Norstar Founders Group Limited

Stock Code: 2339

# A Great Leap Forward

## Interim Report 2006 / 2007

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# Corporate Information

## Executive Directors
Ms. Lilly Huang (Chairman)
Mr. Zhou Tian Bao
Ms. Zhang Zhen Juan
Mr. Yang Bin
Mr. Dai Wei
Mr. Chen Xiang Dong

## Non-Executive Director
Mr. Lee Cheuk Yin, Dannis

## Independent Non-Executive Directors
Mr. Choi Tat Ying, Jacky
Ms. Zhang Xin, Cindy
Mr. Zhang Jian Chun

## Company Secretary
Ms. Fung Ka Wai, Elina

## Audit Committee
Mr. Choi Tat Ying, Jacky (Chairman)
Ms. Zhang Xin, Cindy
Mr. Zhang Jian Chun

## Remuneration Committee
Mr. Choi Tat Ying, Jacky (Chairman)
Ms. Zhang Xin, Cindy
Mr. Zhang Jian Chun
Mr. Lee Cheuk Yin, Dannis

## Nomination Committee
Mr. Lee Cheuk Yin, Dannis (Chairman)
Mr. Choi Tat Ying, Jacky
Ms. Zhang Xin, Cindy
Mr. Zhang Jian Chun

## Auditor
RSM Nelson Wheeler

## Principal Bankers
The Hong Kong and Shanghai Banking Corporation Limited
Bank of Tokyo-Mitsubishi UFJ Limited
Hang Seng Bank Limited
Sumitomo Mitsui Banking Corporation
DBS Bank (Hong Kong) Limited
Banca di Roma
KBC Bank N.V.
Sanpaolo Imi S.p.A.
Oversea-Chinese Banking Corporation Limited
Wing Hang Bank Limited
Hua Xia Bank

## Public Relations Consultant
Strategic Financial Relations Limited
Unit A, 29th Floor, Tower I, Admiralty Centre
18 Harcourt Road
Admiralty
Hong Kong
Website : www.strategic.com.hk

## Principal Share Registrar and Transfer Office
Bank of Bermuda (Cayman) Limited
P.O. Box 513 GT
Strathvale House
North Church Street, George Town
Grand Cayman, Cayman Islands
British West Indies

## Hong Kong Branch Share Registrar and Transfer Office
Computershare Hong Kong Investor Services Limited
Shop 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wan Chai
Hong Kong

## Registered Office
Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681 GT
George Town
Grand Cayman
British West Indies

## Head Office and Principal Place of Business In Hong Kong
19th Floor Tower II Admiralty Centre
18 Harcourt Road
Admiralty
Hong Kong

## Stock Code
HKEx : 2339

## Website
www.norstar.com.hk

# Financial Highlights

| | | For the six months ended 30 September | | |
|---|---|---|---|---|
| | | **2006 (unaudited)** | 2005 (unaudited) | Change % |
| **Operating results** | | | | |
| Turnover | RMB'000 | **1,635,944** | 1,249,466 | +30.9 |
| Gross profit | RMB'000 | **287,519** | 229,077 | +25.5 |
| EBITDA | RMB'000 | **244,225** | 195,222 | +25.1 |
| Profit attributable to shareholders | RMB'000 | **192,790** | 173,358 | +11.2 |
| **Ratio** | | | | |
| Gross profit margin | % | **17.6** | 18.3 | -4.1 |
| Net profit margin | % | **11.8** | 13.9 | -15.1 |
| Interest cover | times | **7.4** | 12.8 | -42.7 |
| Current ratio | times | **4.1** | 3.0 | +37.6 |
| Net debt / equity ratio | % | **Net cash** | 12.1 | Not applicable |
| **Share data** | | | | |
| Shares in issue | thousands | **1,248,130** | 975,000 | +28.0 |
| Share closing price (as at period end) | HK$ | **2.59** | 2.25 | +15.1 |
| Market capitalization | HK$'000 | **3,232,658** | 2,193,750 | +47.4 |
| Basic earnings per share | RMB cents | **15.85** | 17.78 | -10.8 |
| Interim dividend per share | HK cents | **2.20** | 2.00 | +10.0 |
| Net asset value per share | RMB | **2.22** | 1.65 | +34.8 |

## Glossary

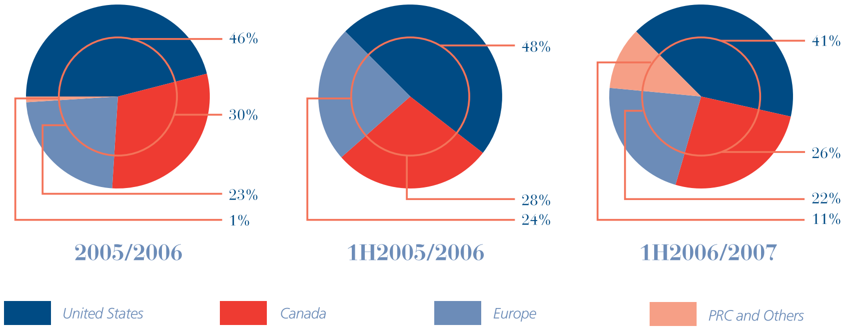
EBITDA = Earnings before associate, interest, tax, depreciation and amortisation

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

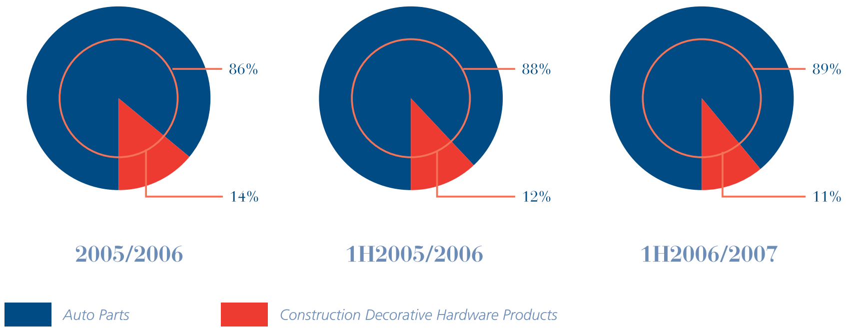
$$\text{Interest cover} = \frac{\text{Profit from operations}}{\text{Interest expenses}} \qquad \text{Current ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}$$

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

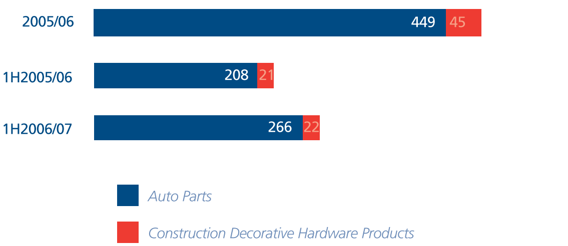
## Group turnover by geographical location




## Group turnover by sector




## Gross profit by sector
(RMB million)



# Management Discussion and Analysis

## Business and Financial Review

For the six months ended 30 September 2006 (the "Period"), the Group recorded a turnover of approximately RMB1,635,944,000, representing a 30.9% increase from approximately RMB1,249,466,000 in the same period last year. Gross profit amounted to approximately RMB287,519,000, representing a 25.5% increase from approximately RMB229,077,000 in the same period last year.

Together with the profit of the associated company, profit attributable to shareholders was approximately RMB192,790,000, an increase of 11.2% from last year's approximately RMB173,358,000. Earnings per share were RMB0.1585, 10.8% lower than in the same period last year due to dilutive effective from conversion of convertible bonds into ordinary shares since 2006 and placement of new shares in April 2006.

The Board of Directors recommended the payment of an interim dividend of HK$0.022 per share for the Period payable to shareholders whose names appear on the Register of Members of the Company on 6 December 2006. The Board intends to maintain the full year dividend of 20%-30% of its earnings.

During the Period, the appreciation of the RMB and a high interest rate environment continued to pose challenges to the Group. Nevertheless, with a booming demand for quality auto parts in China, steady global after market demand and increased outsourcing in China from global automobile manufacturers, the Group continued to record stable sales growth. The full operation of the Beijing suspension system/axle module and shock absorber assembly lines also pushed up the sales of high value products, marking the Group's success in moving up the auto parts manufacturing value chain.

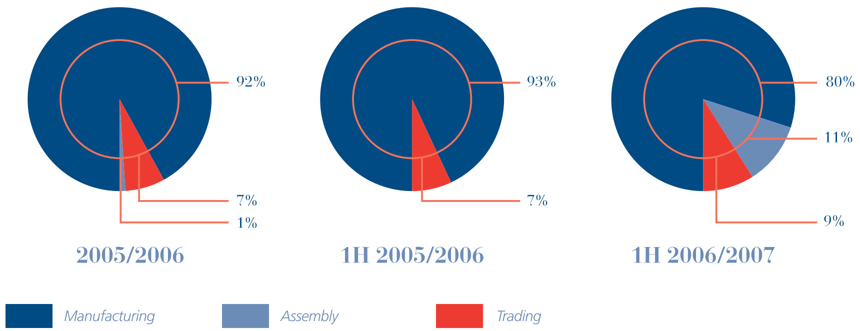
The Group's overall gross profit margin was 17.6%, as compared to 18.3% for the same period last year. During the Period, as the Group started the suspension system/axle module and shock absorber assembly businesses which delivered a relatively lower profit margin, the Group's overall profit margin was affected. However, once the Group commences full operation of the manufacturing of core suspension system parts and brake systems to be used in the assembly lines, along with rising economies of scale via ongoing capacity expansion, overall profit margins are expected to resume a rising trend.

## Auto Parts

During the Period, sales of auto parts continued to be the core business of the Group with turnover amounted to approximately RMB1,456,536,000, representing a 32.6% increase from approximately RMB1,098,340,000 in the corresponding period last year. It accounted for approximately 89.0% of the Group's total turnover. The growth was mainly attributable to the increased demand for the Group's high value-added products as well as the Group's ability to satisfy such demand.

During the period under review, sales of suspension systems/axle modules and shock absorbers have become the major driver for the group's turnover growth. It also represents a major milestone towards the Group's transformation into a system integrator and its entry into the OE market. Sales of other high value-added products, including disc brake pads and lined brake shoes, also enjoyed notable growth during the period.

**Auto parts turnover by sector**



## Auto Parts continued

### – Suspension system assembly

The Group commenced its assembly operation for suspension systems in the Beijing Economic-Technology Development Area ("BETD") in October 2005. The Group has secured sizeable orders from over ten OEM customers in China since then. In April 2006, the Group further won a major order from Beijing Benz-Daimler Chrysler Automotive Co. Ltd ("BBDC") to provide suspension systems and axle modules for Jeep 2500, Mitsubishi Outlander, Mitsubishi Pajero Sport, Grand Cherokee, Military Truck, police vehicles etc.

Anticipating current year's order book to exceed the designed capacity for suspension systems/axle modules, particularly after the Group landed a major order from BBDC, the Group has successfully increased its capacity to 120,000 sets in July 2006. During the period, sales of suspension systems/axle modules and shock absorbers amounted to approximately RMB158,861,000, and accounted for 10.9% of the Group's auto parts turnover. Annualised utilization rates have grown beyond 67.0% for suspension systems/ axle modules and shock absorbers, compared to less than 20.0% recorded for FY2005/ 06. As production utilization picks up and along with the sale of more high-value product models, average gross profit margin for suspension systems/axle modules and shock absorbers has improved from 10.1% for FY2005/06 to 13.2% during the period.

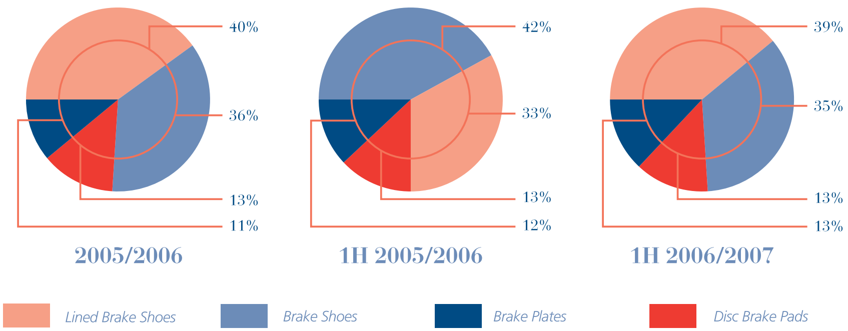
Although the sole assembly business has caused a temporary drop in blended gross profit margin for the Group as a whole, the development, however, represents a major step towards the Group's goal of becoming a world-class auto parts manufacturer and system integrator in the long run. As the Group continues to expand the capacity of suspension systems/axle modules - expected to achieve 400,000 sets by FY2010/11, and its plan to commence in-house manufacturing of core suspension system parts and brake systems in the near future, profit margins for suspension systems/axle modules are set to improve.

## Auto Parts continued

### – Manufacturing business

During the period under review, turnover of auto parts manufacturing business grew 13.3% over that in the corresponding period last year to approximately RMB1,161,414,000, and accounted for approximately 79.7% of the total auto parts sales.

**Auto parts manufacturing turnover by product**




Sales of disc brake pads and lined brake shoes continued to increase significantly by 12.0% and 34.2% respectively, accounting for approximately 52.0% of the total turnover generated from auto parts manufacturing business. This was mainly the result of increased average annualized utilization rates to 83.6% from approximately 67.0% in the corresponding period last year. Total contribution from sales of brake plates and brake shoes ("the steel backings") declined to 48.0% from 53.9% in the same period last year, as the bulk of steel backings were being used to produce higher-margin disc brake pads and lined brake shoes by adding to them composite friction materials.

During the period under review, disc brake pads and lined brake shoes continued to generate the highest gross profit margins among the Group's products. In order to further explore the development opportunities for such high-margin business, the Group entered into a Technology License and Technology Transfer agreement with leading global auto parts manufacturer, Delphi Technologies, Inc. ("Delphi") in September 2006. The engagement will provide the Group access to the new technologies that will enhance the Group's friction material production capabilities, as well as enable the Group to enter the mainstream automobile OE system manufacturing market by supplying friction materials for leading automobile manufacturers around the world.

## Auto Parts continued

### – Trading business

Compared with the same period last year, income from trading of auto parts surged 85.0% to RMB136,260,000, accounting for approximately 9.4% of the total turnover of the Group's auto parts business. During the Period, universal joints and transmission shafts were the major auto parts products sourced for customers. Sales of transmission shafts increased by over 82.3%, as the Group has added an increasing number of suppliers to cater for rising needs from its customers.

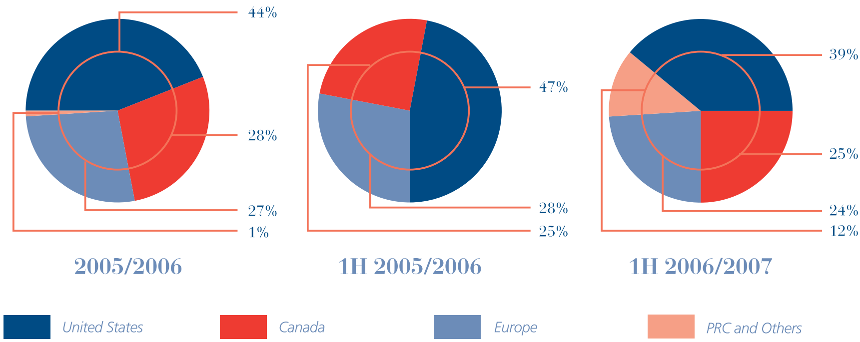
Riding on its extensive procurement network in China, the Group will continue to source high quality products from domestic suppliers to meet the booming outsourcing needs from customers. The Group expects its trading business to maintain its growth momentum for the rest of the financial year.

### – Market analysis

Following the Group's efforts to expand into higher-value products for the PRC market, the Group started sales of suspension systems/axle modules and shock absorbers to domestic automobile manufacturers in 2005. As such, revenue from China grew rapidly during the period and accounted for 11.9% of the Group's total auto parts turnover. It is the Group's intention to raise domestic sales to over 30% in the coming 3 to 5 years.

The U.S market continued to be the major market of the Group, accounting for approximately 38.7% of total auto parts sales. Sales to Canada and Europe continued to see promising growth during the period, and accounted for 25.1% and 24.2% of the total auto parts sales respectively.

**Auto parts turnover by geograhical location**



## Construction Decorative Hardware

During the period under review, despite an 18.7% yoy growth in total sales of construction decorative hardware products, its contribution to the Group's total turnover has shrunk from 12.1% during the same period last year to 11.0% this period.

As the Group's long-term mission is to focus on developing its core auto parts business, its strategic focus for this business segment will be to meet the existing customer demands. The Group expects construction decorative hardware products to continue generating stable earnings to the Group.

## Manufacturing Costs

The Group's efforts to alter its product mix had resulted in the change of its cost structure. During the Period, the cost of steel accounted for 37.9% of the Group's total cost of production, a decline from 51.0% in the same period last year. Total costs for parts and components used in the suspension assembly business accounted for 10.6% of the total cost of production. Cost of friction materials, which contributed around 17.0% of the total in the same period last year, accounted for approximately 19.2% of the total during this period. Industrial chemicals, which are mainly used for surface finishing and electroplating, accounted for approximately 17.2% of the total cost of production.

Average unit steel cost declined by 5.0% and 3.6% compared to the same period last year and FY2005/06 respectively. Prices of industrial chemicals and raw materials used in producing friction materials remained generally stable.

## Gross Profit Margin

The Group's blended gross profit margin declined slightly from 18.3% to 17.6%, which was mainly attributable to a change in product mix as the increase in sales from assemblies of suspension systems/axle modules and shock absorbers have caused a temporary decline in blended gross profit margin. Besides, the Group has adjusted its book exchange rate between US dollar and RMB from 8.27 to 8.1 with effect from 1 July 2005 to reflect the RMB appreciation, resulting in lower RMB equivalent of US dollar-denominated revenue since then. Had there been no change in the book exchange rate, the Group actually enjoyed slight enhancement in gross profit margins by individual product categories, mainly as a result of lower unit steel cost for the period.

Looking ahead, the management expects the subdued raw material costs and better economies of scale resulted from expanded production facilities to partially offset pressure from future RMB appreciation. Together with the Group's commitment to focus on higher margin products and applying stringent cost control measures, the Group will continue its dedication towards optimal resource allocation.

## Prospects

Globalization of the worldwide auto parts industry continues to accelerate. To address intensifying competition and cost pressure, major automotive enterprises in Europe and the US have reduced domestic production and resorted to purchasing auto parts globally. A number of major automotive manufacturers are expected to relocate their productions to China.

With changing procurement practice in the global automotive market and China becoming the production base of auto parts for the global market, the Group has been presented with abundant business opportunities. As a leader in the auto parts industry in China, the Group plans to fully explore opportunities in the domestic market in the coming years. China will follow North America and Europe to become another major market of the Group. Contribution from China is expected to account for over 30% of the Group's total turnover in 3 to 5 years, which will be mainly driven by the capacity expansion of suspension system assembly in Beijing.

– **Suspension system assembly**

Subsequent to increasing the assembly capacity for suspension systems/axle modules to 120,000 sets in July 2006, the Group has implemented the establishment of a new plant in the Beijing Economic-Technology Development Area ("BETD") to boost production capacity for suspension systems/axle modules, as well as certain critical components, to 200,000 sets by end of FY2007/08 and 400,000 sets by end of FY2010/11.

– **Suspension system parts**

The Group currently purchases parts for the assembly of suspension systems and shock absorbers from external manufacturers. The management plans to manufacture some of the core parts for suspension systems/shock absorbers at its plant in Anhui. This will not only ensure a stable supply of quality components, but will also effectively raise the Group's overall profit margin.

The Group is currently equipped with 750,000 shock absorbers assembly capacity and plans to construct 2,000,000 core parts manufacturing capacity in Anhui by FY2007/08. Apart from satisfying internal needs of 750,000 shock absorbers from assembly lines in Beijing, the Group will add an additional assembly capacity of 1,250,000 shock absorbers. The trial production is expected to commence by the second half of FY2007/08.

In addition, the Group will complete Phase I designed production capacity of 3 million pieces of ball joints and related parts in Anhui by FY2007/08. Delivery and installation of certain production equipment is currently underway, and the Group expects trial production of ball joints to commence in the first half of FY2007/08.

- **Brake system integration**

  The Group's disc brake pads/lined brake shoes are the major components of automobile brake systems. To enhance vertical integration, the management plans to commence brake system integration, plus machining of certain core components in FY2007/08, which will in turn strengthen the Group's position in the supply chain. The Phase I designed capacity is 400,000 sets of integrated brake systems.

- **Technology transfer arrangement with Delphi**

  The Group entered into a Technology License and Technology Transfer agreement with Delphi in September 2006. According to the Agreement, Delphi will share with the Group all of its formulations, technology, and know-how in friction materials. In addition, Delphi will assist the Group with further technology improvement and production training, in order to refine and build production facilities capable of delivering products of standards required by OE customers around the world. Through joint development of a new friction material formulation, Delphi will equip the Group with the technical capability to perform product R&D, and to master the manufacturing and product testing processes which are demanded by the global OE market. This 10-year License Agreement right will cover the Asia region including but not limited to, the PRC and Japan, and North America, Europe and the Middle East. The Group has also been granted an exclusive license in the PRC market for the first five years.

  The management believes the Group has been moving in the right direction to diversify product range and move up the value chain in the automotive industry. With Delphi's leading and exceptional technology in producing friction materials and its long-term solid cooperation with the best automobile manufacturers in the world, the partnership will facilitate the Group's entry into OE system manufacturing for major automakers and enlarge its customer base. Furthermore, the Group will also actively seek merger, acquisition and restructuring opportunities that can facilitate chassis system integration and accelerate its entry into mainstream automobile OE system manufacturing. With the various projects in the pipeline, the management believes the Group will be able to achieve long term sustainable growth along with margin improvement, realizing its goal of becoming a world-class auto parts manufacturer and system integrator in the global market.

In the third quarter of FY2006/07, the sales orders from the Group's existing business amounted to RMB869 million (exchange rate: USD1=RMB8.1), representing an increase of 32% when compared with same period of last year.

## Operating Cost

### – Distribution and selling expenses

The Group's total distribution and selling expenses were 16.6% higher than the same period last year. Sea freight charges incurred in association with CIF sales, which accounted for most of the distribution and selling expenses, rose 13.4% during the period. Total sea freight charges expressed as a percentage of total CIF sales decreased slightly from 9.1% to 8.8%, due to the increased sale of higher value products (i.e. lined brake shoes and disc brake pads).

### – Administrative expenses

The Group's total administrative expenses surged by 118% during the period. Exchange loss increased from RMB937,000 to approximately RMB17,405,000 during the period (please refer to the section "Impact from RMB appreciation" for details). Excluding the exchange loss item, total administrative expenses rose 43.9% compared to the same period last year. The increase was mainly attributed to higher depreciation charges, rising headcount, payroll and salary, as well as administrative expenses associated with the commencement of operations in Beijing since October 2005.

## Other Income

Other income rose by 142.2% during the period. Concurrently, interest income surged by 78.4% as a result of an increase in the Group's cash and bank balance. Likewise, income from the sale of scrap metals and waste materials increased 2.4 times. This was attributed to higher prices for scrap metals and higher volume of scrap metals produced as a result of an expansion in production volume during the period. Moreover, the production of product models with lower steel utilization was a further reason.

## Finance Costs

During the period under review, total finance costs were 41.2% higher than the same period last year. Interest expenses on bank borrowings, resulting from higher average loan balance and interest rate hikes during the period, remained major contributors to the increase in finance costs. Interests on convertible bonds and arrangement fee amortization were however sharply reduced as 80% of the issued convertible bonds were already converted into equity in FY2005/06. As at 30 September 2006, outstanding convertible bonds totaled USD7,750,000, representing 19.4% of the total issued amount.

## Share of Profit of an Associate

The Group owns a 40% stake in Profound Global Group, which is currently engaged in the manufacturing and export of metal hardware products as well as the distribution of auto parts within the PRC. During the period under review, Profound Global Group recorded total turnover of approximately RMB693,612,000, unaudited profit before taxation of RMB58,297,000 and unaudited net profit of RMB50,023,000. The net profit figure represented a slight decrease as compared to the same period last year and was due to the impact of RMB appreciation as well as intensifying competition for auto parts distribution in China. Blended gross profit margin has however improved due to a higher ratio of sales generated from the manufacture of metal hardware products which usually command better margins than auto parts trading and distribution.

## Impact From RMB Appreciation

During the period, the Group generated approximately 89.4% of its sales from export markets including US, Canada and Europe. As most of the Group's export sales are denominated in US dollars while its purchases and expenditures are denominated in RMB, except for certain capital expenditures which are settled in US dollars, the appreciation of RMB against US dollars has resulted in exchange losses totaling RMB17,405,000 for the period ended 30 September 2006.

The Group has adopted a few measures which aim at mitigating the impact of RMB appreciation on its profits. Apart from its plan to increase its PRC turnover to over 30% within the next 3 to 5 years, the Group has been maintaining a bank loan portfolio which is mainly denominated in foreign currencies, i.e. US dollars and HK dollars. The continual appreciation of RMB against both US and HK dollars has therefore resulted in foreign exchange gains upon revaluation of the Group's foreign currency loan portfolio. However, part of foreign exchange gains resulting from such revaluation were not reflected in the Group's consolidated income statement for the period due to certain restrictions imposed by the current accounting policy. During the period ended 30 September 2006, total foreign exchange gains resulting from such revaluation amounted to approximately RMB14.7 million, out of which, RMB8.6 million was reflected in the Consolidated Income Statement. Had such exchange gains been completely reflected in the Group's consolidated income statement, the Group's net exchange loss would have been reduced from RMB17.4 million to approximately RMB11.3 million.

## The Group's Financial Position, Liquidity and Capital Structure

As at 30 September 2006, the Group had total net assets of approximately RMB2,770,254,000 and net current assets of around RMB1,929,203,000, compared with approximately RMB2,030,230,000 and RMB1,490,154,000 respectively as at 31 March 2006.

The average receivable turnover for the period was 58 days compared to 50 days for the same period last year and 56 days for FY2005/06. The Group has maintained its credit terms of 30-90 days. The increase in turnover days for the period was mainly due to a gradual reduction in the proportion of exports to overseas customers through the Group's agent, which usually maintains a settlement period of 0-30 days. During the period, the Group exported 13.4% of its total sales via the agent compared to 18.1% and 16.6% for the same period last year and FY2005/06 respectively. Excluding sales to the agent and the corresponding accounts receivable balance, the Group's average receivable turnover for the period was 62 days, compared to 61 days for the same period last year and 64 days for FY2005/06.

The average payable turnover for the period was 13 days as opposed to 14 days for the same period last year and 16 days for FY2005/06. Average inventory turnover increased to 17 days from 14 days for the same period last year and 7 days for FY2005/06. Inventory turnover days measured at year-ends are usually exceptionally low due to the Group's policy to slow down raw materials in-take and speed up finished goods delivery prior to year-ends to facilitate smoother physical stock-take. Inventory turnover days averaged at 2-3 weeks throughout the rest of the year.

During the period under review, total cashflow from operations amounted to RMB165,136,000, compared to RMB105,301,000 for the same period last year. Capital expenditure for the period amounted to RMB127,746,000.

As at 30 September 2006, the Group maintained a total cash and bank balance of approximately RMB1,596,321,000, which was principally denominated in RMB with a small portion in HK dollars and US dollars. Ongoing RMB appreciation has prompted management to maintain most of the Group's cash and bank balances in RMB in order to minimize foreign exchange losses for its cash holdings. Total bank borrowings for the Group, which amounted to approximately RMB1,014,222,000 as at 30 September 2006 or RMB949,389,000 excluding US dollar-denominated convertible bonds, was however principally denominated in foreign currencies, i.e. US and HK dollars. Such a foreign currency loan portfolio has cushioned the Group from the negative impact of RMB appreciation as discussed in the section "Impact from

RMB appreciation". As at 30 September 2006, after excluding the convertible bonds item, approximately 15.8% of total bank borrowings bore fixed interest charges while the remaining followed a floating basis thus abiding by prevailing market rates. The Group will closely monitor and manage its currency and interest rate exposure, though the market generally believes that the current US interest rate cycle has already peaked with room for interest rate reductions in the near future.

Looking ahead, the Group's cash and bank balances will be principally used to finance operations and capital expenditures required for various green-field and capacity expansion projects. Please refer to the "Prospects" section for further details.

## Charge on Assets

As at 30 September 2006, bank deposits of approximately RMB16,632,000 (31 March 2006: RMB16,670,000) were pledged as security for certain banking facilities of the Group.

## Capital Commitments and Contingent Liabilities

As at 30 September 2006, the Group's total capital commitments amounted to RMB102,994,000 (31 March 2006: RMB138,022,000). There were no material contingent liabilities as at 30 September 2006 (31 March 2006: Nil).

## Employees and Remuneration Policies

As at 30 September 2006, the Group had a total of more than 2,160 employees. Total staff costs amounted to RMB30,520,000 during the period. Remuneration packages are determined by reference to the qualifications and experience of the staff concerned and are reviewed annually by 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. On 26 September 2006, the Group granted a total of 21,025,000 share options to directors and eligible staff in order to reward them for their contribution to the Group.

## Condensed Consolidated Income Statement

*For the six months ended 30 September 2006*

| (RMB'000) | *Note* | **2006 (unaudited)** | 2005 (unaudited and restated) |
|---|---|---|---|
| **Turnover** | 3 | **1,635,944** | 1,249,466 |
| Cost of sales | | **(1,348,425)** | (1,020,389) |
| Gross profit | | **287,519** | 229,077 |
| Other income | 3 | **21,554** | 8,900 |
| Distribution and selling expenses | | **(28,620)** | (24,553) |
| Administrative expenses | | **(47,240)** | (21,669) |
| Profit from operations | 4 | **233,213** | 191,755 |
| Finance costs | 5 | **(36,041)** | (25,531) |
| | | **197,172** | 166,224 |
| Share of profit of an associate | | **20,009** | 21,536 |
| **Profit before taxation** | | **217,181** | 187,760 |
| Taxation | 6 | **(24,391)** | (14,402) |
| **Profit for the period** | | **192,790** | 173,358 |
| **Dividends** | 7 | **27,871** | 20,280 |
| **Earnings per share** | 8 | | |
| Basic | | **RMB15.85 cents** | RMB17.78 cents |
| Diluted | | **RMB15.51 cents** | RMB15.96 cents |

## Condensed Consolidated Balance Sheet

*At 30 September 2006*

| (RMB'000) | *Note* | **30 September 2006 (unaudited)** | 31 March 2006 (audited) |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 9 | **845,661** | 739,198 |
| Prepaid land lease payments | | **56,906** | 57,530 |
| Goodwill | | **29,639** | 29,639 |
| Interest in an associate | | **416,700** | 396,690 |
| | | **1,348,906** | 1,223,057 |
| **Current assets** | | | |
| Inventories | | **178,279** | 44,850 |
| VAT receivable | | **95,615** | 127,168 |
| Trade and other receivables | 10 | **673,520** | 715,532 |
| Cash and bank balances | | **1,596,321** | 1,079,833 |
| | | **2,543,735** | 1,967,383 |
| **Current liabilities** | | | |
| Trade and other payables | 11 | **95,519** | 99,584 |
| Short-term borrowings | 12 | **154,060** | 175,875 |
| Current portion of non-current borrowings | 13 | **352,307** | 188,440 |
| Tax payable | | **12,646** | 13,330 |
| | | **614,532** | 477,229 |
| **Net current assets** | | **1,929,203** | 1,490,154 |
| **Total assets less current liabilities** | | **3,278,109** | 2,713,211 |
| **Non-current liabilities** | | | |
| Non-current borrowings | 13 | **443,022** | 616,336 |
| Convertible bonds | 14 | **64,833** | 66,645 |
| | | **507,855** | 682,981 |
| **NET ASSETS** | | **2,770,254** | 2,030,230 |
| **Financed by:** | | | |
| Share capital | 15 | **131,277** | 113,940 |
| Reserves | | **2,638,977** | 1,916,290 |
| **ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY** | | **2,770,254** | 2,030,230 |

# Condensed Consolidated Statement of Changes in Equity (unaudited)

*For the six months ended 30 September 2006*

| | Attributable to equity holders of the Company | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| (RMB'000) | Share capital | Merger reserve | Capital reserve | Share premium | Share option reserve | General reserve fund | Enterprise expansion fund | Foreign currency translation reserve | Retained profits | Total |
| At 1 April 2006 | 113,940 | (299,310) | 1,411 | 1,099,998 | — | 98,592 | 98,592 | 15,927 | 901,080 | 2,030,230 |
| Exchange translation | — | — | — | — | — | — | — | 12,290 | — | 12,290 |
| Net income recognized directly in equity | — | — | — | — | — | — | — | 12,290 | — | 12,290 |
| Profit for the period | — | — | — | — | — | — | — | — | 192,790 | 192,790 |
| Total recognized income and expenses for the period | — | — | — | — | — | — | — | 12,290 | 192,790 | 205,080 |
| Issuance of shares (Note 15) | 17,255 | — | — | 608,239 | — | — | — | — | — | 625,494 |
| Issuance of shares upon conversion of convertible bonds (Note 14 & 15) | 82 | — | (42) | 2,046 | — | — | — | — | — | 2,086 |
| Share issue expenses | — | — | — | (19,453) | — | — | — | — | — | (19,453) |
| Equity-settled share option expenses | — | — | — | — | 95 | — | — | — | — | 95 |
| 2006 Final dividend paid | — | — | — | — | — | — | — | — | (73,278) | (73,278) |
| **At 30 September 2006** | **131,277** | **(299,310)** | **1,369** | **1,690,830** | **95** | **98,592** | **98,592** | **28,217** | **1,020,592** | **2,770,254** |
| At 1 April 2005 | | | | | | | | | | |
| – As previously stated | 103,350 | (299,310) | — | 838,535 | — | 63,657 | 63,657 | 708 | 534,331 | 1,304,928 |
| – Retrospective applications in respect of HKAS 32 & 39 | — | — | 7,053 | — | — | — | — | — | — | 7,053 |
| – As restated, before opening balance adjustments | 103,350 | (299,310) | 7,053 | 838,535 | — | 63,657 | 63,657 | 708 | 534,331 | 1,311,981 |
| – Opening balance adjustments in respect of HKFRS 3 | — | — | — | — | — | — | — | — | 156,010 | 156,010 |
| – As restated, after opening balance adjustments | 103,350 | (299,310) | 7,053 | 838,535 | — | 63,657 | 63,657 | 708 | 690,341 | 1,467,991 |
| Exchange translation | — | — | — | — | — | — | — | 9,639 | — | 9,639 |
| Net income recognized directly In equity | — | — | — | — | — | — | — | 9,639 | — | 9,639 |
| Profit for the period | — | — | — | — | — | — | — | — | 173,358 | 173,358 |
| Total recognized income and expenses for the period | — | — | — | — | — | — | — | 9,639 | 173,358 | 182,997 |
| 2005 Final dividend paid | — | — | — | — | — | — | — | — | (46,069) | (46,069) |
| At 30 September 2005 | 103,350 | (299,310) | 7,053 | 838,535 | — | 63,657 | 63,657 | 10,347 | 817,630 | 1,604,919 |

## Condensed Consolidated Cash Flow Statement

*For the six months ended 30 September 2006*

| (RMB'000) | Six months ended 30 September 2006 (unaudited) | 2005 (unaudited) |
|---|---|---|
| Net cash from operating activities | **165,136** | 105,301 |
| Net cash used in investing activities | **(127,746)** | (42,014) |
| Net cash inflow/(outflow) from financing activities | **481,108** | (137,005) |
| Net increase/(decrease) in cash and cash equivalents | **518,498** | (73,718) |
| Exchange difference arising on translation of overseas operations | **(1,972)** | (434) |
| Cash and cash equivalents at 1 April | **1,063,163** | 738,287 |
| Cash and cash equivalents at 30 September | **1,579,689** | 664,135 |
| Analysis of cash and cash equivalents | | |
| Cash and bank balances | **1,596,321** | 680,584 |
| Pledged bank deposits | **(16,632)** | (16,449) |
| | **1,579,689** | 664,135 |

## 1. Basis of Preparation

The condensed financial statements have been prepared in accordance with the applicable 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. Accounting Policies

The condensed financial statements have been prepared on historical cost basis, as modified by the revaluation of investments which are carried at their fair values. 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 2006.

The Group has not applied any new standards or interpretation that is not yet effective for the current accounting period. The Group has already commenced an assessment of the impact of these new standards and interpretations but the management considered the new standards have no material impact to the Group's accounting policies.

The Company has granted a total of 21,025,000 share options to eligible participants on 26 September 2006. The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period with a corresponding increase in equity (share option reserve). At the time when the share options are exercised, the amount previously recognized in share option reserve will be transferred to share premium. When the share options are forfeited after vesting date or are still not exercised at the expiry date, the amount previously recognized in share option reserve will be transferred to retained earnings.

## 3. Turnover, Other Income and Segment Information

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

| | Six months ended 30 September | |
|---|---|---|
| | **2006** | 2005 |
| **(RMB'000)** | **(unaudited)** | (unaudited) |
| Turnover | | |
| Auto parts | **1,456,536** | 1,098,340 |
| Construction decorative hardware products | **179,408** | 151,126 |
| | **1,635,944** | 1,249,466 |
| Other income | | |
| Interest income | **10,872** | 6,094 |
| Income from scrap sales | **9,445** | 2,804 |
| Sundry income | **1,237** | 2 |
| | **21,554** | 8,900 |
| Total turnover and other income | **1,657,498** | 1,258,366 |

**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.

## 3. Turnover, Other Income and Segment Information continued

### Secondary reporting format – business segments

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

– Auto parts; and

– Construction decorative hardware products.

### (i) Primary reporting format – geographical segments

**For the six months ended 30 September 2006 (unaudited)**

| (RMB'000) | United States | Canada | Europe | PRC and Others | Total |
|---|---|---|---|---|---|
| Segment turnover | **672,812** | **435,900** | **352,765** | **174,467** | **1,635,944** |
| Segment results | **120,393** | **82,052** | **62,861** | **22,213** | **287,519** |

For the six months ended 30 September 2005 (unaudited)

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

## 3. Turnover, Other Income and Segment Information continued

### (ii) Secondary reporting format – business segments

**For the six months ended 30 September 2006 (unaudited)**

| (RMB'000) | Auto parts | Construction decorative hardware products | Total |
|---|---|---|---|
| Turnover | **1,456,536** | **179,408** | **1,635,944** |
| Segment results | **265,654** | **21,865** | **287,519** |
| Other income | | | **21,554** |
| Unallocated costs | | | **(75,860)** |
| Profit from operations | | | **233,213** |

For the six months ended 30 September 2005 (unaudited)

| (RMB'000) | Auto parts | Construction decorative hardware products | Total |
|---|---|---|---|
| Turnover | 1,098,340 | 151,126 | 1,249,466 |
| Segment results | 207,596 | 21,481 | 229,077 |
| Other income | | | 8,900 |
| Unallocated costs | | | (46,222) |
| Profit from operations | | | 191,755 |

## 4. Profit from Operations

Profit from operations has been arrived at after charging:

| (RMB'000) | Six months ended 30 September 2006 (unaudited) | 2005 (unaudited) |
|---|---|---|
| Staff costs | **30,520** | 22,838 |
| Cost of inventories sold | **1,348,425** | 1,020,389 |
| Depreciation | **21,260** | 8,937 |
| Operating lease rentals in respect of: | | |
| – Land | **624** | 624 |
| – Factory and office premises | **3,108** | 1,926 |
| – Plant and machinery | **2,550** | 4,250 |
| Net exchange loss | **17,405** | 937 |

## 5. Finance Costs

| (RMB'000) | Six months ended 30 September 2006 (unaudited) | 2005 (unaudited) |
|---|---|---|
| Interest on bank borrowings | **31,681** | 14,620 |
| Interest on convertible bonds | **2,127** | 9,400 |
| Finance charges on obligations under finance leases | **1,712** | 1,106 |
| Bank charges | **521** | 405 |
| | **36,041** | 25,531 |

## 6. Taxation

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

| (RMB'000) | Six months ended 30 September<br>**2006**<br>**(unaudited)** | <br>2005<br>(unaudited) |
|---|---|---|
| PRC enterprise income tax | **24,391** | 14,402 |
| | **24,391** | 14,402 |

No provision for Hong Kong profits tax has been made for the current and last corresponding period as the Group had no assessable profits in Hong Kong.

The current PRC enterprise income tax of the Group had been provided on the estimated assessable profit and the appropriate tax rates for the period. The Group's PRC subsidiary, Norstar Automotive Industries, Inc. ("Norstar Automotive") was granted two years' tax exemption commencing from the year ended 31 December 2001 and a 50% reduction for the three years thereafter. After the expiry of the tax relief period on 31 December 2005, Norstar Automotive is entitled for a reduced tax rate of 11.5% which is granted on a yearly basis to enterprises with export-oriented status.

(a) Deferred taxation

As at 30 September 2005 and 2006 respectively, no provision for deferred tax has been made in the financial statements as tax effect of temporary differences is immaterial to the Group.

(b) As the Group's major operation and income were located in the PRC, the applicable tax rate to the Group was the tax rate of 11.5% during the period (six months ended 30 September 2005: 7.5%) applicable to the PRC subsidiary as mentioned above.

## 6. Taxation continued

Reconciliation between tax expense and accounting profit at applicable tax rate:

| (RMB'000) | Six months ended 30 September 2006 (unaudited) | 2005 (unaudited) |
|---|---|---|
| Profit before taxation (excluding share of profit of an associate) | **197,172** | 166,224 |
| Tax at the applicable tax rate | **22,675** | 12,467 |
| Tax effect of (income)/expenses that are not (taxable)/deductible in determining taxable profit | **(2,370)** | 1,935 |
| Tax effect of unrecognized tax losses | **4,086** | — |
| Tax expense for the period | **24,391** | 14,402 |

## 7. Dividends

| (RMB'000) | Six months ended 30 September 2006 (unaudited) | 2005 (unaudited) |
|---|---|---|
| 2005/06 Final, paid of HK$0.057 per ordinary share (2004/05 Final: HK$0.045 per ordinary share) | **73,278** | 46,069 |
| 2006/07 Interim, proposed of HK$0.022 per ordinary share (2005/06 Interim: HK$0.020 per ordinary share) | **27,871** | 20,280 |
| | **101,149** | 66,349 |

At a meeting of board of directors held on 16 November 2006, an interim dividend of HK$0.022 per ordinary share has been declared by the directors for the year ending 31 March 2007. 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 2007.

## 8. Earnings Per Share

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

| (RMB'000) | Six months ended 30 September 2006 (unaudited) | 2005 (unaudited and restated) |
|---|---|---|
| **Earnings** | | |
| Earnings for the purpose of calculating basic earnings per share | **192,790** | 173,358 |
| Finance cost savings on exercise of convertible bonds | **189** | 645 |
| **Earnings for the purpose of calculating diluted earnings per share** | **192,979** | 174,003 |

| | Six months ended 30 September 2006 (unaudited) | 2005 (unaudited and restated) |
|---|---|---|
| **Number of shares** | | |
| Issued ordinary shares at 1 April | **1,077,320,976** | 975,000,000 |
| Effect of shares issued | **138,415,301** | — |
| Effect of conversion of convertible bonds | **252,100** | — |
| **Weighted average number of ordinary shares for the purpose of calculating basic earnings per share** | **1,215,988,377** | 975,000,000 |
| Effect of dilutive potential ordinary shares | | |
| arising from convertible bonds outstanding | **25,090,625** | 115,111,111 |
| arising from share options | **3,098,436** | — |
| **Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share** | **1,244,177,438** | 1,090,111,111 |

## 9. Property, Plant and Equipment

| (RMB'000) | (unaudited) |
|---|---|
| Net book value at 1 April 2006 | 739,198 |
| Additions | 127,746 |
| Depreciation | (21,260) |
| Exchange realignment | (23) |
| Net book value at 30 September 2006 | 845,661 |

## 10. Trade and Other Receivables

| (RMB'000) | **30 September 2006 (unaudited)** | 31 March 2006 (audited) |
|---|---|---|
| Trade receivables | **526,362** | 513,308 |
| Dividend receivable | **8,120** | 8,280 |
| Prepayments and other receivables | **138,196** | 192,390 |
| Due from a related company | **842** | 1,554 |
| | **673,520** | 715,532 |

## 10. Trade and Other Receivables continued

Aging analysis of trade receivables is as follows:

| (RMB'000) | **30 September 2006 (unaudited)** | 31 March 2006 (audited) |
|---|---|---|
| 0 – 90 days | **526,226** | 503,777 |
| 91 – 180 days | **36** | 9,429 |
| 181 – 365 days | **—** | 102 |
| Over 1 year | **100** | — |
| | **526,362** | 513,308 |

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

## 11. Trade and Other Payables

| (RMB'000) | **30 September 2006 (unaudited)** | 31 March 2006 (audited) |
|---|---|---|
| Trade payables | **37,996** | 42,203 |
| Accruals and other payables | **57,513** | 57,020 |
| Due to directors | **10** | 361 |
| | **95,519** | 99,584 |

## 11. Trade and Other Payables continued

Aging analysis of trade payables is as follows:

| (RMB'000) | 30 September 2006 (unaudited) | 31 March 2006 (audited) |
|---|---|---|
| 0 – 90 days | **26,399** | 37,270 |
| 91 – 180 days | **3,731** | 2,025 |
| 181 – 365 days | **5,106** | 1,112 |
| Over 1 year | **2,760** | 1,796 |
| | **37,996** | 42,203 |

## 12. Short-Term Borrowings

| (RMB'000) | 30 September 2006 (unaudited) | 31 March 2006 (audited) |
|---|---|---|
| Wholly repayable within one year | | |
| Guaranteed by the Company (a) | **4,060** | 25,875 |
| Guaranteed by a related party (b) | **150,000** | 150,000 |
| | **154,060** | 175,875 |

(a) Denominated in HKD and bore effective interest of 5.7% per annum (31 March 2006: 5.9% per annum).

(b) Denominated in RMB and bore effective interest of 6.4% per annum (31 March 2006: 5.9% per annum).

## 13. Non-Current Borrowings

| (RMB'000) | 30 September 2006 (unaudited) | 31 March 2006 (audited) |
|---|---|---|
| Interest bearing borrowings | | |
| Bank loans – unsecured | **756,694** | 754,118 |
| Obligations under finance leases | **38,635** | 50,658 |
| | **795,329** | 804,776 |
| Current portion of non-current borrowings | **(352,307)** | (188,440) |
| | **443,022** | 616,336 |

## 14. Convertible Bonds

On 16 December 2004, the Company issued US$40 million at equivalent RMB330,720,000 worth of zero coupon Convertible Bonds with maturity date on 16 December 2007 (the "Maturity Date"). The bonds are convertible, at the option of their holders, into ordinary shares of the Company, par value HK$0.10 per share, at the conversion price of the equivalent of HK$2.70 per share at any time on or after 15 June 2005 and prior to 6 December 2007. In accordance to the terms of the indenture, the conversion price was adjusted to HK$2.43 on 16 December 2005 and HK$2.40 on 4 May 2006. Unless previously redeemed, converted or purchased and cancelled, these bonds will be redeemed in US dollars at 112.4864% of their principal amount on the Maturity Date.

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

## 15. Share Capital

| | *Note* | **Number of shares** | **Ordinary share capital at HK$0.10 each** | |
|---|---|---|---|---|
| | | In millions | HK$'000 | RMB'000 |
| **Authorized:** | | | | |
| At 1 April and 30 September 2006 | | 5,000 | 500,000 | 530,000 |
| **Issued and fully paid:** | | | | |
| At 1 April 2006 | | 1,077 | 107,732 | 113,940 |
| Issue of shares | (a) | 170 | 17,000 | 17,255 |
| Shares issued upon conversion of convertible bonds | (b) | 1 | 81 | 82 |
| At 30 September 2006 | | 1,248 | 124,813 | 131,277 |

*Notes:*

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

## 15. Share Capital continued

*Net proceeds from the subscription was approximately HK$597 million (RMB606 million). It is the Directors' intention to utilize the proceeds (i) for expansion of production capacity of suspension systems, axle modules and other related auto parts in the next 3 years; (ii) for purchase of a piece of land in the BETD and construction of a new factory to house the production systems in (i) above; and (iii) as general working capital of the Company.*

*The conversion price of convertible bonds was subsequently amended to HK$2.40 per ordinary share of the Company as a result of the placing and subscription.*

*(b) During the period, convertible bonds with total nominal value of USD250,000 were converted into ordinary shares of the Company. The conversions were conducted on predetermined exchange rate and conversion price of HK$2.40 per ordinary share of the Company. Totally 809,375 new ordinary shares of HK$0.1 each were issued as a result of the conversion.*

## 16. Share Option Scheme

The Company adopted a share option scheme on 4 September 2003 whereby the directors of the Company were authorized, at their discretion, to invite, inter alia, employees of the Group (including directors of any company in the Group) to take up options to subscribe for shares of the Company. The purpose of the scheme is to provide incentives and rewards to eligible participants who coutribute to the success of the Group's operations.

A total of 21,025,000 share options were granted to eligible participants on 26 September 2006 under the share option scheme of the Company. The following table discloses movements of the Company's share options during the six months ended 30 September 2006.

## 16. Share Option Scheme continued

| Share option holders | Date of grant | As at 01/04/2006 | Granted during the period | Exercised during the period | Lapsed during the period | As at 30/09/2006 |
|---|---|---|---|---|---|---|
| | | | Number of share options | | | |
| **Director** | | | | | | |
| Ms. Zhang Zhen Juan | 26/09/2006 | — | 5,000,000 | — | — | 5,000,000 |
| Mr. Dai Wei | 26/09/2006 | — | 2,500,000 | — | — | 2,500,000 |
| Mr. Chen Xiang Dong | 26/09/2006 | — | 2,500,000 | — | — | 2,500,000 |
| Mr. Yang Bin | 26/09/2006 | — | 500,000 | — | — | 500,000 |
| Mr. Lee Cheuk Yin, Dannis | 26/09/2006 | — | 250,000 | — | — | 250,000 |
| Mr. Choi Tat Ying, Jacky | 26/09/2006 | — | 250,000 | — | — | 250,000 |
| | | — | 11,000,000 | — | — | 11,000,000 |
| **Employees of the Group** | | | | | | |
| In aggregate | 26/09/2006 | — | 10,025,000 | — | — | 10,025,000 |
| Total for all categories | | — | 21,025,000 | — | — | 21,025,000 |

**Details of options granted:**

| Date of grant | Number of options granted | Vesting period | Exercise period | Exercise price |
|---|---|---|---|---|
| 26/9/2006 | 7,004,000 | 26/09/2006 – 25/9/2008 | 26/9/2008 - 03/09/2013 | HK$2.57 |
| 26/9/2006 | 7,004,000 | 26/09/2006 – 25/9/2009 | 26/9/2009 - 03/09/2013 | HK$2.57 |
| 26/9/2006 | 7,017,000 | 26/09/2006 – 25/9/2010 | 26/9/2010 - 03/09/2013 | HK$2.57 |

*Notes:*

*(1) Consideration paid to the Company for each grant of options was HK$1.00.*

*(2) The closing price of the shares of the Company quoted on the Stock Exchange on 25 September 2006, being the trading date immediately before the date on which the share options were granted during the period, was HK$2.55.*

*(3) The Binomial model was applied to estimate the fair value of share options granted by the Company. This pricing model requires the input of highly subjective assumptions, including the volatility of the share price. The changes in input assumptions can materially affect the fair value estimate. The following significant assumptions were used to deliver the fair value.*

## 16. Share Option Scheme continued

| | |
|---|---|
| Expected life: | 4.0-6.3 years from grant date |
| Expected volatility: | 43.7% based on historical volatility |
| Expected annual dividend yield: | 3.0% based on historical dividend payments |
| Risk free interest rate: | 3.816% based on 7-year Exchange Fund Notes |

All the options forfeited before expiry of the options will be treated as lapsed options under the relevant share option scheme.

Based on the above assumptions, the computed fair value under the options granted during the period was approximately HK$0.908 per option share. The expense recognised in the condensed consolidated income statement for share options during the period ended 30 September 2006 was approximately RMB95, 000 (six months ended 30 September 2005: Nil).

## 17. Capital Commitments

| **(RMB'000)** | **30 September 2006 (unaudited)** | 31 March 2006 (audited) |
|---|---|---|
| Contracted but not provided for | | |
| – purchases of machineries and equipment | **97,437** | 128,818 |
| – construction in progress | **5,557** | 9,204 |
| | **102,994** | 138,022 |

## 18. Operating Lease Commitments

As at 30 September 2006, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases in respect of plant, factory and machinery and equipment in the PRC as follows:

| (RMB'000) | 30 September 2006 (unaudited) | 31 March 2006 (audited) |
|---|---|---|
| Within one year | 7,800 | 7,800 |
| After one year but within five years | 11,700 | 15,600 |
| | 19,500 | 23,400 |

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

| (RMB'000) | 30 September 2006 (unaudited) | 31 March 2006 (audited) |
|---|---|---|
| Within one year | 1,827 | 1,334 |
| After one year but within five years | 3,276 | 1,863 |
| | 5,103 | 3,197 |

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

## 19. Related Party Transactions

During the six months ended 30 September 2006, the Group had significant related party transactions as summarized below:

| (RMB'000) | Six months ended 30 September **2006** **(unaudited)** | 2005 (unaudited) |
|---|---|---|
| Rental for leased office building, manufacturing premises and plant and machinery paid to AITC (Note a) | **3,900** | 5,400 |
| Rental for leased office building and staff quarters paid to related companies (Note b) | **583** | 567 |

*Notes:*

(a) *Pursuant to lease agreements entered into between Norstar Automotive and Anhui Industries and Trading Corporation ("AITC"), AITC has leased to Norstar Automotive certain office building, manufacturing premises and plant and machinery. AITC, a company established in the PRC, is jointly owned and managed by Mr. Zhou Tian Bao, a director of the Company, and his spouse. During the six months ended 30 September 2006, the rental paid for leased office building, and manufacturing premises and plant and machinery were RMB1,350,000 and RMB2,550,000 respectively. (30 September 2005: RMB5,400,000 in total).*

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

(c) *A related company provided corporate guarantee of up to a maximum amount of RMB200,000,000 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.*

## 20. Contingent liabilities

As at 30 September 2006, the Group had no significant contingent liabilities (31 March 2006: Nil).

## 21. Comparative figures

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

## Other Information

### Interests of directors and chief executive

As at 30 September 2006, 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 of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers were as follows:

| | Number of shares held | | | | |
|---|---|---|---|---|---|
| Name of directors | Personal interests | Corporate interests | Total | Approximate aggregate percentage of interests | *Outstanding share options |
| Ms. Lilly Huang (Note 1) | — | 600,000,000 | 600,000,000 | 48.07% | — |
| Mr. Zhou Tian Bao (Note 2) | 8,832,000 | 645,000,000 | 653,832,000 | 52.38% | — |
| Ms. Zhang Zhen Juan | — | — | — | — | 5,000,000 |
| Mr. Dai Wei | — | — | — | — | 2,500,000 |
| Mr. Chen Xiang Dong | — | — | — | — | 2,500,000 |
| Mr. Yang Bin | — | — | — | — | 500,000 |
| Mr. Lee Cheuk Yin, Dannis | — | — | — | — | 250,000 |
| Mr. Choi Tat Ying, Jacky | — | — | — | — | 250,000 |

* *Details of share options granted to Directors are stated in the note "Share Option Scheme" in Note 16 to the financial statement.*

Interests in shares and underlying shares stated above represent long positions.

*Notes:*

*(1) The shares are held by Century Founders Group Limited in which Ms. Lilly Huang holds a 63% shareholding. Ms. Lilly Huang is therefore deemed to be interested in the entire interest of Century Founders Group Limited in the Company for the purposes of Part XV of the SFO.*

*(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. Mr. Zhou Tian Bao is therefore deemed to be interested in the entire interest of Mark Up Investments Limited in the Company for the purposes of Part XV of the SFO.*

*iii) 600,000,000 shares are held by Century Founders Group Limited in which 37% interest is owned by Mark Up Investments Limited. Mr. Zhou Tian Bao is therefore deemed to be interested in the entire interest of Century Founders Group Limited in the Company for the purposes of Part XV of the SFO.*

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 Part XV of the SFO) as at 30 September 2006.

### Interests of substantial shareholders

So far as is known to the directors of the Company, as at 30 September 2006, 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:

| Name of shareholders | Number of shares held | Approximate percentage of shareholding |
|---|---|---|
| Century Founders Group Limited (Note 2) | 600,000,000 | 48.07% |
| Mark Up Investments Limited | 645,000,000 | 51.68% |
| Ms. Lilly Huang (Note 2) | 600,000,000 | 48.07% |
| Mr. Zhou Tian Bao | 653,832,000 | 52.38% |
| Sansar Capital Management, LLC | 138,514,000 | 11.10% |
| Deutsche Bank Aktiengesellschaft | 75,997,813 | 6.09% |

*Notes:*

*(1) Interests in shares stated above represent long positions.*

*(2) Century Founders Group Limited owns 600,000,000 shares. Ms. Lilly Huang holds a 63% shareholding in Century Founders Group Limited and the remaining 37% shareholding 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 2006, 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.

## Directors' interests in contracts

Save for those transactions described in the paragraph headed "Related Party Transaction" in Note 19 to the financial statements, none of the Directors had any material interest, whether directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the period under review.

## Purchase, sale or redemption of securities

During the six months ended 30 September 2006, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed shares.

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

## Interim dividend

The Board is pleased to declare the payment of an interim dividend of HK$0.022 (2005: HK$0.020) per share for the six months ended 30 September 2006. The dividend will be payable on 15 December 2006 to shareholders whose names shall appear on the Register of Members of the Company on 6 December 2006.

## Closure of register of members

The Company's register of members will be closed from 6 December 2006 to 8 December 2006, both days inclusive, during which period no transfer of shares can be registered. In order to qualify for the interim dividend, all transfer 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 5 December 2006.

## Compliance with the code on corporate governance practices

The Board and the management of the Company are committed to the maintenance of good corporate governance practices and procedures. The Company is firmly committed to maintaining a quality Board, sound internal control, and transparency and accountability to all shareholders. The Company had complied with the Code on Corporate Governance Practices (the "CG Code") as set out in appendix 14 of the Listing Rules throughout the six months ended 30 September 2006 except for the following deviation:

### CG Code provision E.1.2

### Communication with shareholders

This CG Code provision requires the Chairman of the Board to attend the annual general meeting (the "AGM") and arrange for the chairmen of the audit, remuneration and nomination committees (as appropriate) or in the absence of the chairman of such committees, another member of the committee to be available to answer questions at the AGM.

The Chairman of the Board had not attended the AGM held on 1 September 2006 as she was engaged in an important business meeting overseas. The said AGM was chaired by an executive Director appointed by the Board.

## Compliance with the Model Code

The Company has adopted the Model Code for Securities Transactions by Directors of the Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. Having made specific enquiries with all directors of the Company, the Company can confirm that all directors of the Company have complied with the Model Code throughout the period under review.

## The Board

The Board is comprised of six executive Directors and four non-executive Directors. Of the four non-executive Directors, three of them are independent non-executive Directors.

The Board is responsible for approving the consolidated but unaudited accounts of the Group for the six months ended 30 September 2006, and is accountable to shareholders for the overall activities and financial performance of the Group. The Board considers that the Group's consolidated financial statements for the six months ended 30 September 2006 have been prepared in conformity with the generally accepted accounting standards in Hong Kong, and reflect amounts that are based on the best estimates and reasonable, informed and prudent judgment of the Board with an appropriate consideration to materiality.

## Audit Committee

The Company's audit committee is comprised of three independent non-executive Directors, namely, Mr. Choi Tat Ying, Jacky (Chairman), Mr. Zhang Jian Chun and Ms. Zhang Xin, Cindy. The primary duties of the Company's audit committee include the review and supervision of the Group's financial reporting process and internal control systems, the review of the Group's financial information and the monitoring of the appointment and function of the Group's external auditor.

The Group's consolidated financial statements for the six months ended 30 September 2006 have been reviewed by the Company's audit committee.

## Remuneration Committee

The Company's remuneration committee is comprised of three independent non-executive Directors, namely, Mr. Choi Tat Ying, Jacky (Chairman), Mr. Zhang Jian Chun, Ms. Zhang Xin, Cindy and one non-executive Director, Mr. Lee Cheuk Yin, Dannis. The primary duties of the Company's remuneration committee are to make recommendations to the Board in relation to the remuneration of executive Directors, senior management as well as the fees and emoluments of non-executive Directors.

The Company's remuneration committee met on 1 September 2006 to make recommendations to the Board in relation to the granting of share options to certain directors, senior management and employees of the Group. The Board approved and adopted their recommendations, and granted such share options on 26 September 2006 pursuant to the Company's Share Option Scheme.

## Nomination Committee

The Company's nomination committee is comprised of one non-executive Director, Mr. Lee Cheuk Yin, Dannis (Chairman) and three independent non-executive Directors, namely, Mr. Choi Tat Ying, Jacky, Mr. Zhang Jian Chun and Ms. Zhang Xin, Cindy. The primary duties of the Company's nomination committee are to consider and assess the qualifications and character of candidates for directorships on the Board. The Company's nomination committee shall meet before the holding of an annual general meeting where appointment of directors will be considered. Additional meetings shall be held as the work of the Company's nomination committee may demand.

By Order of the Board
**Norstar Founders Group Limited**
**Lilly Huang**
*Chairman*

Hong Kong, 16 November 2006

As at the date of this report, the Board comprises of:

| | |
|---|---|
| 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 |
| Ms. Zhang Xin, Cindy | Independent Non-Executive Director |
| Mr. Zhang Jian Chun | Independent Non-Executive Director |