



A Robust Year Ahead

Interview With The CEO

Norstar boasts advantages in technology and quality. These attributes have enabled us to become the preferred supplier of major automobile manufacturers in the PRC.

Question: If the RMB were to appreciate again, how would the Group be affected?

CEO: We could look at the subject matter from two different perspectives. On the sales front, settlements are currently denominated mainly in USD. However, as we have started selling to the PRC market this year, plus a supply agreement was signed by the Group with BBDC in April 2006, our RMB income is expected to increase to over 10% of the Group's total sales in the coming year and reach above 30% in the next 3 to 5 years. Thus, we expect the Group to feel less and less pressure from the RMB appreciation in the medium to long term.

On the cost front, we believe the RMB appreciation will lower raw material cost, especially the cost of steel, for us. In addition, since our outstanding loans are largely denominated in foreign currencies, we have indirect means of hedging against the RMB appreciation. In the long run, through raising the added value to its products, stepping up production cost control, optimizing operational structure, forging strategic partnerships with customers and developing new markets, the Group believes the risk from the RMB appreciation could be effectively countered. We are confident of minimizing the negative impact of the RMB appreciation on the Group.

Question: What challenges and opportunities do you see for the auto part industry in China and Norstar as more and more multi-national corporations enter the China automobile market with rising investment?

CEO: The PRC automobile market has huge potential and this has attracted many multi-national corporations to the market. According to data from the China Auto News website, foreign investments in the PRC automobile manufacturing industry have already reached USD9.4 billion, or a production capacity of 2.7 million automobiles. Production capacity of automobiles manufactured by foreign investment enterprises and joint ventures will grow to round 4.5 million in the next 5 years. Also, there are currently more than 500 auto parts companies set up by international enterprises in the country. They started with moving their assembly operations to China and eventually the entire production chain. China is today the "hottest" place to invest in among multi-national automobile companies.



Assembly line of axle modules in Beijing plant

Interview With The CEO

Norstar will strive to establish long term and stable supply relationship with automobile manufacturers by participating in the development of automobile chassis systems.

Opportunities for China auto parts manufacturers:

1. According to data from the Development Research Center of the State Council, private automobile ownership in the PRC will increase to 56.69 million by 2010, and surge further to 131.03 million by 2020. In 2010, the China auto parts market of RMB1,400 billion worth will become one of the biggest in the world.
2. Multi-national corporations will continue to increase investment in the China auto parts sector and actively seek cooperation partners. That will in turn help to enhance local companies' technological standards, product quality, cost control and brand image.
3. Foreign-owned and joint venture automobile manufacturers' and leading international system integration companies' increasing sourcing in China will open more opportunities for domestic auto parts and components suppliers to interact and sell to both international and domestic customers.

Challenges:

1. In the next few years, the PRC auto parts industry can expect to see investments accelerating. As such, a change in the supply and demand relationship is anticipated. PRC auto parts manufacturers will face pressure from potential over-supply, elevating costs and a growingly competitive environment.
2. As local auto parts manufacturers often do not invest adequately in their businesses, they are typically at a disadvantage in aspects including R&D, production scale, technology and system integration capability, and ability to provide global support to foreign automobile manufacturers. This means domestic suppliers will find it harder and harder to survive independently.



Assembly line of brake modules in Beijing plant



Auto components used for the production of suspension systems

More multi-national corporations entering the China market bring both challenges and opportunities to PRC auto parts manufacturers. For Norstar, however, it has brought about the following opportunities:

1. Norstar has accumulated abundant experience in R&D, production and sale of auto parts products. It has also built up a comprehensive product data base over the years, rendering it a leading position in R&D and manufacturing of auto parts in China.
2. Most of Norstar's products are exported to mainstream markets in North America and Europe. It boasts a well-established and reliable overseas service network and marketing mechanism, and possesses considerable experience in serving overseas customers among whom are mostly leading international system integrators and distributors.
3. Multi-national corporations coming to China are looking to working with quality suppliers with products of high quality, sophisticated technology and premium customer service. Norstar is the ideal partner for them. Thus, these partnerships will bring new business opportunities to the company.



Assembly line of brake modules



Rear axle products

Interview With The CEO

Question: In April 2006, the PRC Government saw the problem of oversupply in the country's automobile manufacturing industry. How would the Government's new macro-economic austerity measures affect the automobile and auto parts industries?

CEO: According to National Development and Reform Commission statistics, China currently produces about 8 million vehicles a year, exceeding demand by 2 million, and capacity in the pipeline amounts to 2.2 million vehicles. Thus, key measures to adjust the structure of the automobile industry were introduced by the Chinese Government. These measures included raising the entry barriers of the industry, restricting launch of new projects, suspending projects which do not comply with the strategic plan of the state, the country's property policies, land supply policies, and environmental protection and production safety standards. The Government will also encourage the development of original brands and proprietary research and development of products. Furthermore, as automobile ownership in the PRC is still relatively low with demand yet to be unleashed, the automobile market in China can expect to see high growth in the next 15 to 20 years. The new macro-economic austerity measures will accelerate the merger, acquisition and restructuring of the automobile and auto parts industry. Industry players of notable scale and boasting quality and technological advantages will stand out and assume market leadership. Moreover, as the auto parts sector is still not fully developed and are in inadequate supply in the PRC market, the Chinese government will continue to direct major efforts to develop and support the industry.

Question: Can you explain in details the strategies the Group adopts to expand the PRC market?

CEO: Taking into account appreciation of the RMB and the vast opportunities in the booming PRC market, the Group has added new production facilities and adhered to a set of comprehensive market strategy that has produced satisfactory preliminary results.

1. Participating in the development of chassis system with automobile manufacturers

The Group boasts advantages in technology and quality. These attributes have enabled us to become the preferred supplier of many major automobile manufacturers in the PRC. The signing of the supply agreement with BBDC in April 2006, in particular, represented an important milestone in the Group's effort to explore the PRC OEM market. Moving forward, the Group will strive to establish long term and stable supply relationship with automobile manufacturers by participating in the development of automobile chassis systems.

2. Capturing market share from competitors

The majority of auto parts manufacturers in the PRC are small-scale and low technology content operators serving the requirement of middle-to low-end automobiles. However, as more and more international automobile manufactures enter the PRC, the market sees a rising demand for high-end auto parts. Adopting a R&D-focused strategy, Norstar has been raising the quality of its products and boosting technological skills to meet the quality, technology content, and added-value service requirements of middle-to high-end automobiles to help it secure a bigger share of the PRC market.

Meanwhile, using a modern logistics operation model, we will enhance management and control of suppliers and internal cost. We will also continue to upgrade our technology and production method to assure product quality and reduce overall production cost. Our high quality yet competitively priced products will allow us to penetrate the market and quickly assume market share.

3. Enhancing our marketing team, nurturing and hiring more technicians and sales professionals, plus strengthening our sales network and after sales services.

4. Building our brand and establishing a reputable image

A reputable brand has strong influence on consumers. As the market becomes more mature and saturated, building a reputable brand and image is becoming more and more important as a means of expanding customer base. As a large-scale and strong auto parts enterprise in the PRC, we have already established a good brand image and market reputation over the years. We will continue to enhance customer satisfaction and build a leading brand through various advertising and promotion activities and services.