

Interview with the chief executive officer



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Mr. Zhou Tian Bao
Chief Executive Officer

Q If the RMB were to appreciate, how would it affect the Group?

A We could look at the subject matter from different perspectives. On the sales aspect, currently our sales are mainly denominated in USD. However, as we will start selling to the PRC market this year, our RMB income is expected to increase to up to approximately 20% of the Group's total turnover in 3 to 5 years. We expect the pressure from the RMB appreciation on the Group's earnings to gradually alleviate in the medium to long term.

On the cost aspect, we would benefit from the RMB appreciation, as it would mean our raw material costs, especially the cost of steel, would be lower. Our outstanding loans are largely denominated in foreign currencies, as a means to hedge against and alleviate the pressure from the RMB appreciation. Continuously boosting its product value, implementing stringent production cost control and optimizing its cost structure, the Group should be able to minimize the negative impacts of the RMB appreciation on its operation.

Q What is the trend of steel price in the future?

A Steel accounted for approximately 58% of the Group's total cost of sales in 2004/05. During the year, the average unit cost of steel rose by approximately 10.3% year-on-year due partially to the price increase of imported iron ore. However, we expect the PRC steel prices to stabilize, if not to lower, down the road for the following reasons:

- a. The PRC government has reduced the export VAT rebate by 2% for low value-added steel products , so as to reduce steel export.
- b. The PRC government plans to oust inefficient and poor quality steel manufacturers in the market, and encourage larger-scale and qualified steel manufacturers to increase production capacity and strive for economies of scale, and it has begun yielding result.
- c. The PRC government has adopted stringent controls over speculative trading activities on iron ore imports. They also limit the right for iron ore imports to qualified steel manufacturers only. This helps to reduce the import cost of iron ore.
- d. The macro-economic austerity measures adopted by the central government last year to curb run away investment activities in the construction industry and the property market should continue to cool down the demands for steels.

The above measures have begun to produce tangible results. Steel prices have started to come down since the second quarter of 2005.

Q Will the Group consider strengthening its businesses through mergers and acquisitions (“M&A”) in the coming years?

A M&A is one way for Norstar to expand its business. The acquisition of the 40 % equity interest in Profound Global last year is expected to strengthen our sales network in the PRC. It will also enhance our competitiveness, give us economies of scale and synergistic benefits including sharing of resources such as technical know-how, machinery, and the two companies’ marketing and sales networks. We also expect to reap improved cost effectiveness from the access to Profound Global’s advanced electroplating facilities. In the long term, the integration of the stamping technology, electroplating technology and R&D capabilities of Profound Global and the Norstar will significantly boost the development of our auto parts production business.

For 2005/06, the Group will focus on the development of planned projects. However, we will also be on the lookout for any potential opportunities in both the PRC and overseas to enhance our market presence and improve both our production expertise and capacity, thus enable us to maximize shareholder returns.

Q There has been recent concerns among global automobile enterprises and system integrators about long term demands of automobiles as well as the prospects of auto parts manufacturers. What’s your view on that?

A The automobile manufacturing industry is a core industry for many countries. It has been growing steadily over the last couple decades, especially in Europe, the US and Japan. The imbalances in supply and demand have resulted in price wars in the automobile market and have encouraged automobile manufacturers to expand to new markets. In order to maintain competitiveness, many European and American automobile manufacturers have been driving a harder bargain with their auto parts suppliers or simply switched to purchase from low-cost regions. As for auto part system integrators, many of them have streamlined their production scale or closed down their production facilities in the high-cost region, such as Europe and the US, and switch to sourcing from markets with cost advantages and strong industrial fundamentals. Others have chosen to construct new production facilities in districts with lower operating costs. As one of the

countries that promise relative low operating costs, the PRC has become the preferred choice of auto parts system integrators. Norstar is one of very few quality auto parts manufacturers in the PRC with strong R&D capabilities and international experiences. These advantages will enable it to secure more international customers and market opportunities in the future.

With the Chinese economy growing rapidly, the country is expected to be one of the markets to record high growth in demand for automobiles in the coming years, which will in turn present the global auto manufacturing industry immense opportunities. Many international well-known automobile manufactures are eager to seize these opportunities, hence have been aggressively setting up production facilities in the PRC or looking for Chinese cooperative partners who could help them grow their market shares. To prepare for the anticipated challenge, most Chinese automobile manufacturers have improved their technological levels and production capacities. The promising development of the PRC automobile industry will drive the demands for quality auto parts. Although the country currently imports far more auto parts than it exports, policies introduced by the PRC government to encourage auto parts manufacturers to develop their own technologies and reduce the reliance of automobile manufacturers on imported auto parts would encourage the development of PRC's auto parts industry in the long run.

To meet strong domestic and overseas demands for quality auto parts, Norstar, being one of the sizable auto parts manufacturers in the PRC, will continue to enhance its R&D capabilities and product varieties in the overseas market. This will enable us to cater to the different requirements of customers. We will also leverage our international experience and proven expertise to rapidly extend our footprints in the PRC market.