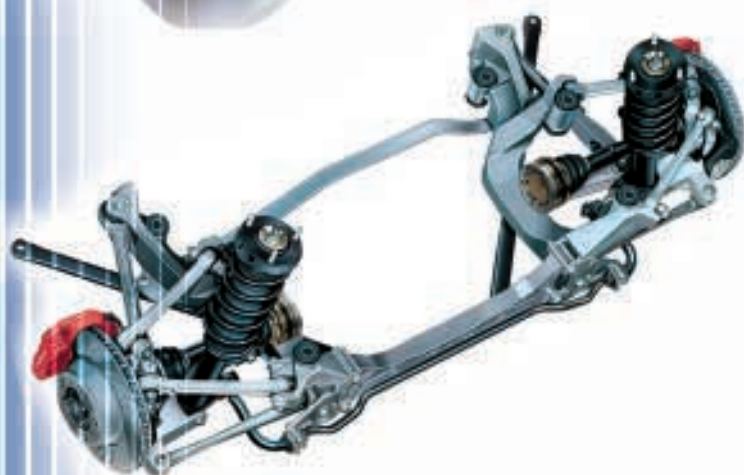
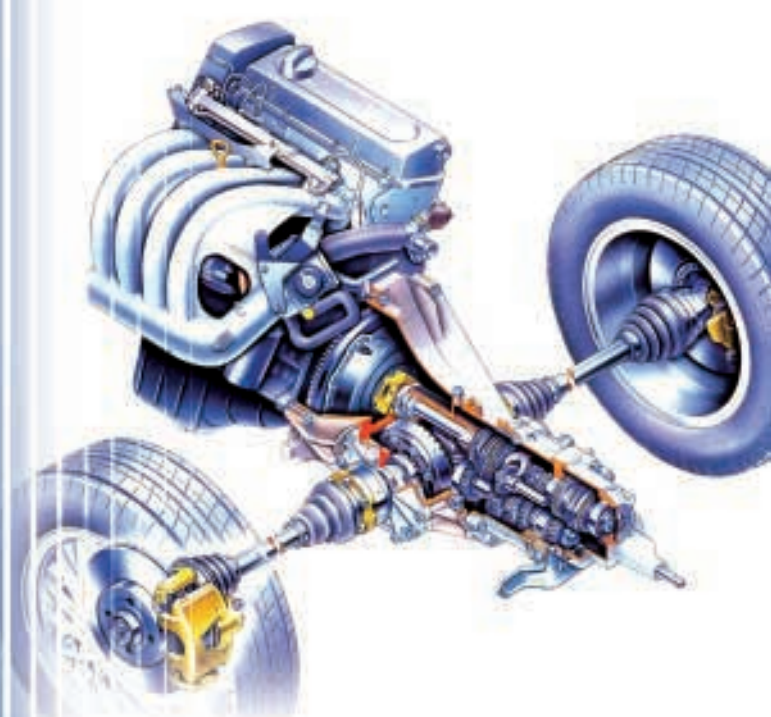


MONSTAR



Management Discussion and Analysis



BUSINESS REVIEW

For the financial year ended 31 March 2004, the Group recorded satisfactory results with turnover at approximately RMB1,711,442,000, a 24% rise from RMB1,380,267,000 in FY2003. Profit attributable to shareholders increased 24% from RMB131,722,000 to about RMB163,521,000 in FY2004 exceeding the projected profit of RMB150,000,000 as stated in the prospectus dated 29 September 2003. Earnings per share were RMB23.07 cents, representing a 5% increase from previous year.

The Board recommended a final dividend of HK\$0.024 per share for the year ended 31 March 2004 payable to shareholders whose names appear on the Register of Members of the Company on 13 August 2004. Subject to the passing of the relevant resolution at the forthcoming annual general meeting, such dividend will be payable on 18 August 2004.

The financial year of 2004 marked a major milestone in the development of Norstar. With the listing on The Stock Exchange on October 2003, the Group has successfully consolidated its financial foundation and further enhanced its corporate image and brand awareness. During the year, the Group's turnover and profit reached new heights. While operating costs inflated as a result of surge in steel prices during the year under review, the Group maintained a healthy profit margin with the help of a strong yet flexible operating strategy. Backed by its sound financial position, the Group was able to realize its business expansion plan, thereby providing a solid foundation for future development.

AUTOMOTIVE SPARE PARTS

During the year under review, turnover from the sale of automotive spare parts soared by 31% to RMB1,401,696,000 compared to RMB1,073,752,000 during the same period last year. Being the Group's flagship business, sale of automotive spare parts accounted for 82% of the Group's total turnover. The growth in turnover was the result of the expansion in production capacity, increase in product models, the securing of new clients and the rising number of orders from existing clients. The Group successfully developed solid business relationships with new clients in North America and Europe, which are the two major markets for the Group's automotive spare parts. Besides winning new clients, the Group continued to receive sizeable orders from internationally renowned automobile system integrators and spare parts manufacturers such as Honeywell Inc., Lemforder International AG & Co. KG and Federal-Mogul Corporation. Currently, self-manufactured products accounted for over 90% of the turnover from the sale of automotive spare parts, with the remaining being revenue from trading and distribution operations. Capitalizing on the Group's high quality products and state-of-the-art technology, automotive spare parts will remain the key driver for the Group's future growth.



Management Discussion and Analysis

During the year, gross profit from the sale of automotive spare parts rose from RMB195,684,000 to RMB228,096,000, representing a growth of 17%. The price of raw materials was volatile during the year. Steel prices began to surge towards the end of 2003 and has once inflated by as much as 50% during the first quarter of 2004. Steel is the major raw material used in the production of automotive spare parts and accounts for about 50% of the Group's total cost of production. In order to alleviate the impact of increase in steel price, the Group has been focusing on developing products with higher profit margins, reducing steel wastage in the production process and improving work flow so as to enhance raw materials utilisation. Also, given its long established relationship with steel suppliers, the Group enjoyed discounts from its purchases. It is worth noting that the price of steel has recently come down significantly as a result of PRC's administrative measures to curb excessive investments in steel industry. Coupled with the easing of restrictions on steel imports into the PRC starting from the third quarter of this year, the Group believes that both the supply and pricing of steel will stabilize in the second half of the year.

The Group currently manufactures automobile brake parts in its Anhui production plant. During the year, the Group has expanded the production capacity for brake plates and brake shoes by 30%-40%. Facilities for producing composite friction materials have been installed and tested and will begin operation in July. Construction of a new production plant in the BETD Zone in Beijing, the PRC, which will focus primarily on manufacturing suspension system parts, was completed. Procurement of equipment and staff training are underway and trial production is expected to begin in late 2004 or early 2005.

Backed by rising customers demand for quality products, the Group has commenced the trading and distribution of automotive spare parts sourced from independent third parties since 2003. Leveraging on the management's extensive experience and customer networks, this business segment achieved remarkable results within a year's time. Income from this segment accounted for about 8% of the overall turnover from the automotive spare parts operations.

The Group has recently become the exclusive overseas agent for Fawer Automotive Parts Company Limited, a wholly owned subsidiary of China First Automotive Works Group. This arrangement will, on one hand, help to expand the Group's distribution portfolio and hence its global market share, and on the other hand, allow quality "China-made" automotive spare parts to extend their reach into the international markets. Looking ahead, the Group anticipates increasing contribution from its trading and distribution of automotive spare parts operations.

Management Discussion and Analysis



CONSTRUCTION DECORATIVE HARDWARE PRODUCTS

The Group is also engaged in the production of construction decorative hardware products. During the year under review, construction decorative hardware products generated a turnover of approximately RMB309,746,000 (2003: approximately RMB306,515,000), representing around 18% of the Group's total turnover. Construction decorative hardware products generated a gross profit of RMB56,321,000 for the year under review, an approximately 7% rise from previous year's RMB52,783,000. It is the Group's strategy to sustain market demand for this business segment, which has been relatively stable with steady order flow and satisfactory profit margins. The Group expects construction decorative hardware products to remain a stable source of income for the Group in the near future.

PROSPECTS

Looking ahead, the Group will further consolidate its advantageous position in existing markets and at the same time develop new markets such as South America and Asia by strengthening and expanding its sales network. During the year under review, the Group reached a cooperation intent with Itochu Corporation of Japan and has also strengthened cooperation with two of its major existing clients, namely Lemforder International AG & Co. KG and Federal-Mogul Corporation. The strategic partnerships aim at diversifying the product spectrum and to venture into the vast PRC and Japanese markets. The Group further expects that the cooperation would reinforce Norstar's leading position in the global automobile components industry.

As overseas demand for automotive spare parts keeps growing, with purchasing and production activities gradually shifting to the PRC, the Group believes that the PRC market is becoming the global purchasing and production centre of automotive spare parts. Growing demand for domestic cars and the increasing numbers of overseas auto manufacturers entering the market also resulted in huge demand for automotive spare parts in the PRC market. Apart from enhancing collaboration with internationally renowned automotive system integrators and spare parts manufacturers in the PRC, the Group will also, through merger and acquisition, cooperate with well resourced enterprises having sound prospects and experience in the PRC. The Group will seek to achieve comprehensive system integration through the introduction of more automotive spare parts related products. It will also work on establishing its sales network in the PRC market. Leveraging on its rich market experience and high product reputation, Norstar has full confidence in penetrating the lucrative PRC market.

Along with the expansion of production capacity for existing products and the commencement of production for new products, the development of automotive brake system products and suspension system products are becoming the major operations of the Group. Investment in fuel injection system products is also underway. The Group anticipates that these operations will bring about stable and sustainable growth to the Group. In order to move up the value chain, Norstar has been in recent years actively looking into achieving vertical integration within the automotive brake system as well as developing transmission system related products which enjoys rising market demand.



Management Discussion and Analysis

To accommodate the wide range of demands from domestic and international automotive parts markets and to enhance the overall competitiveness of the Group, Norstar is committed to the implementation of a vertically integrated operation model. Driven by the increasing global demand for quality automotive spare parts, the Group believes that it will be able to increase its sources of income and grow to become the leading automotive spare parts manufacturer, as well as an influential and well-known supplier and manufacturer of automobile chassis system spare parts in the international arena.

FINANCIAL REVIEW

The following discussion and analysis of the Group's financial position and results of operation should be read in conjunction with the audited consolidated results and the related notes thereof.

The Group's revenue for the year ended 31 March 2004 amounted to RMB1,711,442,000, representing a 24% increase from RMB1,380,267,000 in the previous year. This was the result of more orders from existing customers as well as new businesses from new customers. Despite the surge in steel prices during the year, the Group's gross profit margin only reduced by an insignificant 1.4%, thanks to the management's effort to reduce steel wastage in the production process, negotiation with the Group's major steel supplier for bulk discounts, and the securing of orders with higher profit margins. Operating expenses saw a nominal increase of 6.8% to approximately RMB84,889,000, resulting in a comparable operating margin of approximately 12.5%. After taking into account the net effect of lower finance costs due to a decrease of total borrowings during the year and the higher taxation charge for the year, the Group achieved a 24% growth in profit attributable to shareholders amounting to RMB163,521,000.

Market Analysis

United States and Canada

Automotive spare parts market in the United States is least regulated. It is also a major focus of development by the Group. Major customers of the Group are mainly located in the United States and Canada. Existing customers became more confident with the Group after its successful listing, thereby increasing the quantity of orders. On the other hand, new customers have contributed to the rising income, backed by a more extensive marketing and sales network.

Europe

Europe is a market which is a focus of development by the Group. With the enhancement of the marketing and sales network in Europe, the scale of the market is rapidly expanding. Rate of growth is also higher than that in the United States. With marketing and sales becoming more mature, the number of new customers increased continuously. Existing customers also increased their scale of purchasing.

Management Discussion and Analysis



PRC

The PRC market is in its early stage of development. There will be substantial growth in the future. In accordance with the Group's plan, turnover from the PRC market will not be less than 20% of the Group's total in the coming few years. One of the purposes of the Company's new projects and expansion of capacity is to adapt to the substantial demand in the PRC market.

Product Analysis

Automotive Spare Parts

Turnover for automotive spare parts increased by 31% during the year. On the one hand, it benefited from the shift of international automotive spare part purchase to the PRC. On the other hand, the automotive spare part business has become the core business of the Group, which saw significant progress in new product development and capacity expansion for existing products. Together with the competitive edge as created by the successful listing of the Group, the Group will continue to capitalize on the opportunities arising and place the emphasis on expansion in automotive spare part business.

Construction Decorative Hardware Products

Turnover of this segment increased slightly by 1%, which was attributable to the segment not being regarded as core business of the Group. Sales strategies are mainly focused on fulfilling the market demand. During the year, sales of this business remained stable and maintained satisfactory gross profit margin. The Group expects this segment to continue to generate long term and steady income for the Group.

OPERATING EXPENSES

The Group's operating expenses rose 6.8% during the year from RMB79,506,000 to RMB84,889,000. This represented less than 5% of the Group's total turnover, compared to 5.8% in previous year. Such a decrease in ratio was the result of tight control over the Group's operating expenditure during the year.

FINANCE COSTS

The finance costs of the Group decreased approximately 27% from RMB23,660,000 to RMB17,246,000. The decrease was the result of improvement of the Group's working capital position after listing, which reduced the amount of short-term bank borrowings required by the Group.

TAXATION

Taxation expenses increased from RMB3,467,000 to RMB14,841,000. The sharp increase was due to the end of the tax exemption period for Beijing Norstar Automotive Industries, Inc. on 31 December 2002. The Group was thereafter required to pay enterprise income tax at the rate of 7.5% until 31 December 2005.



Management Discussion and Analysis

GROUP FINANCIAL POSITION, LIQUIDITY, AND CAPITAL STRUCTURE

The Group raised total net proceeds of approximately HK\$283,000,000 from the IPO, which was completed in October 2003. During the year under review, the Group continued to hold a solid financial position, and maintain strong and steady cash flows from its operating activities. As at 31 March 2004, the cash and bank balances of the Group stood at RMB326,821,000. Total bank loans were reduced by 16% to RMB260,000,000 against the end of 2003. The Group's gearing ratio, based on the total interest-bearing liabilities to shareholders' funds of RMB746,067,000, was 34.8% and the entire amount is denominated in RMB. The Group's current ratio (current assets over current liabilities) remained healthy at 2.31 (2003: 1.76).

Although the Group has a very strong cash position, it has nevertheless ensured that credit facilities are in place for contingency purposes. As at 31 March 2004, the Group's total unutilised banking facilities amounted to HK\$89,000,000.

FOREIGN EXCHANGE RISK

Income of the Group is denominated in US dollars, RMB and Euro, while its expenditure is denominated in RMB. The Group has not experienced any material difficulties or effects on its operations or liquidity as a result of fluctuations in currency exchange rates during the twelve months ended 31 March 2004. The Board believes that the Group will have sufficient foreign exchange to meet its foreign exchange requirements. No foreign exchange contracts were outstanding as at 31 March 2004.

EMPLOYEES AND THE REMUNERATION POLICY

As at 31 March 2004, the Group had a total of more than 2,100 employees. Remuneration packages are determined by reference to the qualifications and experience of the staff concerned and are reviewed annually by the management with reference to market conditions and performance of the staff. The Group also participates in Mandatory Provident Fund Scheme in Hong Kong and state-managed retirement benefit scheme in the PRC.

The Group also provides in-house training to employees to enhance their management skills, improve their overall work quality and update them with developments in the auto-parts industry.

USE OF PROCEEDS

Shares of the Group commenced trading on the Main Board of The Stock Exchange on 10 October 2003. Based on the offer price of HK\$1.33 per share, the issue of 230,000,000 new shares raised approximately HK\$283,000,000.

Up to 31 March 2004, approximately RMB30,000,000 (equivalent to approximately HK\$28,000,000) of the net proceeds had been used for the research and development of new types of automotive spare parts; approximately RMB40,000,000 (equivalent to approximately HK\$38,000,000) for the establishment of production facilities for the manufacture of composite friction material; approximately RMB 30,000,000 (equivalent to approximately HK\$28,000,000) for improvement of existing production facilities at the production base in Anhui Province; approximately RMB50,000,000 (equivalent to HK\$47,000,000) for the construction of production plant, administrative building and research and development center in Beijing; RMB20,000,000 (equivalent to approximately HK\$19,000,000) for purchasing new production equipment for the manufacturing of suspension system parts and moulds; RMB2,000,000 (equivalent to approximately HK\$1,900,000) for strengthening its sales network and marketing activities. All cash on hand has been placed as deposits in banks.