

# Chairman's statement



It is Norstar's long term goal to build a world-class auto parts corporation.

**Ms. Lilly Huang**  
*Chairman*

On behalf of the Board of Directors (the "**Board**"), I am pleased to announce the 2004/05 annual results of Norstar Founders Group Limited ("**Norstar**" or the "**Company**") and its subsidiaries, (together, the "**Group**"). During the year under review, the Group recorded satisfactory results with total turnover soaring 28.9% to approximately RMB2,206,041,000. Profits attributable to shareholders for the year increased 67.3% to approximately RMB273,487,000. Despite that there were external challenges, such as increases in steel price this year, leveraging our effective cost control measures, and through stepping up vertical integration of our production and launching high value added products, we successfully increased our overall gross margin to a satisfactory level of 16.7%. As the Chairman of the Group, I am delighted that Norstar achieved such satisfactory results for the year.

As the competition in global automobile industry intensifies, many international automobile manufacturers and auto parts system integrators are turning to the PRC for quality auto parts in a bid to cut costs. This phenomenon has benefited quality auto parts enterprises in the PRC. During the year, Norstar not only actively expanded its existing and new markets, but also launched different high value added products, boosting both its turnover and profit to new highs. We expect many international automobile manufacturers and auto parts system integrators to increase their purchase of quality auto parts from the PRC which will be a driving force for the Group's businesses in the future.

To enhance manufacturing standards, in particular to maintain product quality level and price competitiveness, many PRC automobile manufacturers are actively looking for quality auto parts suppliers who can best match their specific production requirements. The management believes the automobile industry in the PRC will continue to experience consistent speedy growth and become one of the largest automobile production bases in the world. As the PRC still lacks auto parts enterprises that have in-house research and development ("R&D") capability to support consistent delivery of high quality auto parts

products, the country imports far more auto parts than it exports every year. Norstar is one of the leading auto parts manufacturers in the PRC and the first and only enterprise in the PRC to have received the Brake Effectiveness Evaluation Procedure ("BEEP") accreditation. The Group also successfully obtained ISO/TS16949 accreditation during the year. Its well-established long-term internationalized customer base will also bring to it enormous opportunities.

During the year, the price of steel had minimal impact on Norstar's earnings thanks to the Group's stringent production cost and price control measures. With steel price expected to stabilize, if not to lower, cost pressure on the Group's profitability will recede gradually. Norstar places great emphasis on improving its product development capabilities and qualities. Apart from developing new products relying on its expert R&D team and through constantly boosting its R&D capabilities, the Group also cooperates with its existing customers to develop new techniques enabling the provision of tailored-made products for the customers. This has significantly increased our competitiveness globally. During the year, the Group endeavored to improve its products quality and diversified its product portfolio with newly developed high value added product. The move resulted in considerable increases in the sales of higher value added products to its existing customers. This has helped to improve our overall profit margins and alleviated pressure when production cost increased.

During the year under review, the Group managed to increase its production capacity through mergers and acquisitions. In June and December 2004, the Group acquired the remaining 10% interest of Norstar Automotive Industries, Inc. ("**Norstar Automotive**") and 40% interest in Profound Global Limited ("**Profound Global**") respectively.

Looking ahead, Norstar will continue to improve its R&D capabilities, optimize its existing products and develop more higher value added products so as to strengthen its position in existing markets and capture the opportunities in new markets. It is Norstar's long term goal to build a world-class auto parts corporation and become a leading global automobile chassis system products manufacturers in medium term. To this end, the Group will continue to explore any cooperation or merger and acquisition opportunities with multinational corporations in the industry. Such pursuits will further expand our operation, strengthen our customer network and enhance our production expertise, preparing us for the anticipated surge in demand for quality auto parts manufactured in the PRC. With the Group starting to produce a number of new products in the next few years and driven by favorable internal and external market conditions, Norstar is looking forward to achieving persistent growth in the next few years. We will forge ahead with our growth strategy in the coming years thereby bring fruitful returns to our shareholders.

On behalf of the Board, I would like to thank our customers, suppliers, financial institutions, business associates and shareholders for their continuous supports. I would also like to thank our management and staff for their diligence over the years. Together, we will continue to craft a more prosperous future for the Group.

On behalf of the Board

**Lilly Huang**

*Chairman*

Hong Kong, 15 June 2005