turnover of approximately RMB1,249,466,000, representing a 25.4% increase from approximately RMB996,212,000 in the same period last year. Gross profit amounted to approximately RMB229,077,000, representing a 36.9% increase from approximately RMB167,280,000 in the same period last year. Taking into account the profit of the associated company, total profit attributable to shareholders was approximately RMB173,358,000, an increase of 37.9% from the same period last year's approximately RMB125,713,000 (restated). Excluding the amortization of redemption premium for the Group's issued convertible bonds, core earnings was approximately RMB181,132,000, 76.5% higher than last year's approximately RMB102,601,000 (excluding the write-back of over-provision of PRC enterprise income tax). Earnings per share were RMB0.1778, a rise of 29.5% compared with the same period last year.

The Board of Directors recommended the payment of an interim dividend of HK$0.02 per share for the Period payable to shareholders whose names appear on the Register of Members of the Company on 30 December 2005. It is the Board's intention to maintain the full year dividend of 20%-30% of its earnings.

During the review Period, the Group faced different challenges including slow automobile sales worldwide, appreciation of the RMB and increase in raw material cost. However, boasting products of premium quality, and benefiting from steady after market demand and the growing global outsourcing trend, the Group continued to record stable sales growth. The increasing utilization rate of the composite friction materials production line — which commenced production in September last year — also pushed up the sales of high value adding products. Furthermore, implementing stringent cost control measures, the Group was able to combat unfavorable market factors and managed a significant enhancement on its overall gross margin. During the Period, the Group's overall gross profit margin increased to 18.3%, an encouraging growth compared to 16.8% for the same period last year and 16.7% for the last financial year.

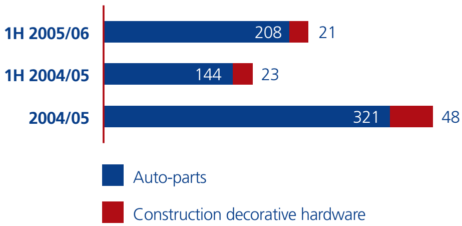
Business and financial review (continued)

Turnover – Business Segments



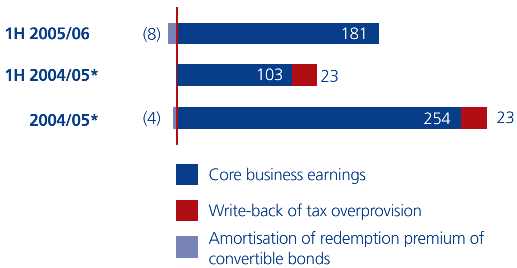
Gross Profit – Business Segments

(RMB million)



Profit Attributable to Shareholders

(RMB million)



* Restated

Auto parts

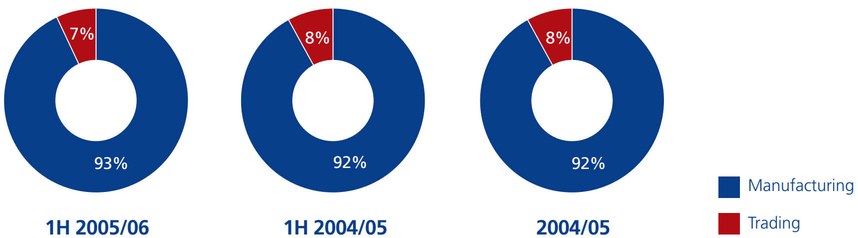
During the Period under review, sales of auto parts continued to be the core business of the Group with turnover amounted to approximately RMB1,098,340,000, representing a 30.2% increase from approximately RMB843,817,000 of the corresponding period last year. It accounted for approximately 87.9% of the Group's total turnover. The gross margin of auto parts increased to 18.9% for the Period from the 17.4% in financial year of 2004/05. Such remarkable growth was attributed to the increased utilization of the composite friction materials production line and improved customer recognition of the Group's high value-adding products.

In the Period under review, the turnover of the auto parts manufacturing business grew a substantial 32.6% to approximately RMB1,024,679,000 over the corresponding period last year, and accounted for approximately 93.3% of the total auto parts sales.

The Group's income from the trading of auto parts slightly rose 3.8% to approximately RMB73,661,000, accounting for 6.7% of the total turnover of auto parts.

During the Period under review, sales of high value-adding products, including disc brake pads and lined brake shoes, enjoyed notable growth boosting both the total turnover and profit margin of Group's auto parts business.

Auto Parts Turnover – Business Segments

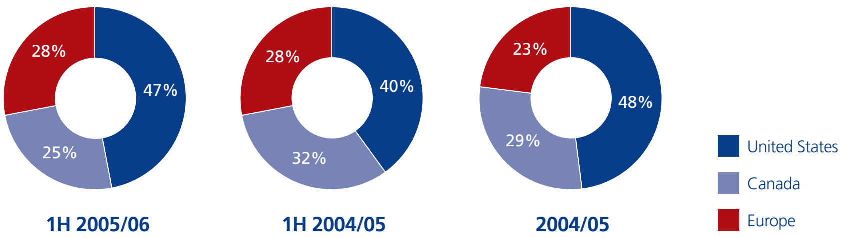


Auto parts (continued)

— Market analysis

During the Period under review, export was the Group's main focus. Its auto parts sales to the U.S, Canada and Europe accounted for similar proportions as in financial year of 2004/05. The U.S market continued to be the major market of the Group, accounting for approximately 46.6% of total auto parts sales, dollar sales achieved a rise of approximately 50.3% as compared with the same period last year, thanks to the landing of new customers and the increase in order size from existing customers. The sales of auto parts to Canada and Europe grew by respectively 3.7% and 31.3% as compared with the same period last year and accounted for 25.6% and 27.8% of the total auto parts sales.

Auto Parts Turnover – Geographical Segments



— Manufacturing business

In the Period under review, the turnover of the auto parts manufacturing business grew a substantial 32.6% to approximately RMB1,024,679,000 over the corresponding period last year, and accounted for approximately 93.3% of the total auto parts sales.

During the Period under review, the Group reported continual increase in sales of existing products. Brake shoes remained as the Group's core auto parts products, but its contribution to total turnover of auto parts manufacturing declined to 41.8% from 70.6% in the same period last year. The turnover from brake shoes in absolute term also declined 21.6%, attributable to the further processing of the product into lined brake shoes which commanded higher gross profit margin. During the Period, contribution of lined brake shoes to the total turnover of auto parts manufacturing increased from last year's 8.9% to 32.7% this year. It was the Group's second biggest contributor in terms of turnover. At present, disc brake pads and lined brake shoes together accounted for approximately 46% of the turnover of the Group's auto parts manufacturing business, which covers over 400 models. As for the sales of brake plates/shoes, those manufactured using fine blanking technology saw considerable growth during the Period. The Management believes increasing the sales of high value-adding products would enhance the overall sales and gross profit margin of the Group, and alleviate the impacts of any unfavorable factors, such as RMB appreciation, on the Group's operation.

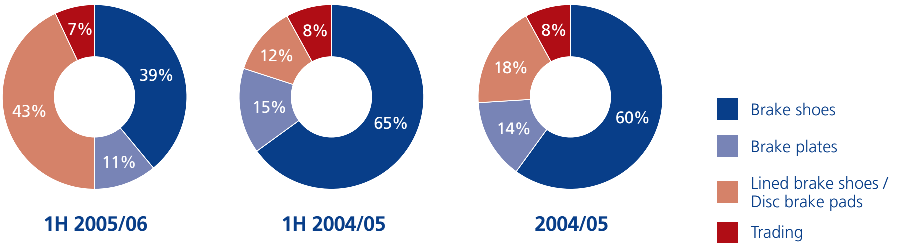
The existing utilization rate of the Group's brake plates/shoes production facilities exceeds 80%. The Management plans to increase the production capacity for brake plates/shoes by 15-20% in financial year of 2006/07 to capitalize on increasing customer demands.

Auto parts (continued)

— Manufacturing business

Since the composite friction materials production facilities commenced operation last September, the current annualised utilization has reached 67%. The Group expects the utilization rate to further increase to 75-80% in the second half of financial year of 2005/06, thereby bringing the average utilization rate to over 70%. The Management is currently looking into ways to raise the production capacity for composite friction materials in the next financial year.

Auto Parts Turnover – Products



— Trading business

Compared with the same period last year, income from trading of auto parts increased slightly by 3.8% to RMB73,661,000, accounting for approximately 6.7% of the total auto parts sales this year. During the Period, universal joints and transmission shafts were the major auto parts products sourced for customers. With the Group focusing on selling auto parts with higher margins, the sales of transmission shafts increased by over 18%; and that for universal joints more than doubled.

As the number of the Group's PRC trading partners increases, along with the establishment of close relationships with customers, the auto parts trading business will continue to achieve stable growth in the years ahead.

Construction decorative hardware

In the Period under review, construction decorative hardware products generated a turnover of approximately RMB151,126,000, representing approximately 12.1% of the Group's total turnover. During the Period, the Group focused on the sales of self-manufactured construction decorative hardware products only and no trading activities were undertaken. Excluding trading activities of construction decorative hardware products, the profit margin of construction decorative hardware products declined from 14.7% the whole of last year to 14.2% during the Period mainly due to the RMB appreciation.

Construction decorative hardware products continues to generate stable earnings to the Group. Since the Group's long-term focus is on developing its auto parts business, its strategic focus for this business segment will be to meet the existing customer demands.

Raw material costs

The Group's production cost structure had changed due to the change in product mix. During the Period, the average unit cost of steel accounted for 51% of the Group's total cost of production, a decline from 58% recorded in financial year of 2004/05. It was largely due to the increased demand for composite friction materials used for the production of disc brake pads and lined brake shoes. The total cost of friction materials accounted for approximately 17% of the total cost of production, compared to 7% recorded in financial year of 2004/05.

Even though the selling prices of steel has dropped gradually after peaking in April and May 2005, the Group's overall unit cost of steel increased by 3.8% compared with financial year of 2004/05. However, the Group's auto part manufacturing business was still able to maintain a notable increase in gross margin to 19.8% in the Period from 18.2% in financial year of 2004/05, due to the increase of sales of high value-adding products.

The Management believes with steel price stablilizing or even lowering, and the Group focusing on developing more higher profit margin products and applying stringent cost control, its profit margin will continue to improve.

Prospects

The automotive industry worldwide is facing unprecedented challenges. To cope with declining domestic demands, many countries in the West have started exploring business opportunities in overseas markets, leading to globalization of the automotive industry. Although the global automotive market is slowing down at large, individual markets — China for instance — are recording satisfactory growth. The PRC automotive market is expected to grow on average approximately 10-15% annually in the coming decade, much higher than other markets. Most international automotive enterprises have accordingly increased their investment in China. It is widely expected that China will become one of the world's three largest automotive manufacturers in the near future.

The high production costs in Europe and the U.S. have consistently been eating into the profits of the automotive and related industries such as the auto parts industry. Aiming to reduce overall production costs so as to maintain competitiveness in the global market, many automotive manufacturers have changed their mode of operation. They tend to reduce internal production of auto parts and source those necessary parts from top/second-tier suppliers instead. To further reduce their production costs, many enterprises even outsourced those labour and material intensive procedures to other low-cost regions. The change in operating environment, which has accelerated outsourcing activities, will benefit lower cost regions such as Mainland China.

With changing procurement practice in the global automotive market and the PRC government encouraging domestic auto parts manufacturers to develop their own core technologies to reduce the country's reliance on imported auto parts in the long run, the Group has been presented with abundant business opportunities. The management plans to fully explore opportunities in China market in the coming years. China is expected to follow North America and Europe to become another major market of the Group. Contribution from China is expected to account for approximately 20% of the Group's total turnover in 3 to 5 years.

To further capture business opportunities, the Group will continue to develop new products with higher profit margins and expand the production capacity for its existing products so as to capture bigger market share. These plans and their latest progress are as follows:

Prospects (continued)

— **Suspension system assembly**

The construction of the 30,000-square-meter new plant in the Beijing Economic and Technological Development Zone was completed during the Period. Its primary focus is on the assembly of suspension systems/shock absorbers, with the designed capacities of 60,000 sets of suspension systems and 750,000 pieces of shock absorbers. Currently, it is at the preliminary stage of commercial production. The suspension systems it produces targeted automobile manufacturers in China. The Group has already reached supply agreements with certain domestic automotive manufacturers. As for the shock absorbers, they will be sold to both domestic and overseas markets. Negotiations between the Group and certain system integration providers and international distributors regarding the supply agreements are progressing.

— **Expansion in production capacity of brake plates/shoes**

Currently, the annual production capacities of brake plates and brake shoes are 83,000,000 pieces and 40,000,000 pieces, respectively, with the annualised utilization rate at over 80%. The management plans to expand the production capacities by approximately 15-20% in the first half of financial year of 2006/07 to satisfy the continuously increasing market demands for the products.

— **Expansion in production capacity of composite friction material**

Regarding composite friction materials launched last September, the current annualised utilization rate approximated at 67%. The Group expected to achieve up to 75-80% utilization in the second half of financial year of 2005/06, bringing the average annual rate to over 70%. The management is looking into increasing the production capacity of this segment by financial year of 2006/07, so as to boost the sales of high value adding products and to cater for the continuously rising market needs for such products.

— **Suspension system parts**

The Group currently purchases parts for the assembly of suspension systems and shock absorbers from external manufacturers. With expansion of its Anhui plant completed, the management plans to manufacture some of the parts for suspension system/shock absorbers internally starting financial year of 2006/07. It will not only ensure a stable supply of quality components, but will also effectively raise the overall profit margin of the Group’s suspension system/shock absorbers business.

Prospects (continued)

— **Brake system sssembly**

The Group's existing products, disc brake pads/lined brake shoes are major components of brake system. The management plans to commerce brake system assembly in Anhui Plant in financial year of 2006/07, further strengthening the Group's position in the supply chain through vertical integration.

With various high value adding products in the pipeline, the Management believes the coming few years will see the Group achieve stable growth. For the Group's existing business, the order book for the third quarter in financial year of 2005/06 amounts to over RMB600 million (exchange rate: USD1=RMB8.1). It also exceeds the Group's average total turnover for the first 2 quarters of financial year of 2005/06. Orders for the disc brake pads/lined brake shoes accounted for over 55% of the order book for auto parts.

The Group will continue to strive to become a leading supplier and manufacturer of automobile chassis system parts in the global market.

Operating cost

The Group's total distribution and selling expenses rose 16% compared to the same period last year. Shipping cost accounted for 96.1% of the total distribution and selling expenses (2004: 95.5%). During the Period, sales with CIF terms increased to 20.7% compared to 8.9% for the same period last year. It also represented a slight increase from 19.8% for the full financial year of 2004/05.

Administrative expenses increased 56% year on year. Despite the significant surge as compared to the same period last year, the amount represented 54% of the full year total for financial year of 2004/05. While the Group used to assess the adequacy of staff welfare provisions during year ends, it has started to perform the assessment on a half-yearly basis in order to smoothen out inconsistencies in half-yearly results comparison. After stripping out the distortion as a result of staff welfare provisions, total administrative expenses increased by 27% year on year due mainly to a rising number of management personnel and adjustments for management salaries.

Other revenues

Other revenues rose 126.8% as compared to the same period last year. This was mainly attributable to higher interest income this year, the result of higher cash balances throughout the period. Sundry income is mainly represented by sales of scrap metals and waste materials.

Impact from RMB appreciation

The People's Bank of China announced on 21 July 2005 that the exchange rate of the US dollar against the RMB be adjusted to 8.11, translating to a 2% appreciation in RMB. Income derived by the Group is mainly denominated in US dollars while most of the purchases of the Group are denominated in RMB except for certain capital expenditures which are settled in US dollars. The appreciation in RMB has resulted in an exchange loss of over RMB5 millions with respect to the accounts receivable balance prior to the appreciation, and a decrease in the RMB equivalent of revenue amounting to approximately RMB14 millions subsequent to the appreciation.

The negative impact from RMB appreciation was however alleviated by foreign exchange gains resulted from revaluation of the Group's foreign currency loan portfolio, which comprised of both US dollar and HK dollar. All in all, the Group recorded a net exchange loss of approximately RMB937,000 for the period ended 30 September 2005.

The Group's financial position, liquidity and capital structure

As at 30 September 2005, the Group had net current assets of RMB927,843,000 as compared to RMB964,925,000 approximately as at 31 March 2005.

The average receivable turnover for the six months period ended 30 September 2005 was 50 days, compared to 45 days for the corresponding period last year. The proportion of exports to overseas customers through Shanghai Industrial Investment (Group) Co. Ltd. was reduced to 18.1% from 30.4% for the same period last year. Credit period for overseas customers generally range from 30 to 90 days. The average payable turnover for the period ended 30 September 2005 was 14 days compared to 8.2 days for the same period last year. The Group's average inventory turnover was 14 days, compared to 20 days for the corresponding six months last year.

During the period under review, the Group financed its operations from cashflow generated internally and bank loans. Total cashflow from operations amounted to RMB105,119,000 compared to RMB26,546,000 for the same period last year. Capital expenditure for the period amounted to RMB39,015,000. Total bank borrowings, which also included US dollar-denominated convertible bonds issued in December 2004, amounted to RMB875,173,000 (31 March 2005 (restated): approximately RMB958,191,000). The Group's net gearing, expressed as a percentage of total net borrowing to equity attributable to shareholders of the Company, was 12.1% (31 March 2005 (restated): 15.5%)

The Group's financial position, liquidity and capital structure (continued)

Net interest expenses amounted to RMB16,609,000 as compared to RMB12,446,000 for the same period last year. The increase was mainly attributable to the effective interest expense (redemption premium), a non-cash item, on the liability component of the convertible bonds in accordance with HKAS 39.

As at 30 September 2005, the Group's cash and bank balances were principally denominated in RMB and HK dollars, and the Group's bank borrowings were denominated in US dollars, HK dollars and RMB. Approximately 19% of the total bank borrowings as at 30 September 2005 bears fixed interest rates, with the remaining on a floating basis at prevailing market rates.

The Group's foreign currency loan portfolio has cushioned the Group from the negative impact resulted from RMB appreciation as discussed in the section "Impact from RMB appreciation". In order to strengthen the Group's hedging mechanism against potential impact from further RMB appreciation, the Group has signed a new US dollars-denominated syndication loan facility which amounted to US$96 million in November 2005.

Looking ahead, the Group will closely monitor and manage its currency and interest rate exposure, and will continue to strengthen its treasury management capability. Capital structure aside, the Group targets to increase its PRC sales to approximately 20% of the Group's total in the next 3 to 5 years, as the Group believes that natural hedging is the most efficient hedging mechanism.

Charge on assets

As at 30 September 2005, bank deposits of approximately RMB16,449,000 (31 March 2005: RMB16,631,000) were pledged as security for certain banking facilities of the Group.

Capital commitments and contingent liabilities

As at 30 September 2005, the Group's total capital commitments amounted to RMB246,305,000 compared to RMB122,915,000 as at 31 March 2005. There were no material contingent liabilities as at 30 September 2005 (31 March 2005: Nil).

Employees and remuneration policies

As at 30 September 2005, the Group had a total of more than 2,000 employees. Remuneration packages are determined by 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 Mandatory Provident Fund Scheme in Hong Kong and State-managed retirement benefit scheme in the PRC.

Condensed consolidated income statement

For the six months period ended 30 September 2005

(RMB'000)	Note	**2005 (Unaudited)**	2004 (Unaudited and restated)
Turnover	3	**1,249,466**	996,212
Cost of sales		**(1,020,389)**	(828,932)
Gross profit		**229,077**	167,280
Other revenues	3	**8,900**	3,925
Distribution and selling expenses		**(24,553)**	(21,236)
Administrative expenses		**(20,732)**	(13,301)
Profit from operations	4	**192,692**	136,668
Finance costs	5	**(26,468)**	(13,983)
		166,224	122,685
Share of profit of an associate		**21,536**	—
Profit before taxation		**187,760**	122,685
Taxation	6	**(14,402)**	13,406
Profit for the period		**173,358**	136,091
Attributable to:			
Shareholders of the Company		**173,358**	125,713
Minority interests		**—**	10,378
Profit for the period		**173,358**	136,091
Dividends	7	**20,280**	25,838
Earnings per share - basic	8	**RMB17.78 cents**	RMB13.73 cents

Condensed consolidated balance sheet

As at 30 September 2005

(RMB'000)		**30 September 2005 (Unaudited)**	31 March 2005 (Unaudited and restated)
Non-current assets			
Property, plant and equipment	9	**690,260**	660,209
Lease prepayment		**58,154**	58,778
Goodwill		**29,639**	29,639
Interest in an associate		**398,122**	206,539
		1,176,175	955,165
Current assets			
Inventories		**107,060**	32,846
Tax receivable		**66,591**	117,541
Trade and other receivables	10	**532,631**	515,912
Financial assets at fair value through profit or loss		**3,000**	—
Cash and bank balances		**680,584**	754,918
		1,389,866	1,421,217
Current liabilities			
Trade and other payables	11	**79,142**	99,171
Short-term borrowings	12	**166,224**	146,800
Non-current borrowings, current portion	13	**209,850**	203,633
Tax payable		**6,807**	6,688
		462,023	456,292
Net current assets		**927,843**	964,925
Total assets less current liabilities		**2,104,018**	1,920,090
Non-current liabilities			
Non-current borrowings	13	**170,382**	280,568
Convertible bonds	14	**328,717**	327,190
		499,099	607,758
		1,604,919	1,312,332
Financed by:			
Share capital	15	**103,350**	103,350
Reserves		**1,501,569**	1,208,982
Shareholders' funds		**1,604,919**	1,312,332

Condensed consolidated statement of changes in equity (unaudited)

For the six months period ended 30 September 2005

(RMB'000)	Share capital	Merger reserve (Reserve)	Share premium (Reserve)	Convertible bond equity component (Reserve)	Reserve fund (Reserve)	Enterprise expansion fund (Reserve)	Exchange reserve (Reserve)	Retained profits	Total
At 1 April 2005									
- As previously reported	**103,350**	**(299,310)**	**838,535**	**—**	**63,657**	**63,657**	**708**	**534,331**	**1,304,928**
- Effects of changes in accounting polices	**—**	**—**		**7,053**	**—**	**—**	**—**	**156,010**	**163,063**
- As restated	**103,350**	**(299,310)**	**838,535**	**7,053**	**63,657**	**63,657**	**708**	**690,341**	**1,467,991**
Profit for the period	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**173,358**	**173,358**
2005 Final dividend paid	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(46,069)**	**(46,069)**
Change in exchange rate	**—**	**—**	**—**	**—**	**—**	**—**	**9,639**	**—**	**9,639**
At 30 September 2005	**103,350**	**(299,310)**	**838,535**	**7,053**	**63,657**	**63,657**	**10,347**	**817,630**	**1,604,919**
At 1 April 2004	87,980	(299,310)	518,307	—	40,830	40,830	1,435	355,995	746,067
Issue of shares	10,600	—	238,500	—	—	—	—	—	249,100
Issue of consideration shares	4,770	—	87,768	—	—	—	—	—	92,538
Profit for the period (restated)	—	—	—	—	—	—	—	125,713	125,713
Share issue expenses	—	—	(6,040)	—	—	—	—	—	(6,040)
2004 Final dividend paid	—	—	—	—	—	—	—	(23,659)	(23,659)
Change in exchange rate	—	—	—	—	—	—	(168)	—	(168)
At 30 September 2004	103,350	(299,310)	838,535	—	40,830	40,830	1,267	458,049	1,183,551

Condensed consolidated cash flow statement

For the six months period ended 30 September 2005

(RMB'000)	**Six months period ended 30 September** **2005** ***(Unaudited)***	2004 *(Unaudited)*
Net cash inflow from operating activities	**105,119**	26,546
Net cash (outflow) from investing activities	**(42,014)**	(327,675)
Net cash (outflow)/inflow from financing activities	**(137,005)**	557,597
Net (decrease)/increase in cash and cash equivalents	**(73,900)**	256,468
Effect on foreign exchange rate changes	**(434)**	—
Cash and cash equivalents at 1 April	**754,918**	318,714
Cash and cash equivalents at 30 September	**680,584**	575,182
Balances of cash and cash equivalents represented by:		
Cash and bank balances	**680,584**	575,182
	680,584	575,182

Notes to the financial statements

For the six months period ended 30 September 2005

1. Basis of preparation

The condensed financial statements have been prepared in accordance with the application disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Hong Kong Accounting Standard 34 "Interim financial reporting " issued by the Hong Kong Institute of Certified Public Accountants (HKICPA).

2. Changes in accounting policies

The condensed financial statements have been prepared on historical cost basis, except for financial instruments which are measured at fair value, as appropriate. The accounting policies used in the condensed financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2005 except as described below.

In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRS"), Hong Kong Accounting Standards ("HKAS") and Interpretations ("INT") (hereinafter collectively referred to as "new HKFRS") issued by the HKICPA that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the income statement, balance sheet and the statement of changes in equity. In particular, the presentation of minority interests and share of tax of associates has been changed as required by HKAS 1 "Presentation of financial statements". The changes of the new HKFRSs have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current or prior accounting periods are prepared and presented:

Business combinations

In the current period, the Group has applied HKFRS 3, Business Combinations, which is effective for business combinations for which the agreement date is on or after 1 January 2005. The principal effects of the application of HKFRS to the Group are summarized below:

2. Changes in accounting policies (continued)

(i) Goodwill

In previous periods, goodwill arising on acquisition was capitalized and amortized over its estimated useful life. The Group has applied the relevant transitional provisions in HKFRS 3. With respect to goodwill previously capitalized on the consolidated balance sheet, the Group has discontinued amortizing such goodwill from 1 January 2005 onwards and goodwill will be tested for impairment at least annually. Goodwill arising on acquisition after 1 January 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition. As a result of this change in accounting policy, no amortization of goodwill has been charged in the current period. Comparative figures for 2004 have not been restated.

(ii) Excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities, and contingent liabilities over cost (previously known as "negative goodwill")

In accordance with HKFRS 3, any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition ("discounted on acquisition") is recognized immediately in profit or loss in the period in which the acquisition takes place. In previous periods, negative goodwill arising on acquisitions was presented as a deduction from assets and released to income based on an analysis of the circumstances from which the balance resulted. In accordance with the relevant transitional provisions in HKFRS 3, the Group has derecognized all negative goodwill at 1 January 2005, with a corresponding increase to retained earnings.

Financial instruments

In the current period, 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 recognize, derecognize or measure financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 32 and HKAS 39 are summarized below:

2. Changes in accounting policies (continued)

(i) Convertible bonds

HKSA 32 requires an issuer of a compound financial instrument (that contains both financial liability and equity components) to separate the compound financial instrument 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 amortized 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. Because HKAS 32 requires retrospective application, comparative figures have been restated. Comparative profit for 2004 has been restated in order to reflect the increase in effective interest on the liability component (see Note 2 (a) and 2(b) for the financial impact).

(ii) Financial assets at fair value through profit or loss

The Group classifies its investments as above depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designed by management. Assets are classified as current assets if they are either held for trading or are expected to be realized within 12 months of the balance sheet date.

Lease prepayments

In previous periods, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In the current period, the Group has applied HKAS 17 Lease. Under 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 lease payments under operating leases, which are carried at cost and amortized over the lease term on a straight-line basis. The change in accounting policy has been applied retrospectively (see Note 2(a) and 2 (b) for the financial impact).

2. Changes in accounting policies (continued)

(a) The effect of changes in the above accounting policies on the consolidated income statement are as follows:

	Effect of adopting			
(RMB'000)	HKAS 17	HKAS 32 & 39	HKFRS 3	Total effect on adoption of HKFRSs and HKASs
For the six months period ended 30 September, 2005 (unaudited)				
Increase/(decrease) in profit				
Decrease in depreciation	624	—	—	624
Increase in amortization of lease prepayment	(624)	—	—	(624)
Increase in finance costs	—	(1,222)	—	(1,222)
Total decrease in profit	—	(1,222)	—	(1,222)
Decrease in basic earnings per share (RMB cents)	—	(0.13)	—	(0.13)
For the six months period ended 30 September, 2004 (unaudited)				
Increase/(decrease) in profit				
Decrease in depreciation	464	—	—	464
Increase in amortization of lease prepayment	(464)	—	—	(464)
No change in profit	—	—	—	—

2. **Changes in accounting policies** (continued)

b) The effect of changes in the above accounting policies on the consolidated balance sheet are as follows:

	Effect of adopting			
(RMB'000)	HKAS 17	HKAS 32 & 39	HKFRS 3	Total effect on adoption of HKFRSs and HKASs
At 1 April, 2005 (audited and restated)				
Decrease in property, plant and equipment	(58,778)	—	—	(58,778)
Increase in lease prepayment	58,778	—	—	58,778
Derecognition of negative goodwill	—	—	(155,660)	(155,660)
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	—	(3,529)	—	(3,529)
Retained profits	—	350	155,660	156,010
At 30 September, 2005 (unaudited)				
Decrease in property, plant and equipment	(58,154)	—	—	(58,154)
Increase in lease prepayment	58,154	—	—	58,154
Derecogntion of negative goodwill	—	—	(155,660)	(155,660)
Recognition of equity component of convertible bonds	—	7,053	—	7,053
Decrease in other long term liabilities	—	(10,290)	—	(10,290)
Increase in convertible bonds	—	4,237	—	4,237
Effect on foreign exchange rate changes	—	(139)	—	(139)
Retained profits	—	(861)	155,660	154,799

3. Turnover, revenues and segment information

The Group is principally engaged in the manufacture and sale of auto parts and construction decorative hardware. The Group's turnover and revenues are as follows:

	Six months period ended 30 September	
	2005	2004
(RMB'000)	***(Unaudited)***	*(Unaudited)*
Turnover		
Auto parts	**1,098,340**	843,815
Construction decorative hardware	**151,126**	152,397
	1,249,466	996,212
Other revenues		
Interest income	**6,094**	1,295
Sundry income	**2,806**	2,630
	8,900	3,925
Total turnover and revenues	**1,258,366**	1,000,137

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 geographical location of customers.

Secondary reporting format - business segments

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

- Auto parts
- Construction decorative hardware

3. Turnover, revenues and segment information (continued)

(i) Primary reporting format - geographical segments

For the six months period ended 30 September 2005 (Unaudited)

(RMB'000)	United States	Canada	Europe	Total
Segment turnover	593,722	350,349	305,395	1,249,466
Segment results	108,957	66,401	53,719	229,077

For the six months period ended 30 September 2004 (Unaudited)

(RMB'000)	United States	Canada	Europe	Total
Segment turnover	425,042	338,973	232,197	996,212
Segment results	70,229	57,120	39,931	167,280

3. Turnover, revenues and segment information (continued)

(ii) Secondary reporting format - business segments

For the six months period ended 30 September 2005 (Unaudited)

(RMB'000)	Auto parts	Construction decorative hardware	Total
Turnover	1,098,340	151,126	1,249,466
Segment results	207,596	21,481	229,077
Interest income			6,094
Sundry income			2,806
Unallocated costs			(45,285)
Profit from operations			192,692

For the six months period ended 30 September 2004 (Unaudited)

(RMB'000)	Auto parts	Construction decorative hardware	Total
Turnover	843,815	152,397	996,212
Segment results	143,688	23,592	167,280
Interest income			1,295
Sundry income			2,630
Unallocated costs			(34,537)
Profit from operations			136,668

4. Profit from operations

Profit from operations has been arrived at after charging:

(RMB'000)	**Six months period ended 30 September** **2005** ***(Unaudited)***	2004 *(Unaudited)*
Staff costs	**22,838**	21,198
Amortization of goodwill	**—**	142
Depreciation of property, plant and equipment	**8,937**	4,779
Amortization of lease prepayment	**624**	—
Operating lease rentals in respect of:		
- Land and building	**1,926**	1,590
- Plant and machinery	**4,250**	4,250

5. Finance costs

(RMB'000)	**Six months period ended 30 September** **2005** ***(Unaudited)***	2004 *(Unaudited)*
Interest expenses on short term loans	**4,979**	8,121
Interest expenses on non-current borrowings	**8,844**	2,290
Finance lease charges	**1,106**	—
Redemption premium on convertible bonds	**7,774**	—
Discounting charges	**—**	3,330
Bank charges	**405**	375
Exchange loss/(gain)	**937**	(133)
Amortization of loan arrangement fees	**2,423**	—
	26,468	13,983

6. Taxation

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

(RMB'000)	**Six months period ended 30 September** **2005** ***(Unaudited)***	2004 *(Unaudited and restated)*
PRC enterprise income tax	**(14,402)**	(9,706)
Written-back of over-provision of PRC enterprise income tax in previous year	—	23,112
	(14,402)	13,406

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

In July 1999, the Group's PRC subsidiary, Norstar Automotive Industries, Inc. ("Norstar Automotive") changed its registration from Bengbu, Anhui province, the PRC to the Beijing Economic and Technological Development ("BETD") Zone. At the time when its registration was changed, Norstar Automotive had operated for less than 10 years since its establishment in Bengbu, Anhui province, the PRC hence, Norstar Automotive ceased to be entitled to the tax holiday granted by the Bengbu State Tax Bureau in Anhui province, the PRC and a tax provision had been made as Norstar Automotive became subject to the 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, Anhui province, in 2004, Norstar Automotive was exempted from the 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 last corresponding financial period.

(a) Deferred taxation

As at 30 September 2004 and 2005 respectively, no provision for deferred tax has been recognised in the financial statements as there have been no material temporary differences for tax purposes.

6. **Taxation** (continued)

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

Reconciliation between tax expense/(income) and accounting profit at applicable tax rate:

(RMB'000)	**Six months period ended 30 September** **2005** ***(Unaudited)***	2004 *(Unaudited and restated)*
Profit before tax	**166,224**	122,685
Tax at the applicable tax rate	**12,467**	9,201
Tax effect of expenses that are not deductible in determining taxable profit	**1,935**	—
Tax effect of unrecognized tax losses	**—**	505
Write-back of over-provision of PRC enterprise income tax in previous years	**—**	(23,112)
Tax expense/(income) and effective tax rate for the period	**14,402**	(13,406)

7. Dividends

(RMB'000)	Six months period ended 30 September 2005 (Unaudited)	2004 (Unaudited)
2005 Final, paid of HK$0.045 per ordinary share	**46,069**	23,659
Interim, proposed of HK$0.020 per ordinary share	**20,280**	25,838
	66,349	49,497

At a meeting of board of directors held 17 November 2005, an interim dividend of HK$0.020 per ordinary share has been declared by the directors for the year ended 31 March 2006. 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 ended 31 March 2006.

8. Earnings per share

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

	Six months period ended 30 September 2005 (Unaudited)	2004 (Unaudited and restated)
Earnings *(RMB'000)*		
Earnings for the purpose of calculating basic earnings per share	**173,358**	125,713
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**975,000,000**	915,409,836

The computation of earnings per share does not assume the conversion of convertible bonds since the conversion price of the Company's convertible bonds was higher than the average market price of the shares of the Company throughout the six months period ended 30 September 2005. No diluted earnings per share is presented as there were no potential dilutive ordinary shares in issue during the six months period ended 30 September 2005 and 2004.

9. Property, plant and equipment

(RMB'000)	***(Unaudited and restated)***
Net book value at 1 April 2005	660,209
Additions	39,015
Depreciation	(8,937)
Exchange difference	(27)
Net book value at 30 September 2005	690,260

10. Trade and other receivables

(RMB'000)	**30 September 2005 *(Unaudited)***	31 March 2005 *(Audited)*
Trade receivables	**384,441**	304,564
Prepayments and other receivables	**144,420**	207,417
Due from related companies	**3,770**	3,931
	532,631	515,912

Aging analysis of trade receivables is as follows :

(RMB'000)	**30 September 2005 *(Unaudited)***	31 March 2005 *(Audited)*
0 – 90 days	**383,832**	304,564
91 – 180 days	**609**	—
181 – 365 days	**—**	—
	384,441	304,564

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

11. Trade and other payables

(RMB'000)	**30 September 2005 (Unaudited)**	31 March 2005 (Audited)
Trade payables	**20,909**	63,156
Accruals and other payables	**39,395**	32,716
Due to shareholders	**11,828**	—
Due to a related company	**106**	106
Due to directors	**6,904**	3,193
	79,142	99,171

Aging analysis of trade payables is as follows :

(RMB'000)	**30 September 2005 (Unaudited)**	31 March 2005 (Audited)
0 – 90 days	**8,669**	57,038
91 – 180 days	**3,605**	5,615
181 – 365 days	**8,323**	—
Over 1 year	**312**	503
	20,909	63,156

12. Short-term borrowings

(RMB'000)	**30 September 2005 (Unaudited)**	31 March 2005 (Audited)
Wholly repayable within one year	**166,224**	146,800

The short-term borrowings were borrowed from banks in the PRC and Hong Kong. The short-term borrowing in the PRC was guaranteed by a related party and bore interest at 5.86% per annum (31 March 2005 : 5.8% per annum).

13. Non-current borrowings

(RMB'000)	**30 September 2005 (Unaudited)**	31 March 2005 (Audited)
Interest bearing borrowings		
Bank loans – unsecured	**346,898**	443,080
Obligations under finance lease	**33,334**	41,121
	380,232	484,201
Current portion of non-current borrowings	**(209,850)**	(203,633)
	170,382	280,568

14. Convertible bonds

On 16 December 2004, the Company issued US$40 million worth of zero coupon Convertible Bonds which will be due on 16 December 2007. The bonds are convertible, at the option of their holders, into ordinary shares of the Company, par value HK$0.10 per share each in the issued share capital of the Company at an initial conversion price of HK$2.70 per share at any time on or after 15 June 2005 and prior to 6 December 2007. Unless previously redeemed, convertible or purchased and cancelled, these bonds will be redeemed in US dollars at 112.4864% of their principal amount on 16 December 2007.

15. Share capital

	Number of shares	**Ordinary share capital**	
	In millions	***HK$'000***	***RMB'000***
Authorized :			
At 1 April and 30 September 2005	5,000	500,000	530,000
Issued and fully paid :			
At 1 April and 30 September 2005	975	97,500	103,350

16. Capital commitments

(RMB'000)	**30 September 2005 *(Unaudited)***	31 March 2005 *(Audited)*
Contracted but not provided for		
- Purchases of plant and machineries	**225,581**	84,931
- Construction in progress	**20,724**	37,984
	246,305	122,915

17. Operating lease commitments

At 30 September 2005, 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 building and machinery and equipment as follows :

(RMB'000)	**30 September 2005 *(Unaudited)***	31 March 2005 *(Audited)*
Within one year	**10,800**	6,875
After one year but within five years	**41,279**	9,200
After five years	**—**	958
	52,079	17,033

17. Operating lease commitments (continued)

The Group also had outstanding commitments for future minimum lease payments under non-cancellable operating leases in respect of its office premises and staff quarters located in PRC and Hong Kong as follows :

(RMB'000)	**30 September 2005 *(Unaudited)***	31 March 2005 *(Audited)*
Within one year	**1,650**	1,321
After one year but within five years	**741**	768
	2,391	2,089

18. Related party transactions

During the six months period ended 30 September 2005, the Group's significant related party transactions as summarized below :

	Six months period ended 30 September	
(RMB'000)	**2005 *(Unaudited)***	2004 *(Unaudited)*
Rental for office building, manufacturing premises and plant and machinery paid to AITC (Note a)	**5,400**	5,400
Rental for office building and staff quarters paid to related Companies (Note b)	**567**	—

Notes :

(a) Pursuant to lease agreements entered into between Norstar Automotive Industries Inc. ("Norstar Automotive") and AITC, AITC has leased to Norstar Automotive certain office building, manufacturing premises and plant and machinery. AITC, a company established in the PRC, is jointly owned and managed by Mr. Zhou Tian Bao, a director of the Company, and his spouse. During the six months period ended 30 September 2005, the rental paid for leased office building, and manufacturing premises and plant and machinery were RMB1,150,000 and RMB4,250,000 respectively.

18. Related party transactions (continued)

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

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

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

19. Contingent liabilities

At 30 September 2005, the Group had no significant contingent liabilities (31 March 2005 : Nil (as restated)).

20. Comparative figures

Certain comparative figures have been reclassified to conform to the current period's presentation.

21. Event after post balance sheet date

On 14 November 2005, the Group signed a new syndication loan facility amounting to US$96 million. The proceeds of the facility will be used for capital expenditure, working capital of the Group and the repayment and/or prepayment of existing loan facilities of the Group.

Interests of directors and chief executive

As at 30 September 2005, the interests and short positions of each director and the 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 of Hong Kong (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows :

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

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

Notes :

(1) The shares are held by Century Founders Group Limited in which Ms. Lilly Huang owns 63% of the interests.

(2) Mr. Zhou Tian Bao is interested and deemed to be interested in an aggregate of 653,832,000 shares in the Company. These shares are held in the following capacities:

i) 8,832,000 shares are held in his personal name.

ii) 45,000,000 shares are held by Mark Up Investments Limited which is a company wholly-owned by Mr. Zhou Tian Bao.

iii) 600,000,000 shares are held by Century Founders Group Limited in which 37% interest is owned by Mark Up Investments Limited.

Save as disclosed above, none of directors and the chief executive of the Company was interested or had any short position in any shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the SFO) as at 30 September 2005.

Interests of substantial shareholders

So far as is known to the directors of the Company, as at 30 September 2005, other than the interests of the directors of the Company as disclosed above, the following persons had interests in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO, or was otherwise, as at 30 September 2005, interested in 5% or more of any class of the then issued share capital of the Company, or was otherwise, as at 30 September 2005, a substantial shareholder (as defined in Listing Rules) of the Company :

Name of shareholder	Number of shares held	Approximate percentage of shareholding
Century Founders Group Limited *(Note)*	600,000,000 (L)	61.54%
Mark Up Investments Limited	645,000,000 (L)	66.15%

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

Note : Century Founders Group Limited owns 600,000,000 shares. Ms. Lilly Huang owns 63% of the interests in Century Founders Group Limited and the remaining 37% interest is owned by Mark Up Investments Limited, a company wholly-owned by Mr. Zhou Tian Bao.

Save as disclosed above and so far as the directors are aware, as at 30 September 2005, no other person (other than the directors of the Company) had an interest or short position in the Company's shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO and as recorded in the register required to be kept under Section 336 of the SFO, or was otherwise a substantial shareholder of the Company.

Arrangements to acquire shares or debentures

Save as disclosed above, at no time during the six month period ended 30 September 2005 was the Company, its subsidiaries or its associated company, a party to any arrangement to enable the directors and the chief executive of the Company (including their spouse and children under 18 years of age) to acquire benefits by an acquisition of shares or underlying shares in, or debentures of, the Company or its associated company.

Share option scheme

The Company has a share option scheme which was adopted on 4 September 2003 whereby the directors of the Company are authorized, at their discretion, to invite, inter alias, employees of the Group, including directors of any company in the Group, to take up options to subscribe for shares of the Company. Since the adoption of the share option scheme, no option has been granted.

Purchase, sale or redemption of securities

There was no purchase, sale or redemption of the Company's shares by the Company or any of its subsidiaries during six month period ended 30 September 2005.

Audit committee

The Audit Committee is composed of three independent non-executive directors, Mr. Choi Tat Ying, Jacky (Chairman), Mr. Wu Chao Ying and Ms. Zhang Xin, Cindy. The Audit Committee has reviewed with the Group's management the accounting policies and practice adopted by the Group and discussed internal controls and financial reporting matters, including a review of the unaudited interim financial statements for the six month period ended 30 September 2005.

Remuneration committee

The Remuneration Committee was established on 19 August 2005 in accordance with the requirements of the Code on Corporate Governance Practices of the Listing Rules. The Remuneration Committee is composed of three independent non-executive directors, Mr. Choi Tat Ying, Jacky (Chairman), Mr. Wu Chao Ying, Ms. Zhang Xin, Cindy, and one non-executive director, Mr. Lee Cheuk Yin, Dannis.

Nomination committee

The Nomination Committee was established on 19 August 2005 in accordance with the recommendation of the Code on Corporate Governance Practices of the Listing Rules. The Nomination Committee is composed of one non-executive director, Mr. Lee Cheuk Yin, Dannis (Chairman) and three independent non-executive directors, Mr. Choi Tat Ying, Jacky, Mr. Wu Chao Ying and Ms. Zhang Xin, Cindy.

Compliance with the code on corporate govenance practices of the Listing Rules

None of the directors of the Company is aware of any information which would reasonably indicate that the Company is not, or was not for any part of the six months period ended 30 September 2005, in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules.

Model code for securities transactions

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. Following specific enquiry by the Company, all directors confirmed that they have complied with the required standards set out in the Model Code throughout the period under review.

Interim dividend

The Board is pleased to declare the payment of an interim dividend of HK$0.020 (2004: HK$0.025) per share for the six month period ended 30 September 2005. The dividend will be payable on 16 January 2006 to shareholders whose names appear on the Register of Members of the Company on 30 December 2005.

Closure of register of members

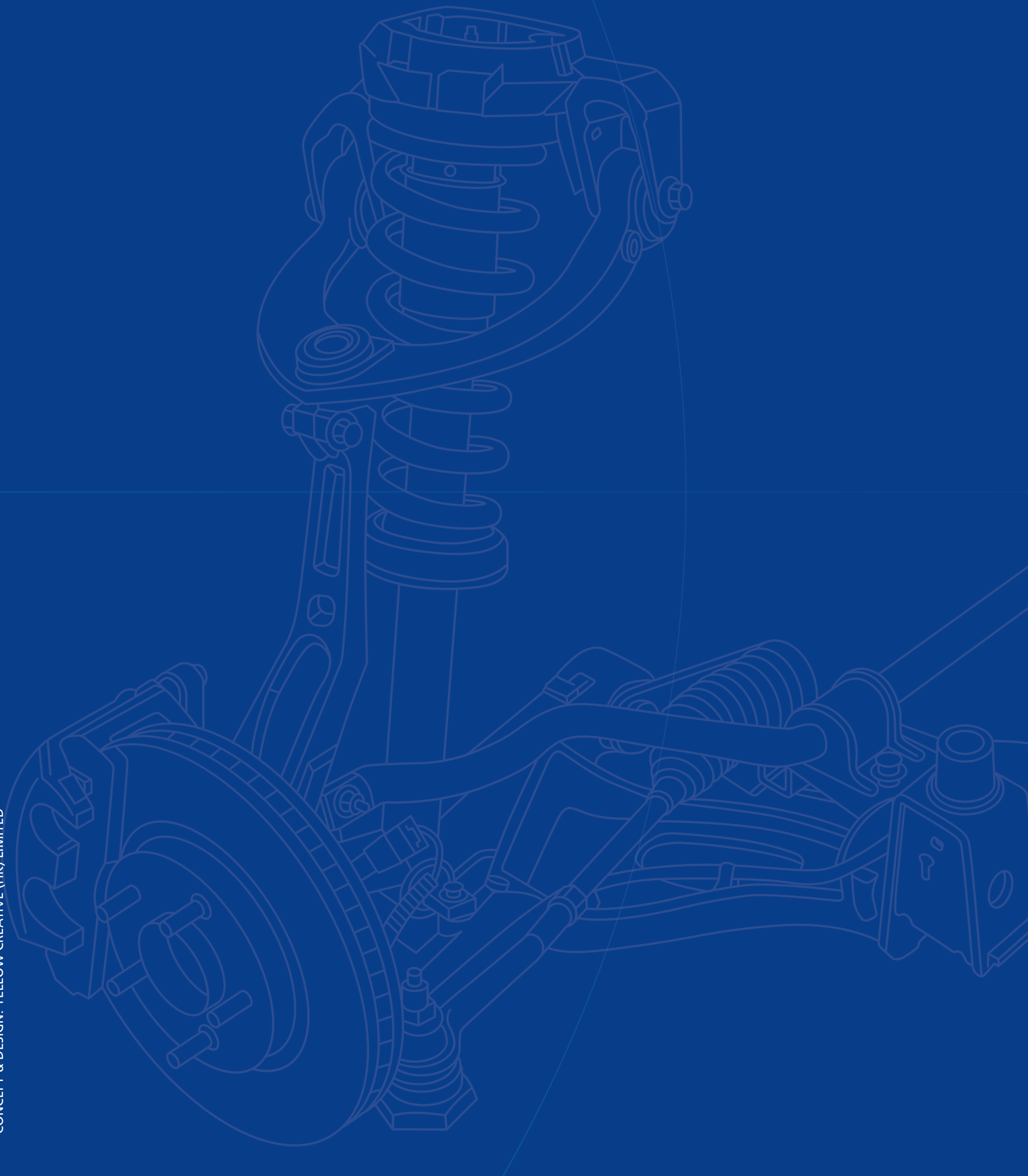
The Company's register of members will be closed from 30 December 2005 to 3 January 2006, both days inclusive, during which period no transfer of shares can be registered. In order to qualify for the interim dividend, all transfers of shares accompanied by the relevant share certificates and the appropriate share transfer forms must be lodged with the Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shop 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:00 p.m. on 29 December 2005.

On behalf of the Board
Norstar Founders Group Limited
Lilly Huang
Chairman

Hong Kong, 21 November 2005

The directors of the Company as at the date of this report are as follows:

Ms. Lilly Huang	Executive Director and Chairman
Mr. Zhou Tian Bao	Executive Director and Chief Executive Officer
Ms. Zhang Zhen Juan	Executive Director
Mr. Yang Bin	Executive Director
Mr. Dai Wei	Executive Director
Mr. Chen Xiang Dong	Executive Director
Mr. Lee Cheuk Yin, Dannis	Non-executive Director
Mr. Choi Tat Ying, Jacky	Independent Non-executive Director
Mr. Wu Chao Ying	Independent Non-executive Director
Ms. Zhang Xin, Cindy	Independent Non-executive Director



CONCEPT & DESIGN: YELLOW CREATIVE (HK) LIMITED

Norstar Founders Group Limited
16/F, Tower II, Admiralty Centre,
18 Harcourt Road, Admiralty, Hong Kong

北泰創業集團有限公司
香港金鐘夏慤道18號海富中心2座16樓

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