



**Norstar Founders Group Limited**

Stock Code: 2339



**CHINA MARKET**  
WORLDWIDE BRAND



**INTERIM REPORT 2007/2008**

## Table of Contents

Corporate Information	1
Financial Highlights	2
Management Discussion and Analysis	4
Unaudited Condensed Consolidated Interim Financial Information	18
Notes to the Financial Statements	23
Other Information	41



## 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

Mr. Chiu Ka Wing

### 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  
Hang Seng Bank Limited  
Bank of Tokyo-Mitsubishi UFJ Limited  
DBS Bank (Hong Kong) Limited  
Hua Xia Bank  
Oversea-Chinese Banking Corporation Limited  
Commerzbank  
KBC Bank N.V.

State Bank of India  
Sanpaolo Imi S.p.A.  
Banca di Roma  
Wing Hang Bank Limited

### Public Relations Consultant

#### Strategic Financial Relations Limited

Unit A, 29th Floor, Tower I, Admiralty Centre  
18 Harcourt Road  
Admiralty, Hong Kong  
Website : [www.sprg.com.hk](http://www.sprg.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

Cricket Square  
Hutchins Drive  
P.O. Box 2681  
Grand Cayman  
KY 1-1111  
Cayman Islands

### 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](http://www.norstar.com.hk)

## Financial Highlights

For the six months ended 30 September				
		2007 (Unaudited)	2006 (Unaudited)	Change %
<b>Operating results</b>				
Turnover	RMB'000	<b>1,946,521</b>	1,635,944	18.98
Gross profit	RMB'000	<b>318,744</b>	287,519	10.86
EBITDA	RMB'000	<b>293,983</b>	244,225	20.37
Profit attributable to shareholders	RMB'000	<b>222,539</b>	192,790	15.43
<b>Ratio</b>				
Gross profit margin	%	<b>16.4</b>	17.6	-6.83
Net profit margin	%	<b>11.4</b>	11.8	-2.97
Interest cover	times	<b>7.7</b>	7.4	4.05
Current ratio	times	<b>7.2</b>	4.1	75.61
Net debt / equity ratio	%	<b>Net Cash</b>	Net Cash	Not applicable
<b>Share data</b>				
Shares in issue	thousands	<b>1,259,462</b>	1,248,130	0.91
Share closing price (as at period end)	HK\$	<b>2.93</b>	2.59	13.13
Market capitalization	HK\$'000	<b>3,690,222</b>	3,232,658	14.15
Basic earnings per share	RMB cents	<b>17.74</b>	15.85	11.92
Interim dividend per share	HK cents	<b>2.20</b>	2.20	9.09
Net asset value per share	RMB	<b>2.49</b>	2.22	12.09

## Glossary

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

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

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

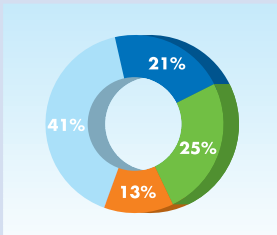
$$\text{Interest cover} = \frac{\text{Profit from operations}}{\text{Interest expenses}}$$

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

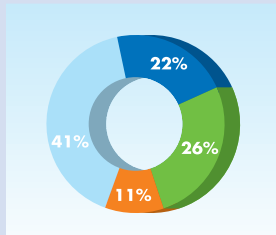
$$\text{Net debt / equity ratio} = \frac{\text{Gross Debt - cash \& bank balances}}{\text{Shareholders' funds}}$$



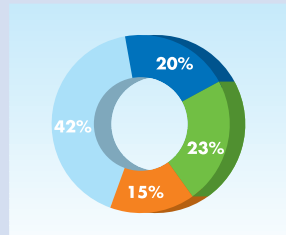
## Group turnover by geographical location



2006/2007



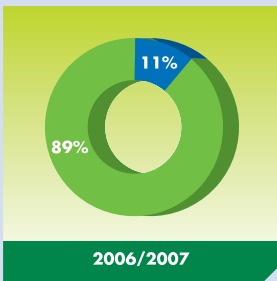
1H 2006/2007



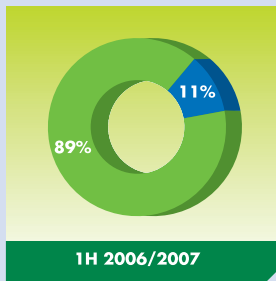
1H 2007/2008

United States Europe Canada PRC

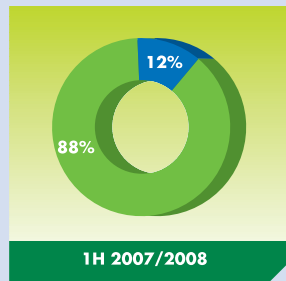
## Group turnover by sector



2006/2007



1H 2006/2007

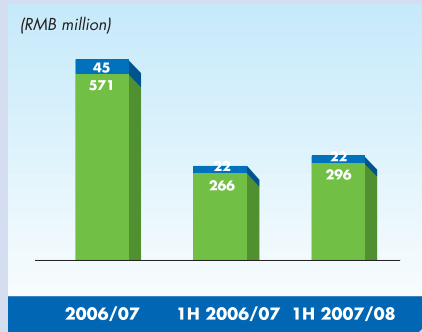


1H 2007/2008

Auto parts Construction decorative hardware products

## Gross profit by sector

(RMB million)



Auto parts Construction decorative hardware products

# Management Discussion and Analysis

## Business and Financial Review

For the six months ended 30 September 2007 (the "Period"), the Group's total turnover reached RMB1,946,521,000, representing a 19% increase from RMB1,635,944,000 in the same period last year. Gross profit grew 11% to approximately RMB318,743,000 against around RMB287,519,000 in the same period last year.

Including the profits of the associated company, profit attributable to shareholders was RMB222,539,000, an year-on-year increase of 15.4% from last year's approximately RMB192,790,000. Earnings per share were RMB17.74 cents, 11.9% higher than in the same period last year.

The Board of Directors recommended 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 17 January 2008.

During the Period, the booming China automobile market presented abundant opportunities to the auto parts industry. However, the persistently strong Chinese economy and changes in the global market, appreciation of the RMB and fluctuation of material cost due to inflation also created a challenging operational environment for the Group.

Committed to quality as a means to maintain strong customer relations and through striving for technology innovation and developing high value-added products to attract new customers, plus enjoying stable global after-market demand and rising demand for auto parts from automobile manufacturers worldwide and a thriving domestic OE market, the Group recorded continuous and stable sales growth.



## Business and Financial Review (continued)

The technological cooperation between the Group and Delphi Technologies, Inc., (“Delphi”) on producing friction materials, which began in September 2006, has improved the Group’s production technology of friction materials for brake pads and enabled the Group to improve sales of high value-added products. In addition, the sales of axle modules/suspension systems and shock absorbers manufactured in Beijing grew along with overall sales in the country, resulting in an optimized currency mix of the Group’s turnover.

The overall gross profit margin for the Period was approximately 16.4%, while that of last year’s was approximately 17.6%. During the Period, the Group started to produce disc brake pads for OE market and supplied products to Shanghai General Motors in China, leading to enhance the gross profit margin of the auto parts operation. Nevertheless, since the gross profit margin of axle modules/suspension systems and shock absorbers in production from 2005 was relatively lower than those of other products, plus the accelerating appreciation of the RMB translating into exchange loss on export, the Group’s overall gross profit margin was affected. At the effort of the Group to develop more high value-added products, producing and processing core components by its own for assembly operation, and enjoying increasing economies of scale resulting from continuous expansion of production capacity, the overall gross profit margin of the Group is expected to return on the up trend in the near future.

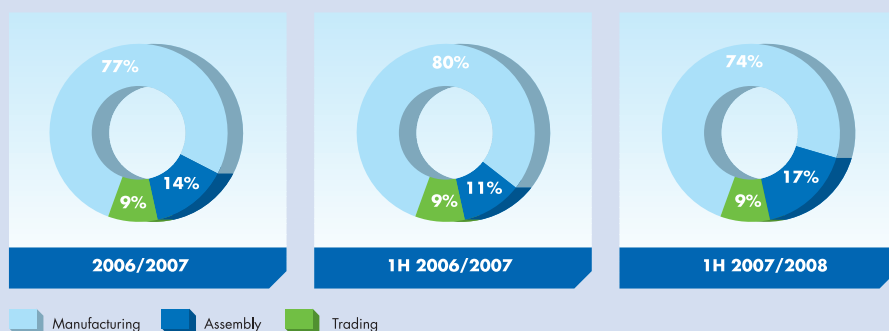
## Business and Financial Review (continued)

### Auto Parts

This segment continued to be the Group's core business. During the Period, its turnover amounted to approximately RMB1,717,070,000, increased by 17.9% from last year's approximately RMB1,456,536,000, accounting for around 88.2% of the Group's total turnover. However, the gross profit margin of this segment decreased from last year's 18.3% to 17.3%, mainly attributable to the exchange loss on export business brought by appreciation of the RMB. Excluding such impact, the gross profit margin of this segment should be 19.8%.

Relative to other products, axle modules/suspension systems have lower gross profit margins. However, as they enter into the growth phase from infancy, their gross profit margins have been rising. The Group expanded the production capacities for these products in July 2006 and the utilization rate of related production facilities also climbed accordingly. The gradual increase in own production of core components for suspension system assembly, such as ball joints, brake systems and core parts of shock absorbers, and the expanded production capacity of assembly business together has presented strong economies of scale benefit to the Group for increasing its market shares in China. The Group expects its overall gross profit margin to improve in the future.

### Auto parts turnover by sector



### Market analysis

During the Period, sales of axle modules/suspension systems and shock absorbers in China increased notably as compared with the same period last year. That plus contribution from domestic sales of newly developed disc brake pads to OE customers together boosts the percentage of sales contribution from the China market. Sales of these products have much room for growth in the China market and are set to become the Group's sales and profit drivers in the future.





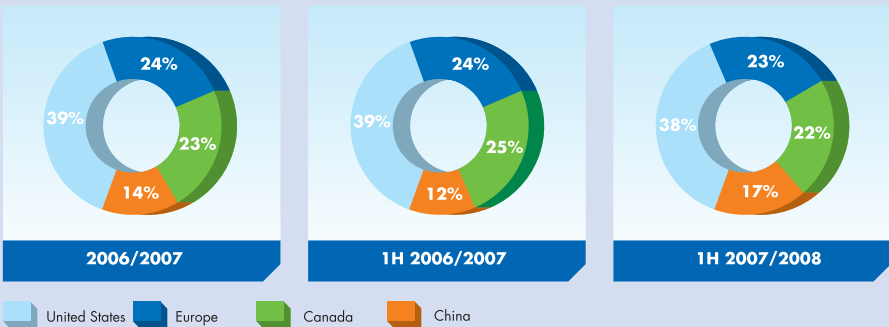
## Business and Financial Review (continued)

### Market analysis (continued)

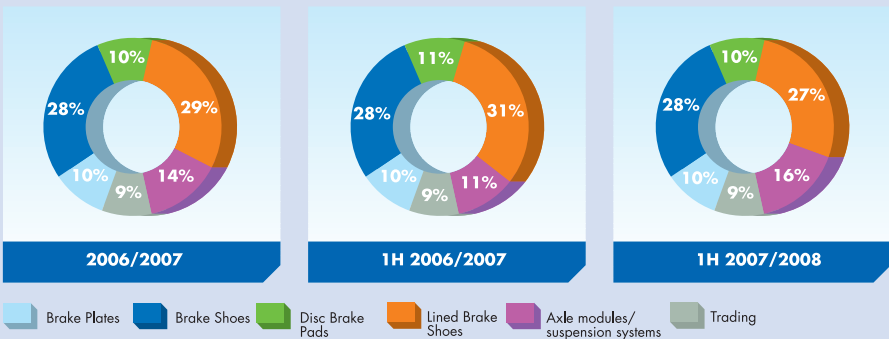
The US, Canada and Europe accounted for 38%, 22% and 23% of overall sales of auto parts respectively, as compared to last year's 39%, 25% and 24%. The slight decrease in percentage contribution from overseas market was mainly because contribution from China market increased from last year's approximately 12% to 17%.

At the end of last year, the Group reached agreement with overseas customers about raising the prices of auto parts to offset some of the loss incurred as a result of appreciation of the RMB with effect from 1 April 2007. The Group expects sales to the US, Canada and Europe to increase mildly in the coming year, while it focuses on expanding the proportion of sales from the China market.

### Auto parts turnover by region



### Auto parts turnover by product



## Business and Financial Review (continued)

### Manufacturing business

During the Period, the Group's auto parts manufacturing business grew steadily. Sales achieved a 11% year-on-year growth to RMB1,291,131,000 and accounted for approximately 75.2% of the total turnover from auto parts.

The sales of disc brake pads and lined brake shoes increased by approximately 7% against the same period last year, resulting from increased utilization rate. As for brake plates/shoes, sales grew around 15.6% when compared with the corresponding period last year.

Currently, around 50.1% of the sales of auto parts business came from disc brake pads and lined brake shoes of over 600 product models. The friction materials technological cooperation agreement reached with Delphi in September 2006 has given the Group access to Delphi's friction material technology of disc brake pads for the OE market. In January 2007, production commenced and supplied for the LaCrosse and GL8 series, etc. car models of Shanghai General Motors Co. Ltd. These orders represented a breakthrough for the Group in developing its international brand in the domestic OE market. Seeing strong demand for friction materials in the domestic OE market, the Group plans to increase the production capacity of OE products in the coming year. The management will strive to enhance the Group's ability to apply and improve the new friction material formula obtained from Delphi. OE production lines and capacity will also be expanded and relevant testing facilities will be installed to cater for domestic and overseas demands. Regarding market expansion, apart from negotiating for a supply agreement with General Motors Co. Ltd., the Group continues to embark on cooperation with other well-known automobile manufacturers to develop OEM and OES products. It aims to increase product value and generate higher RMB revenue.



## Business and Financial Review (continued)

### Assembly business

The turnover from axle modules/suspension systems and shock absorbers manufactured by Norstar Auto Suspension Manufacturing (Beijing) Inc. in Beijing Economic and Technological Development Area increased from RMB158,861,000 to RMB280,797,000, and in terms of percentage of the total turnover of auto parts business from around 11% to 16%, benefiting from enhanced production utilization rate of axle modules/suspension systems. During the Period, the annual utilization rate of production facilities increased from 66% in the same period last year to 85%.

More domestic automobile manufacturers are seeking to enhance product quality by sourcing better quality auto parts and more Sino-foreign automobile joint ventures are sourcing more local contents to lower their production cost. Production and sales of automobiles in China have also been climbing continuously. The management sees strong growth potential in the sales of high value-added products like axle modules/suspension systems and shock absorbers which are poised to become the Group's mainstream products and major impetus for turnover growth. As for assembly business, which is mainly settled in RMB, its growth would help to optimise the currency mix of the Group's overall turnover and adjust the impact of appreciation of the RMB on the results of the Group.

### Trading business

Compared with the same period last year, income from trading of auto parts slightly increased by 6.5% to approximately RMB145,142,000, accounting for approximately 8.5% 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.

Riding on its extensive procurement network in China, the Group will continue to source high quality auto parts products from domestic suppliers to meet the booming sourcing needs of customers. The Group expects its trading business to maintain growth momentum for the rest of the financial year, with the aim of satisfying quality and quantity demand of existing customers.

### Construction Decorative Hardware

During the Period, the Group's construction decorative hardware operation recorded turnover of approximately RMB229,451,000, an increase of 28% when compared with the same period last year. The segment with increased sales accounted 11.8% of the total turnover of the Group, a slight increase from 11.0% in the same period last year.

## Business and Financial Review (continued)

### Manufacturing Costs

The Group continued to optimise the product mix and in turn the cost structure of the segment. During the Period, the rapid expansion of axle module/suspension system assembly business increased the proportion of total costs of parts and components used by the assembly business in the Group's total production cost to 14.6%, against 10.6% in the same period last year. Cost of steel made up the largest share in the Group's production cost at 39.7%, a slight increase from 37.9% in the same period last year. Cost of friction materials accounted for 17.9% of total cost for the Period, against 19% in the same period last year. Cost of chemical used for surface finishing and electroplating accounted for 15% of the total cost for the period, against 17% in the same period last year.

Average unit steel cost increased by around 2.7% compared with the same period last year. Prices of raw materials used in producing friction materials and industrial chemicals used for surface processing remained generally stable.

### Gross Profit Margin

The Group's overall gross profit margin declined slightly from 17.6% to 16.4% mainly because the accelerating appreciation of the RMB during the Period. Exchange loss was incurred when turnover from export business in US dollar was converted into RMB and accordingly overall gross profit margin was affected. The sales of axle modules/suspension systems and shock absorbers recorded sustained growth. This plus expansion in production capacity has gradually brought economies of scale, benefiting the gross profit margin of assembly business. To keep improving the gross profit margin of assembly business, the Group has commenced a new project, which is to manufacture some of the core parts and components including ball joints, core parts of shock absorbers and brake systems in the manufacturing plant in Anhui and supplied to the assembly plant in Beijing instead of resorting to outside sources.

To reflect appreciation of the RMB, the Group adjusted its book exchange rate between US dollar and RMB from 7.9 to 7.6 on 1 April 2007, resulting in a lower RMB book value for US dollar earnings. Presuming the book exchange rate had not been adjusted, the Group would actually be reporting an enhanced blended gross profit margin of 18.9% thanks to improved production efficiency in the Period.

Looking ahead, the management expects the moves to produce its own core parts for the assembly business to bring better economies of scale and speed up to increase the domestic sales in China, which will help to enhance the Group's profitability and mitigate impact on the Group's profit from future RMB appreciation. In the middle to long run, the Group will seek to raise gross profit margin by gradually increasing the production proportion of high value-added OE products, pushing for vertical integration of production and expanding production capacity. It will also exercise stringent cost control to ensure its profit margin grow steadily.



## Business and Financial Review (continued)

### Prospects

The Group sees ample opportunities in the market with more automobile makers from Europe and the US setting up procurement centers, product design research centers and manufacturing facilities in China to hasten purchase of China-made auto parts. Furthermore, China's own automobile production and sales market has been thriving. According to China Automotive Industry Association statistics, over 7,200,000 new automobiles hit the road in the entire year of 2006 and the number for the first half of 2007 was already above 4,000,000, on the way to meeting the forecast of more than 8,000,000 by the end of 2007. The trend points to continuous growth in demand for quality auto parts in the China market. As a leading provider of auto parts in China, the Group's long term strategic goal is to become a world-class auto parts manufacturer and system integrator. Looking ahead, it will seek to expand production scale and boost R&D capabilities through investing / joint investment in building new plants, and merger and acquisition and restructuring, pushing towards the goal of becoming a world-class auto parts manufacturer and integrator.

### Market/customer prospects

The Group expects its brake plate/shoe and disc brake pad/lined brake shoe products to mature and start to see balanced development in the international aftermarket. Its aim is to satisfy the sourcing needs of existing customers. The Group will focus resources on developing the high value-added product market.

In China, capitalizing on the friction material technology cooperation with Delphi, the Group is not only supplying friction materials for different vehicle models to Shanghai General Motors, but is also exploring opportunities in OE markets in the country and overseas. It is in active negotiation with many renowned automobile manufacturers on potential supply arrangements.

The Group has so far secured more than 10 OE customers for its axle modules/suspension systems and shock absorbers in Beijing. Among them are Beijing Benz-Daimler Chrysler Automotive Co. Ltd. and Beijing Automotive Industrial Holdings Company Limited (北京汽車工業控股有限公司), from which the Group has derived satisfactory returns. The Group is expanding production capacity to cater for the increasing demands of existing customers. Also, the Group is negotiating with several new customers, including automobile manufacturers in Europe, the US, Japan, Korea and the PRC about joint development and testing of new axle modules/suspension systems.

In coming years, the Group will focus on boosting sales of axle modules/suspension systems, shock absorbers, disc brake pads, ball joints and brake systems in the China OE market. Its aim is to increase overall sales in China to above 30% of its total turnover within the next 2 years.

## Business and Financial Review (continued)

### Progress of projects

#### - Suspension system assembly

The Group expanded the production capacity for axle modules/suspension systems in July 2006. The surging demands from existing customers have seen the Group's assembly business using up to 85% of its production capacity annually. Taking into account that the Group is developing axle modules/suspension systems and for new car models with potential customers, demand for axle modules/suspension systems is expected to rise continuously. The Group is aiming to expand its production capacity for axle modules/suspension systems to 200,000 sets by the end of FY2007/08.

#### - Disc brake pads for OE market

Delphi's friction material technology is mainly developed for the OE market. As the demand from both the domestic and overseas OE markets continues to grow, the Group will gradually increase production capacity of this manufacturing business and deploy production and inspection facilities to ensure the high quality of its products, satisfying the needs of both the domestic and overseas customers.

#### - Suspension system parts

To effectively raise the overall profit margin of the axle modules/suspension systems and shock absorbers assembly business, the Group's plant in Anhui has started its plan to manufacture some of the major parts of suspension systems and shock absorbers instead of resorting to outside sources. This will not only effectively raise the gross profit margin of the assembly business in Beijing, but will also ensure the Group has stable supply of quality components. Apart from satisfying needs of the Beijing plant, the components also have huge domestic and export market potential. The Group is currently negotiating with many renowned automobile manufacturers and top auto parts suppliers on supply arrangements.

The Group commenced production of ball joints in second half of FY2007/08 at the initial designed annual production capacity of 3,000,000 pieces to satisfy the needs of the Beijing assembly plant and some customers. The planned initial production capacity for core parts of shock absorbers is 2,000,000 pieces and, with related equipments purchased and are being installed and adjusted, it is expected to achieve internal supply and commence sales in 2008.



## Business and Financial Review (continued)

### Progress of projects (continued)

#### – Brake systems

The Group's existing disc brake pad/lined brake shoe products are major components of brake systems. The Group has begun its plan to produce brake systems at its Anhui plant. The initial designed annual production capacity for disc brakes/drum brakes is 400,000 sets. Related equipment are being installed and adjusted and it is expected to achieve internal supply and commence sales in 2008.

### Research & Development plan

Looking ahead, the Group will inject more resources into R&D to enhance its technological capabilities, especially for high value-added products or services including individual suspension systems, axle modules/suspension system assembly of SUV, MPV and sedan, new formulae friction materials for the OE market, shock absorbers, ball joints and brake systems, etc. for domestic and overseas OE customers. The development of these new products will not only help to contribute new sources of income to the Group, but will also raise its exposure among customers. In the future, the Group will step up efforts in the area and seek to ride on the corporation with Delphi to bring in ceramic formula employing DCM technique, enhance its proprietary formulae to facilitate a wider application in the market, apart from supplying to General Motors. It will also continue to work in step with domestic and overseas automobile manufacturers on R&D, aiming to strengthen cooperation on both the technical and marketing aspects and enter the middle to high-end auto parts market. At the same time, the Group will introduce world-class advanced product testing and inspection equipment to support especially the OE's product development needs.

### Orders for the next quarter

In the third quarter of FY2007/08, sales orders received by the Group's existing businesses amounted in all to approximately RMB941,550,000 (exchange rate: USD1 = RMB7.6). If the effect of appreciation of the RMB was excluded, sales orders would amount to RMB972,070,000 (exchange rate: USD1 = RMB7.9), representing an increase of 13.4% from RMB857,000,000 in the same period last year.

### Operating cost

#### Distribution and selling expenses

The Group's total distribution and selling expenses were 5% lower than the same period last year. Such decrease was mainly attributable to more efficient logistic arrangement adopted for local transportation. Sea freight and local transportation charges accounted for 93.5% of the Group's total distribution and selling expenses.

## **Business and Financial Review (continued)**

### **Administrative expenses**

The Group's total administrative expenses rose 2.8% during the period. Such moderate increase is mainly attributable to more efficient cost control measures adopted though the production capacity of Beijing's suspension system assembly operation expanded.

### **Other income**

Other income rose by 72% during the period. Interest income soared by 99.6% during the period, due mainly to the increase in cash balance which surged 37.5% compared with the year ended 31 March 2007 and an increase in placement of idle cash in fixed deposits. It also served the function of eliminating the risk of RMB appreciation. Likewise, income from the sale of scrap metals and waste materials slightly increased during the period.

### **Finance costs**

During the period under review, total finance costs were 15% higher than the same period last year. Interest expenses on bank borrowings, resulting from higher average loan balance during the period remained major contributors to the increase in finance costs. Interests on convertible bonds were however sharply reduced. As at 30 September 2007, outstanding convertible bonds totaled USD4,250,000, representing 10.6% of the total issued amount. Though a total syndicated loan of HKD1,150,000,000 were drawn down on 4 May 2007 and 14 May 2007 respectively, HKD576,752,000 out of it was for repayment of old loan. Furthermore, decrease of interest rate during period help lower our total interest cost.

### **Share of profits of an associate**

The Group owns a 40% stake in Profound Global Group, which is currently engaged in the manufacturing of metal hardware products for sale in China and overseas, as well as the distribution of auto-parts within the PRC. During the period under review, Profound Global Group recorded total turnover of approximately RMB668,823,000, un-audited profit before taxation of RMB33,097,000 and un-audited net profit of RMB21,225,000. The net profit figure represented a sharp decrease as compared to the same period last year and was due to the impact of RMB appreciation.





## Business and Financial Review (continued)

### Impact of RMB appreciation

During the period, the Group generated approximately 83% of its sales from export markets including the US, Canada and Europe. 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 Group's book exchange rate of US dollar against the RMB was 7.9 until 31 March 2007 when the rate was adjusted to 7.6 to reflect the continuing RMB appreciation. The adjustment in book exchange rate has resulted in 3.8% decrease in the Group's total export revenue. Exchange loss totaling RMB4,719,000 (30 September 2006: RMB17,721,000 exchange loss) was incurred with respect to the settlement and revaluation of the Group's account receivable balances recorded during the period. Such decrease in exchange loss was mainly due to the change of book rate reflecting a smaller difference between book and actual exchange rate at the point of settlement or revaluation. The continual appreciation of RMB against HK dollars has therefore resulted in foreign exchange gains upon revaluation of the Group's dividend receivables from subsidiaries. Such revaluation amounted to approximately RMB11,968,000 exchange gains reflected in the Group's consolidated income statement.

All in all, the Group's net exchange gain was RMB7,249,000 during the period (30 September 2006: RMB17,405,000 net exchange loss).

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 2 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.

## Business and Financial Review (continued)

### The Group's financial position, liquidity and capital structure

As at 30 September 2007, the Group had total net assets of approximately RMB3,133,436,000 and net current assets of around RMB2,890,283,000, compared with approximately RMB2,770,254,000 and RMB1,929,203,000 respectively as at 30 September 2006.

The average receivable turnover for the period was 58 days same as 58 days for the same period last year and 60 days for FY2006/07. The Group has maintained its credit terms of 30-90 days.

The average payable turnover for the period was 19 days as opposed to 13 days for the same period last year and 18 days for FY2006/07. Average inventory turnover remained as 13 days decreased from 17 days for the same period last year and compared with 8 days for FY2006/07. 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 RMB241,154,000, compared to RMB165,136,000 for the same period last year. Capital expenditure for the period amounted to RMB50,383,000.

As at 30 September 2007, the Group maintained a total cash and bank balance of approximately RMB2,397,254,000, 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 RMB1,438,789,000 as at 30 September 2007 or RMB1,404,097,000 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 2007, after excluding the convertible bonds item, less than 10% 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.



## **Business and Financial Review (continued)**

### **Charge on assets**

As at 30 September 2007, bank deposits of approximately RMB16,258,000 (31 March 2007: RMB16,450,000) were pledged as security for certain banking facilities of the Group.

### **Capital commitments and contingent liabilities**

As at 30 September 2007, the Group's total capital commitments amounted to RMB31,367,000 (31 March 2007: RMB148,068,000). There were no material contingent liabilities as at 30 September 2007 (31 March 2007: Nil).

### **Employees and remuneration policies**

As at 30 September 2007, the Group had a total of more than 2,380 employees. Total staff costs amounted to RMB45,642,000 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 2007

(RMB'000)	Note	2007 (unaudited)	2006 (unaudited)
<b>Turnover</b>	3	<b>1,946,521</b>	1,635,944
Cost of goods sold		<b>(1,627,777)</b>	(1,348,425)
Gross profit		<b>318,744</b>	287,519
Other income	3	<b>37,026</b>	21,554
Distribution and selling expenses		<b>(27,201)</b>	(28,620)
Administrative expenses		<b>(48,584)</b>	(47,240)
Profit from operations	4	<b>279,985</b>	233,213
Finance costs	5	<b>(41,366)</b>	(36,041)
		<b>238,619</b>	197,172
Share of profit of an associate		<b>8,490</b>	20,009
<b>Profit before tax</b>		<b>247,109</b>	217,181
Income tax expense	6	<b>(24,570)</b>	(24,391)
<b>Profit for the period attributable to equity holders of the Company</b>		<b>222,539</b>	192,790
<b>Dividends</b>	7	<b>27,015</b>	27,871
<b>Earnings per share</b>	8		
Basic		<b>RMB17.74 cents</b>	RMB15.85 cents
Diluted		<b>RMB17.47 cents</b>	RMB15.51 cents



# Condensed Consolidated Balance Sheet

At 30 September 2007

(RMB'000)	Note	30 September 2007 (unaudited)	31 March 2007 (audited)
<b>Non-current assets</b>			
Property, plant and equipment	9	<b>862,698</b>	854,567
Prepaid land lease payments		<b>55,658</b>	56,282
Goodwill		<b>29,639</b>	29,639
Other intangible assets		<b>8,749</b>	743
Interest in an associate		<b>432,195</b>	423,357
		<b>1,388,939</b>	1,364,588
<b>Current assets</b>			
Inventories		<b>123,901</b>	81,202
VAT receivable		<b>77,367</b>	145,625
Trade and other receivables	10	<b>759,298</b>	715,059
Cash and bank balances		<b>2,397,254</b>	1,743,535
		<b>3,357,820</b>	2,685,421
<b>Current liabilities</b>			
Trade and other payables	11	<b>160,630</b>	186,867
Short-term borrowings	12	<b>217,768</b>	186,978
Current portion of non-current borrowings	13	<b>40,544</b>	361,265
Convertible bonds	14	<b>34,692</b>	56,753
Current Tax liabilities		<b>13,903</b>	14,128
		<b>467,537</b>	805,991

## Condensed Consolidated Balance Sheet (continued)

At 30 September 2007

(RMB'000)	Note	<b>30 September 2007 (unaudited)</b>	31 March 2007 (audited)
<b>Net current assets</b>		<b>2,890,283</b>	1,879,430
<b>Total assets less current liabilities</b>		<b>4,279,222</b>	3,244,018
<b>Non-current liabilities</b>			
Non-current borrowings	13	<b>1,145,786</b>	279,720
		<b>1,145,786</b>	279,720
<b>NET ASSETS</b>		<b>3,133,436</b>	2,964,298
<b>Capital and reserves</b>			
Share capital	15	<b>132,383</b>	131,598
Reserves		<b>3,001,053</b>	2,832,700
<b>Equity attributable to Equity holders of the Company</b>		<b>3,133,436</b>	2,964,298



# Condensed Consolidated Statement of Changes in Equity (unaudited)

For the six months ended 30 September 2007

	Attributable to equity holders of the Company									
	Share capital	Share premium	Capital reserve	Foreign Currency translation reserve	Share-based payment reserve	Merger reserve	General reserve	Enterprise expansion fund	Retained profits	Total
(in RMB'000)										
At 1 April 2007	131,598	1,699,017	1,190	26,984	3,554	(299,310)	136,304	136,304	1,128,657	2,964,298
Profit for the period	—	—	—	—	—	—	—	—	222,539	222,539
Recognition of share-based payments	—	—	—	—	3,341	—	—	—	—	3,341
Issuance of shares upon conversion of convertible bonds	785	20,508	(404)	—	—	—	—	—	—	20,889
Transfer to General & Enterprise expansion fund	—	—	—	—	—	—	3,054	3,054	(6,108)	—
Exchange arisen from Associate	—	—	—	1,852	—	—	—	—	—	1,852
2007 Final dividend paid	—	—	—	—	—	—	—	—	(79,483)	(79,483)
<b>At 30 September 2007</b>	<b>132,383</b>	<b>1,719,525</b>	<b>786</b>	<b>28,836</b>	<b>6,895</b>	<b>(299,310)</b>	<b>139,358</b>	<b>139,358</b>	<b>1,265,605</b>	<b>3,133,436</b>
At 1 April 2006	113,940	1,099,998	1,411	15,927	—	(299,310)	98,592	98,592	901,080	2,030,230
Exchange translation	—	—	—	12,290	—	—	—	—	—	12,290
Net income recognised directly in equity	—	—	—	12,290	—	—	—	—	—	12,290
Profit for the period	—	—	—	—	—	—	—	—	192,790	192,790
Total recognised income and expenses for the period	—	—	—	12,290	—	—	—	—	192,790	205,080
Recognition of share-based payments	—	—	—	—	95	—	—	—	—	95
Issuance of shares	17,255	608,239	—	—	—	—	—	—	—	625,494
Issuance of shares upon conversion of convertible bonds	82	2,046	(42)	—	—	—	—	—	—	2,086
Share issue expenses	—	(19,453)	—	—	—	—	—	—	—	(19,453)
2006 Final dividend paid	—	—	—	—	—	—	—	—	(73,278)	(73,278)
<b>At 30 September 2006</b>	<b>131,277</b>	<b>1,690,830</b>	<b>1,369</b>	<b>28,217</b>	<b>95</b>	<b>(299,310)</b>	<b>98,592</b>	<b>98,592</b>	<b>1,020,592</b>	<b>2,770,254</b>

## Condensed Consolidated Cash Flow Statement

For the six months ended 30 September 2007

(RMB'000)	Six months ended 30 September	
	2007 (unaudited)	2006 (unaudited)
Net cash generated from operating activities	<b>241,154</b>	165,136
Net cash used in investing activities	<b>(49,832)</b>	(127,746)
Net cash inflow from financing activities	<b>480,131</b>	481,108
Net increase in cash and cash equivalents	<b>671,453</b>	518,498
Effect of foreign exchange rate changes	<b>(17,542)</b>	(1,972)
Cash and cash equivalents at 1 April	<b>1,727,085</b>	1,063,163
Cash and cash equivalents at 30 September	<b>2,380,996</b>	1,579,689
Analysis of cash and cash equivalents		
Cash and bank balances	<b>2,397,254</b>	1,596,321
Pledged bank deposits	<b>(16,258)</b>	(16,632)
	<b>2,380,996</b>	1,579,689





# Notes to the Financial Statements

For the six months ended 30 September 2007

## 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 Significant 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 2007.

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 has no material impact to the Group's accounting policies.

## Notes to the Financial Statements (continued)

For the six months ended 30 September 2007

### 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:

(RMB'000)	Six months ended 30 September	
	2007 (unaudited)	2006 (unaudited)
Turnover		
Auto parts	<b>1,717,070</b>	1,456,536
Construction decorative hardware products	<b>229,451</b>	179,408
	<b>1,946,521</b>	1,635,944
Other income		
Interest income	<b>21,703</b>	10,872
Income from scrap sales	<b>9,633</b>	9,445
Sundry income	<b>5,690</b>	1,237
	<b>37,026</b>	21,554
Total turnover and other income	<b>1,983,547</b>	1,657,498

#### 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; and
- Construction decorative hardware products.



## Notes to the Financial Statements (continued)

For the six months ended 30 September 2007

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

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

For the six months ended 30 September 2007 (unaudited)

(RMB'000)	United States	Canada	Europe	PRC	Total
Segment turnover	810,199	448,103	387,764	300,455	1,946,521
Segment results	128,771	77,159	64,324	48,490	318,744

For the six months ended 30 September 2006 (unaudited)

(RMB'000)	United States	Canada	Europe	PRC	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

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

For the six months ended 30 September 2007 (unaudited)

(RMB'000)	Auto parts	Construction decorative hardware products	Total
Turnover	1,717,070	229,451	1,946,521
Segment results	296,453	22,291	318,744
Other income			37,026
Unallocated costs			(75,785)
Profit from operations			279,985

## Notes to the Financial Statements (continued)

For the six months ended 30 September 2007

### 3. Turnover, Other Income and Segment Information (continued) (ii) Secondary reporting format — business segments (continued)

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

### 4. Profit from Operations

Profit from operations has been arrived at after charging:

(RMB'000)	Six months ended 30 September	
	2007 (unaudited)	2006 (unaudited)
Staff costs	<b>45,642</b>	30,520
Cost of inventories sold	<b>1,627,777</b>	1,348,425
Amortization of other intangible assets	<b>463</b>	—
Depreciation	<b>32,971</b>	21,260
Operating lease rentals in respect of:		
— Land	<b>624</b>	624
— Factory and office premises	<b>4,028</b>	3,108
— Plant and machinery	<b>2,550</b>	2,550
Net exchange (gain) / loss	<b>(7,249)</b>	17,405



## Notes to the Financial Statements (continued)

For the six months ended 30 September 2007

### 5. Finance Costs

(RMB'000)	Six months ended 30 September	
	2007 (unaudited)	2006 (unaudited)
Interest on bank borrowings	37,605	31,681
Interest on convertible bonds	791	2,127
Finance charges on obligations under finance leases	904	1,712
Bank charges	2,066	521
	<b>41,366</b>	36,041

### 6. Income tax expense

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

(RMB'000)	Six months ended 30 September	
	2007 (unaudited)	2006 (unaudited)
PRC enterprise income tax	24,570	24,391
	<b>24,570</b>	24,391

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

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 2006 and 2007 respectively, no provision for deferred tax has been made in the financial statements as tax effect of temporary differences is immaterial to the Group.

## Notes to the Financial Statements (continued)

For the six months ended 30 September 2007

### 6. Income tax expense (continued)

- (b) As the Group's major operation and income were located in the PRC, the applicable tax rate to the Group was the tax rate of 11.5% during the period (six months ended 30 September 2006: 11.5%) applicable to the PRC subsidiary as mentioned above.

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

	<b>Six months ended 30 September</b>	
(RMB'000)	<b>2007 (unaudited)</b>	2006 (unaudited)
<b>Profit before tax (excluding share of profit of an associate)</b>	<b>238,619</b>	197,172
Tax at the applicable tax rate	<b>27,441</b>	22,675
Tax effect of (income) / expenses that are not (taxable) / deductible in determining taxable profit	<b>(6,704)</b>	(2,370)
Tax effect of unrecognized tax losses	<b>3,833</b>	4,086
Income tax expense	<b>24,570</b>	24,391



## Notes to the Financial Statements (continued)

For the six months ended 30 September 2007

### 7. Dividends

(RMB'000)	Six months ended 30 September	
	2007 (unaudited)	2006 (unaudited)
2006/07 Final, paid of HK\$0.065 per ordinary share (2005/06 Final: HK\$0.057 per ordinary share)	<b>79,483</b>	73,278
2007/08 Interim, proposed of HK\$0.022 per ordinary share (2006/07 Interim: HK\$0.022 per ordinary share)	<b>27,015</b>	27,871
	<b>106,498</b>	101,149

At a meeting of board of directors held on 13 December 2007, an interim dividend of HK\$0.022 per ordinary share has been declared by the directors for the year ending 31 March 2008. 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 2008.

## Notes to the Financial Statements (continued)

For the six months ended 30 September 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	
	2007 (unaudited)	2006 (unaudited)
<b>Earnings</b>		
Earnings for the purpose of calculating basic earnings per share	<b>222,539</b>	192,790
Finance costs saving on exercise of convertible bonds	<b>(239)</b>	189
<b>Earnings for the purpose of calculating diluted earnings per share</b>	<b>222,300</b>	192,979
<b>Number of shares</b>		
Issued ordinary shares at 1 April	<b>1,251,367,851</b>	1,077,320,976
Effect of shares issued	—	138,415,301
Effect of conversion of convertible bonds	<b>2,985,400</b>	252,100
<b>Weighted average number of ordinary shares for the purpose of calculating basic earnings per share</b>	<b>1,254,353,251</b>	1,215,988,377
Effect of dilutive potential ordinary shares arising from convertible bonds outstanding	<b>13,759,375</b>	25,090,625
arising from share options	<b>4,512,631</b>	3,098,436
<b>Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share</b>	<b>1,272,625,257</b>	1,244,177,438





## Notes to the Financial Statements (continued)

For the six months ended 30 September 2007

### 9. Property, Plant and Equipment

(RMB'000)	(unaudited)
Net book value at 1 April 2007	854,567
Adjustment	109
Additions	41,683
Disposal	(666)
Depreciation	(32,971)
Exchange realignment	(24)
Net book value at 30 September 2007	862,698

### 10. Trade and Other Receivables

(RMB'000)	30 September 2007 (unaudited)	31 March 2007 (audited)
Trade receivables	591,899	641,509
Dividend receivable	7,722	7,914
Prepayments and other receivables	159,545	65,636
Due from director (note a)	132	—
	<b>759,298</b>	715,059

Aging analysis of trade receivables is as follows:

(RMB'000)	30 September 2007 (unaudited)	31 March 2007 (audited)
0 – 90 days	591,899	641,005
91 – 180 days	—	504
181 – 365 days	—	—
	<b>591,899</b>	641,509

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

## Notes to the Financial Statements (continued)

For the six months ended 30 September 2007

### 11. Trade and Other Payables

(RMB'000)	<b>30 September 2007 (unaudited)</b>	31 March 2007 (audited)
Trade payables	<b>66,585</b>	94,303
Accruals and other payables	<b>93,597</b>	84,804
VAT payable	<b>448</b>	6,428
Due to directors (note a)	<b>—</b>	1,332
	<b>160,630</b>	186,867

(a) The amounts due are unsecured, interest-free and have no fixed repayment terms.

Aging analysis of trade payables is as follows:

(RMB'000)	<b>30 September 2007 (unaudited)</b>	31 March 2007 (audited)
0 – 90 days	<b>54,078</b>	84,946
91 – 180 days	<b>4,348</b>	7,573
181 – 365 days	<b>3,747</b>	—
Over 1 year	<b>4,412</b>	1,784
	<b>66,585</b>	94,303



## Notes to the Financial Statements (continued)

For the six months ended 30 September 2007

### 12. Short-Term Borrowings

(RMB'000)	30 September 2007 (unaudited)	31 March 2007 (audited)
Wholly repayable within one year		
Guaranteed by the Company (a)	67,768	56,978
Guaranteed by a related party (b)	150,000	130,000
	<b>217,768</b>	186,978

- (a) Bore effective interest ranging from 1.7% to 6.5% per annum (31 March 2007: 4.2% to 6.4% per annum)
- (b) Denominated in RMB and bore effective interest of 5.5% per annum (31 March 2007: 5.5% per annum)

### 13. Non-Current Borrowings

(RMB'000)	30 September 2007 (unaudited)	31 March 2007 (audited)
Interest bearing borrowings		
Bank loans – unsecured	1,150,415	612,725
Obligations under finance leases	35,915	28,260
	<b>1,186,330</b>	640,985
Current portion of non-current borrowings	<b>(40,544)</b>	(361,265)
	<b>1,145,786</b>	279,720

## Notes to the Financial Statements (continued)

For the six months ended 30 September 2007

### 14. Convertible Bonds

On 16 December 2004, the Company issued US\$40 million 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. On 16 December 2005, the conversion price was adjusted to HK\$2.43 per share in accordance to the terms of the indenture. On 4 May 2006, the conversion price was further adjusted to HK\$2.40 per share. 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.

The interest charged for the year is calculated by applying an effective interest rate of 4.75% per annum to the liability component for the 36 month period since the loan notes were issued.

The Directors estimate the fair value of the liability component of the convertible bonds at 30 September 2007 to be approximately RMB34,692,000. This fair value has been calculated by discounting the future cash flows at the market rate.

The convertible bonds will mature on 16 December 2007 and hence they are reclassified to current liabilities.



## Notes to the Financial Statements (continued)

For the six months ended 30 September 2007

### 15. Share Capital

	No. of shares In millions	Ordinary share capital at HK\$0.1 each	
		HK\$'000	RMB'000
<b>Authorized :</b>			
At 1 April and 30 September 2007	5,000	500,000	
<b>Issued and fully paid :</b>			
At 1 April 2007	1,251	125,137	131,598
Shares issued upon conversion of convertible bonds (a)	8	809	785
At 30 September 2007	1,259	125,946	132,383

- (a) During the period, convertible bonds with total nominal value of USD2,500,000 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 8,093,750 new ordinary shares of HK\$0.1 each were issued as a result of the conversions.

### 16. Share-based payment

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.

## Notes to the Financial Statements (continued)

For the six months ended 30 September 2007

### 16. Share-based payment (continued)

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 2007.

Share option holders	Date of grant	As at 01/04/2007	Number of share options			As at 30/09/2007
			Granted during the period	Exercised during the period	Lapsed during the period	
<b>Director</b>						
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
<b>Employees of the Group</b>						
In aggregate	26/09/2006	10,025,000	—	—	1,125,000	8,900,000
Total for all categories		21,025,000	—	—	1,125,000	19,900,000

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 to the Financial Statements (continued)

For the six months ended 30 September 2007

## 16. Share-based payment (continued)

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 year, was HK\$2.55.
- (3) There was no exercisable share option at the end of the period. The options outstanding at the end of the year have a remaining contractual life of 6 years (2006: 7 years) and the exercise price is HK\$2.57 (2006:HK\$2.57)
- (4) 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 and expected life of option. Expected volatility was determined by calculating the historical volatility of the Company's share price over the previous three years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, effective exercise price, exercise restrictions and behavioural considerations. The changes in input assumptions can materially affect the fair value estimate. The following significant assumptions were used to deliver the fair value.

Share price at grant date:	HK\$2.56
Expected life:	4.0-6.3 years from grant date
Expected volatility:	43.7% based on historical volatility
Expected dividend yield:	1.5% on semi-annual basis, based on historical dividend payments
Risk free interest rate:	3.816% based on 7-year Exchange Fund Notes
Exit rate:	0% for Directors; 20% for employees
Trigger price multiple:	2 times for Directors; 1.5 times for employees

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 expenses recognised in the consolidated income statement for share options during the period ended 30 September 2007 was approximately RMB3,340,000 (six months ended 30 September 2006: RMB95,000)

## Notes to the Financial Statements (continued)

For the six months ended 30 September 2007

### 17. Capital Commitments

(RMB'000)	30 September 2007 (unaudited)	31 March 2007 (audited)
Contracted but not provided for		
— purchases of machineries and equipment	31,367	144,217
— construction in progress	—	3,851
	<b>31,367</b>	148,068

### 18. Lease Commitments

As at 30 September 2007, 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 2007 (unaudited)	31 March 2007 (audited)
Within one year	4,620	8,250
After one year but within five years	5,190	7,800
	<b>9,810</b>	16,050





## Notes to the Financial Statements (continued)

For the six months ended 30 September 2007

### 18. Lease Commitments (continued)

The Group also had the 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 2007 (unaudited)	31 March 2007 (audited)
Within one year	1,755	1,800
After one year but within five years	1,392	2,328
	<b>3,147</b>	4,128

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 2007, the Group had significant related party transactions as summarized below:

(RMB'000)	Six months ended 30 September 2007 (unaudited)	2006 (unaudited)
Rental for leased office building, manufacturing premises and plant and machinery paid to AITC (Note a)	3,900	3,900
Rental for office building and staff quarters paid to related Companies (Note b)	878	583

## Notes to the Financial Statements (continued)

For the six months ended 30 September 2007

### 19. Related Party Transactions (continued)

Notes :

- (a) Pursuant to lease agreements entered into between Norstar Automotive and Anhui Industries and Trading Corporation ("AITC"), AITC has leased to Norstar Automotive certain office buildings, manufacturing premises and plant and machinery. AITC, a company established in the PRC, is jointly owned and managed by Mr. Zhou Tian Bao, a director of the Company, and his spouse.
- (b) Those premises are beneficially owned by Mr. Zhou Tian Bao.

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.

### 20. Contingent liabilities

As at 30 September 2007, the Group had no significant contingent liabilities (31 March 2007: Nil).



## Other Information

### Interests of directors and chief executive

At 30 September 2007, 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 Companies were as follows:

Name of directors	Number of shares held			Underlying shares of outstanding share options	Approximate aggregate percentage of interests
	Personal interests	Corporate interests	Total		
Ms. Lilly Huang (Note 1)	—	600,000,000	600,000,000	—	47.64%
Mr. Zhou Tian Bao (Note 2)	8,832,000	645,000,000	653,832,000	—	51.91%
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-based Payment” in Note 16 to the financial statements.

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 owns a 63% shareholding interest. Ms. Lilly Huang is therefore deemed to be interested in the entire interest of Century Founders Group Limited in the Company for the purpose 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 capacity:
- 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 purpose of Part XV of the SFO;
  - iii) 600,000,000 shares are held by Century Founders Group Limited in which Mark Up Investments Limited own a 37% shareholding interest. Mr. Zhou Tian Bao is therefore deemed to be interested in the entire interest of Century Founders Group Limited in the Company for the purpose 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 2007.

## Interests of substantial shareholders

So far as is known to the directors of the Company, as at 30 September 2007, 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 (Note 3)
Century Founders Group Limited (Note 2)	600,000,000	47.64%
Mark Up Investments Limited	645,000,000	51.21%
Ms. Lilly Huang (Note 2)	600,000,000	47.64%
Mr. Zhou Tian Bao	653,832,000	51.91%
Sansar Capital Management, LLC	164,470,000	13.06%
Templeton Asset Management Ltd	75,035,000	5.96%
UBS AG	64,002,700	5.08%



Notes:

- (1) Interests in shares stated above represent long positions.
- (2) Century Founders Group Limited owns 600,000,000 shares. Ms. Lilly Huang owns a 63% shareholding interest in Century Founders Group Limited and the remaining 37% shareholding interest is owned by Mark Up Investments Limited, a company wholly-owned by Mr. Zhou Tian Bao.
- (3) The calculation is based on the number of shares as a percentage of the total number of issued shares (ie. 1,259,461,601 shares) of the Company as at 30 September 2007.

Save as disclosed above and so far as the directors are aware, as at 30 September 2007, 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 contacts**

Save for those transactions described in the note "Related Party Transaction" in Note 19 to the financial statements, none of the Directors had 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.

### **Purchase, sale or redemption of securities**

During the six months period ended 30 September 2007, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed shares.

### **Interim dividend**

The Board is pleased to declare the payment of an interim dividend of HK\$0.022 (2006: HK\$0.022) per share for the six months ended 30 September 2007. The dividend will be payable on 24 January 2008 to shareholders whose names appear on the Register of Members of the Company on 17 January 2008.

## Closure of register of members

The Company's register of members will be closed from 15 January 2008 to 17 January 2008, 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 14 January 2008.

## 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 2007.

## 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 enquiry of all directors, they all confirmed that they 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 preparing the accounts, and is accountable to shareholders for the overall activities and financial performance of the Group. The Board considers that the financial statements 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. As at 30 September 2007, the Board, having made appropriate enquiries, is not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Company's ability to continue as a going concern. Accordingly, the Board has prepared the financial statements of the Company on a going concern basis.



## **Audit committee**

The Company has established an audit committee in compliance with Rule 3.21 of the Listing Rules.

The existing 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 duty of the audit committee include the review and supervision of the Group's financial reporting process and internal control systems, review of the Group's financial information and monitors the appointment and function of the Group's external auditor.

The financial statements for the six months ended 30 September 2007 have been reviewed by the audit committee.

## **Remuneration committee**

The 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 committee are to make recommendation to the Board the remuneration of executive Directors, senior management and the fees and emoluments of non-executive Directors.

## **Nomination committee**

The 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 committee are to consider and assess the qualifications and character of candidates for directorships on the Board. The 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 Committee demands.

By Order of the Board

**Norstar Founders Group Limited**

**Lilly Huang**

Chairman

Hong Kong, 13 December 2007

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