# NORSTAR FOUNDERS GROUP LIMITED

# 北泰創業集團有限公司

*(incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 2339)**

**ANNOUNCEMENT OF FINAL RESULTS**
**FOR THE FINANCIAL YEAR ENDED 31 MARCH 2007**

| **HIGHLIGHTS** | **2007** *RMB'000* | 2006 *RMB'000* | **Changes** |
|---|---|---|---|
| **Turnover** | **3,497,159** | 2,658,993 | +31.5% |
| **Profit attributable to equity shareholders** | **404,150** | 347,313 | +16.4% |
| **Earnings per share — basic (cents)** | **32.79** | 35.24 | (7.0)% |
| **Final dividend per share (HK$)** | **0.065** | 0.057 | +14.0% |

The board of directors (the "**Board**") is pleased to announce the audited consolidated results of Norstar Founders Group Limited (the "**Company**") and its subsidiaries (together, the "**Group**") for the year ended 31 March 2007, in particular that the audited consolidated profit attributable to equity shareholders for the year ended 31 March 2007 was RMB404,150,000, representing an increase of 16.4% over the corresponding year in 2006. The Board has declared the payment of final dividend of HK$0.065 per ordinary share for the year ended 31 March 2007.

**CONSOLIDATED INCOME STATEMENT**

**For the year ended 31 March 2007**

| | *Note* | **2007** | 2006 |
|---|---|---|---|
| | | ***RMB'000*** | *RMB'000* |
| **Turnover** | 2 | **3,497,159** | 2,658,993 |
| Cost of goods sold | | **(2,881,914)** | (2,165,218) |
| **Gross profit** | | **615,245** | 493,775 |
| Other income | 3 | **48,568** | 21,067 |
| Distribution and selling expenses | | **(57,508)** | (49,135) |
| Administrative expenses | | **(116,929)** | (59,909) |
| **Profit from operations** | | **489,376** | 405,798 |
| Finance costs | 5 | **(71,046)** | (66,389) |
| | | **418,330** | 339,409 |
| Share of profits of an associate | | **35,655** | 42,755 |
| **Profit before tax** | | **453,985** | 382,164 |
| Income tax expense | 6 | **(49,835)** | (34,851) |
| **Profit for the year attributable to equity holders of the Company** | 7 | **404,150** | 347,313 |
| **Dividends** | 8 | **108,644** | 94,003 |
| **Earnings per share** | 9 | | |
| Basic | | **RMB32.79 cents** | RMB35.24 cents |
| Diluted | | **RMB32.29 cents** | RMB34.47 cents |

**CONSOLIDATED BALANCE SHEET**
**At 31 March 2007**

| | *Note* | **2007** | 2006 |
|---|---|---|---|
| | | ***RMB'000*** | *RMB'000* |
| **Non-current assets** | | | |
| Property, plant and equipment | | **854,567** | 739,198 |
| Prepaid land lease payments | | **56,282** | 57,530 |
| Goodwill | | **29,639** | 29,639 |
| Other intangible assets | | **743** | — |
| Investment in an associate | | **423,357** | 396,690 |
| | | **1,364,588** | 1,223,057 |
| **Current assets** | | | |
| Inventories | | **81,202** | 44,850 |
| VAT receivable | | **145,625** | 127,168 |
| Trade and other receivables | 10 | **715,059** | 715,532 |
| Pledged bank deposits | | **16,450** | 16,670 |
| Cash and bank balances | | **1,727,085** | 1,063,163 |
| | | **2,685,421** | 1,967,383 |
| **Current liabilities** | | | |
| Trade and other payables | 11 | **186,867** | 99,584 |
| Short-term borrowings | | **186,978** | 175,875 |
| Current portion of non-current borrowings | | **361,265** | 188,440 |
| Convertible bonds | | **56,753** | — |
| Current tax liabilities | | **14,128** | 13,330 |
| | | **805,991** | 477,229 |
| **Net current assets** | | **1,879,430** | 1,490,154 |
| **Total assets less current liabilities** | | **3,244,018** | 2,713,211 |
| **Non-current liabilities** | | | |
| Non-current borrowings | | **279,720** | 616,336 |
| Convertible bonds | | **—** | 66,645 |
| | | **279,720** | 682,981 |
| **NET ASSETS** | | **2,964,298** | 2,030,230 |
| **Capital and reserves** | | | |
| Share capital | | **131,598** | 113,940 |
| Reserves | | **2,832,700** | 1,916,290 |
| **Equity attributable to equity holders of the Company** | | **2,964,298** | 2,030,230 |

**Notes to the financial statements**
**For the year ended 31 March 2007**

## 1. ADOPTION OF NEW AND REVISED HKFRS

In the current year, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants that are relevant to its operations and effective for accounting periods beginning on or after 1 January 2006. HKFRSs comprise Hong Kong Financial Reporting Standards; Hong Kong Accounting Standards; and Interpretations. The adoption of these new and revised HKFRSs did not result in substantial changes to the Group's accounting policies and amounts reported for the current year and prior years.

The Group has not applied the new HKFRSs that have been issued but are not yet effective. The application of these new HKFRSs will not have material impact on the financial statements of the Group.

## 2. TURNOVER

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 are as follows:

| | **2007** | 2006 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Auto parts | **3,116,595** | 2,297,521 |
| Construction decorative hardware products | **380,564** | 361,472 |
| | **3,497,159** | 2,658,993 |

## 3. OTHER INCOME

| | **2007** | 2006 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Fair value gains (realised) on financial assets at fair value through profit or loss | **941** | — |
| Interest income | **22,940** | 9,507 |
| Income from scrap sales | **22,277** | 11,550 |
| Rental income | **1,950** | — |
| Sundry income | **460** | 10 |
| | **48,568** | 21,067 |

## 4. SEGMENT INFORMATION

**Primary reporting format - geographical segments**

The Group operates within one geographical segment which is 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 revenue and segment results. Segment revenue and segment results are presented based on the 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.

**(i) Primary reporting format – geographical segments**

**For the year ended 31 March 2007**

| | United States | Canada | Europe | The PRC and others | Total |
|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Segment revenue | 1,430,245 | 886,027 | 739,096 | 441,791 | 3,497,159 |
| Segment results | 252,976 | 164,930 | 131,293 | 66,046 | 615,245 |

**For the year ended 31 March 2006**

| | United States | Canada | Europe | The PRC and others | Total |
|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Segment revenue | 1,222,501 | 789,423 | 623,620 | 23,449 | 2,658,993 |
| Segment results | 226,841 | 153,435 | 111,057 | 2,442 | 493,775 |

**(ii) Secondary reporting format - business segments**

**For the year ended 31 March 2007**

| | **Revenue** *RMB'000* | **Carrying amount of segment assets** *RMB'000* | **Capital expenditure** *RMB'000* |
|---|---|---|---|
| Auto parts | 3,116,595 | 1,371,061 | 149,625 |
| Construction decorative hardware products | 380,564 | 146,005 | 14,155 |
| | 3,497,159 | 1,517,066 | 163,780 |
| Unallocated assets | | 2,532,943 | 3,871 |
| | | 4,050,009 | 167,651 |

**For the year ended 31 March 2006**

| | **Revenue** *RMB'000* | **Carrying amount of segment assets** *RMB'000* | **Capital expenditure** *RMB'000* |
|---|---|---|---|
| Auto parts | 2,297,521 | 1,142,558 | 93,027 |
| Construction decorative hardware products | 361,472 | 133,265 | 265 |
| | 2,658,993 | 1,275,823 | 93,292 |
| Unallocated assets | | 1,914,617 | 8,524 |
| | | 3,190,440 | 101,816 |

## 5. FINANCE COSTS

| | **2007** | 2006 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Bank charges | **1,054** | 972 |
| Finance charges on obligations under finance leases | **2,737** | 2,464 |
| Interest on bank borrowings | **63,110** | 42,281 |
| Interest on convertible bonds | **4,145** | 20,672 |
| | **71,046** | 66,389 |

## 6. INCOME TAX EXPENSE

| | **2007** | 2006 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| (a) Current tax – PRC | | |
| Provision for the year | **49,835** | 34,851 |

No provision for Hong Kong profits tax has been made as the Group had no assessable profits in Hong Kong during the year (2006: Nil).

Pursuant to relevant laws and regulations in the PRC, the principal subsidiaries, Norstar Automotive Industries, Inc. ("Norstar Automotive") and Norstar Auto Suspension Manufacturing (Beijing) Inc. ("Norstar Auto Suspension"), in the PRC are exempted from PRC enterprise income tax for the two years from its first profit-making year and thereafter are entitled to a 50% relief from the PRC enterprise income tax for the following three years.

In current year, Norstar Automotive was granted a tax relief with a tax rate of 11.5% (2006: 7.5%). Norstar Auto Suspension was in first profit-making year for the financial year ended 31 March 2007, and therefore was exempted from PRC enterprise income tax.

## 7. PROFIT FOR THE YEAR

The Group's profit for the year is stated after charging the following:

| | **2007** | 2006 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Auditors' remuneration | **1,660** | 975 |
| Cost of inventories sold *(note (a))* | **2,881,914** | 2,165,218 |
| Depreciation | **51,452** | 22,794 |
| Amortisation of other intangible assets | **39** | — |
| Research and development costs *(note (b))* | **115,635** | 95,537 |
| Operating lease charges in respect of: | | |
| – Land | **1,248** | 1,248 |
| – Factory and office premises | **7,164** | 4,192 |
| – Plant and machinery | **5,100** | 8,500 |
| Net exchange losses | **24,941** | 8,024 |
| Staff costs including directors' emoluments: | | |
| Salaries, bonus and allowances | **62,178** | 49,553 |
| Share-based payments | **3,554** | — |
| Retirement benefit scheme contributions | **9,669** | 4,078 |

*Notes:*

(a) Cost of inventories sold includes staff costs, depreciation and operating lease charges of approximately RMB86,759,000 (2006: RMB62,190,000) which are included in the amounts disclosed separately above.

(b) Research and development costs are included in staff costs, cost of inventories sold and depreciation which are disclosed separately above.

## 8. DIVIDENDS

| | **2007** | 2006 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Interim of HK$0.022 per ordinary share (2006: HK$0.020 per ordinary share) | **27,871** | 20,417 |
| Proposed final of HK$0.065 per ordinary share (2006: HK$0.057 per ordinary share) | **80,773** | 73,586 |
| | **108,644** | 94,003 |

A final dividend of HK$0.065 per ordinary share will be proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting. This proposed dividend is not reflected as a dividend payable in the financial statements, but will be reflected as an appropriation of retained profits for the year ending 31 March 2008.

Dividends payable to equity holders of the Company attributable to the previous financial year, approved and paid during the year:

| | **2007** | 2006 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Final dividend in respect of the previous financial year, approved and paid during the year, of HK$0.057 per ordinary share (2006: HK$0.045 per ordinary share) | **73,278** | 45,937 |

## 9. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following:

| | **2007** | 2006 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| **Earnings** | | |
| Earnings for the purpose of calculating basic earnings per share | **404,150** | 347,313 |
| Finance costs saving on exercise of convertible bonds | **1,839** | 1,202 |
| Earnings for the purpose of calculating diluted earnings per share | **405,989** | 348,515 |

| | **2007** | 2006 |
|---|---|---|
| **Number of shares** | | |
| Issued ordinary shares at beginning of year | **1,077,320,976** | 975,000,000 |
| Effect of issue of shares | **154,164,384** | — |
| Effect of conversion of convertible bonds | **911,378** | 10,609,492 |
| Weighted average number of ordinary shares for the purpose of calculating basic earnings per share | **1,232,396,738** | 985,609,492 |
| Effect of dilutive potential ordinary shares arising from convertible bonds outstanding | **21,853,125** | 25,580,246 |
| Effect of dilutive potential ordinary shares in respect of share options | **3,110,917** | — |
| Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share | **1,257,360,780** | 1,011,189,738 |

## 10. TRADE AND OTHER RECEIVABLES

| | **2007** | 2006 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Trade receivables | **641,509** | 513,308 |
| Dividend receivable | **7,914** | 8,280 |
| Prepayments and other receivables | **65,636** | 192,390 |
| Due from a related company | **—** | 1,554 |
| | **715,059** | 715,532 |

(a) The aging analysis of trade receivables, based on the invoice date, and net of allowance, is as follows:

| | **2007** | 2006 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| 0 - 90 days | **641,005** | 503,777 |
| 91 - 180 days | **504** | 9,429 |
| 181 - 365 days | **—** | 102 |
| | **641,509** | 513,308 |

Normally, 30 to 90 days credit term is granted to customers.

(b) Included in trade receivables are the following amounts denominated in a currency other than RMB:

| | **2007** | 2006 |
|---|---|---|
| | ***USD'000*** | *USD'000* |
| Trade receivables in other currency | **72,576** | 63,400 |

## 11. TRADE AND OTHER PAYABLES

| | **2007** | 2006 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Trade payables *(note a)* | **94,303** | 42,203 |
| Accruals and other payables | **84,804** | 57,020 |
| VAT payables | **6,428** | — |
| Due to directors *(note b)* | **1,332** | 361 |
| | **186,867** | 99,584 |

(a) Aging analysis of trade payables, based on the date of receipt of goods, is as follows:

| | **2007** | 2006 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| 0 - 90 days | **84,946** | 37,270 |
| 91-180 days | **7,573** | 2,025 |
| 181 - 365 days | **—** | 1,112 |
| Over 1 year | **1,784** | 1,796 |
| | **94,303** | 42,203 |

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

# MANAGEMENT DISCUSSION AND ANALYSIS

## Business and financial review

For the financial year ended 31 March 2007, the Group recorded a turnover of approximately RMB 3,497,159,000, a 31.5% rise from last year's approximately RMB 2,658,993,000. Gross profit amounted to approximately RMB 615,245,000, representing a 24.6% increase from the approximately RMB 493,775,000 last year. Together with the profit of associated company, total profit attributable to shareholders increased to RMB404,150,000, 16.4% more than last year's approximately RMB 347,313,000. Earnings per share were RMB 32.8 cents, 7.0% lower than that of last year due to dilutive effect from conversion of convertible bonds into ordinary shares since 2006 and placement of new shares in April 2006.

The Board of Directors recommended the payment of a final dividend of HK 6.5 cents per share for FY2006/07 payable to shareholders whose names appear on the Register of Members of the Company on 15 August 2007. Together with the interim dividend of HK 2.2 cents per share already paid, the annual total dividend per share for the year amounts to HK 8.7 cents. Subject to the approval of shareholders at the forthcoming annual general meeting, the final dividend will be paid on or before 24 August 2007.

During the year, the increasingly competitive automobile market in China, high interest rate, appreciation of the RMB and fluctuating raw material costs all posed challenges to the Group's business. However, with the Group's continuous emphasis on product quality and development of high value-added products, and thanks to stable overseas aftermarket demand, global automobile manufacturers' increasing purchasing from China and rapid expansion of the China OE market, the Group continued to record stable sales growth. Furthermore, the technological cooperation with Delphi Technologies, Inc. ("Delphi") on producing composite friction material also helped to boost sales of high value-added products. The suspension system/ axle module and shock absorber assembly lines in Beijing became fully operational during the year. With production capacity doubled, the facility has seen the Group move up the value chain as well as the currency mix of its turnover enhanced.

Although it exercised stringent internal cost control and focused on developing high value-added products, with the RMB appreciating sharply and assembly business having a relatively lower margin, the Group's overall gross profit margin slightly decreased against last year's. During the year, the Group's overall gross profit margin was approximately 17.6%, while that of last year's was approximately 18.6%. If eliminating the impact of RMB appreciation, the overall gross profit margin of the Group would have increased by 0.3 percentage point when compared with the previous year. Appreciation of the RMB is expected to pose long-term pressure on the Group's overall gross profit margin. To mitigate such impact, the Group will continue to develop high value-added products, striving to move up the value chain and develop its market in China. To the same end, it will also strive for organic growth as well as expansion through mergers and acquisitions.

**Auto Parts**

During the year, the core business of the Group continued to be sale of auto parts. Its turnover amounted to approximately RMB 3,116,596,000, representing a 35.7% increase from approximately RMB 2,297,521,000 in the last corresponding period. It accounted for approximately 89.1% of the Group's overall turnover. Gross profit margin of the business decreased slightly to 18.3% from last year's 19.5%, attributable to the currency exchange loss of export business resulting from appreciation of the RMB and the relatively lower profit margin of the suspension system/axle module and shock absorber assembly operations. However, this business has moved from the introduction stage into the growth stage, as reflected in the steady rise in capacity utilization since the Group's production capacity doubled in July 2006. With production of core suspension system parts and brake systems for use on the assembly lines commencing in the coming two years and the boosted capacity bringing greater economies of scale, the overall profit margin of the Group is expected to return on the up trend.

**Market Analysis**

Sales of suspension system/axle modules and shock absorbers in the PRC surged markedly during the year, and ample room for growth is expected for the business in the future. Export continued to make up the bulk of the Group's business and accounted for 86% of the turnover from auto parts business, with the US, Canada and Europe as major markets.

The major export markets in the US, Canada and Europe accounted for 38.6%, 23.5% and 23.7% respectively of the turnover from sales of auto parts against 43.8%, 28.1% and 27.1% last year. As for the China market, its share of contribution to the total turnover from sales of auto parts increased from about 1% last year to this year's 14%. The Group reached consensus on product pricing with overseas customers in December 2006, agreeing on raising export price of its product for 2% on average, effective 1 April 2007, to compensate for loss resulting from appreciation of the RMB. The Group expects to see stable growth for its markets in the US, Canada and Europe in the coming year, while focus on developing the PRC market.

**Manufacturing business**

During the year, the Group's auto parts manufacturing business reported stable growth, with sales up 13.6% to approximately RMB 2,408,356,000, accounting for approximately 77.3% of the total turnover from sales of auto parts.

Turnover from sales of disc brake pads and lined brake shoes increased by approximately 8.2%, thanks to improved utilization of production capacity. Sales of brake plates/shoes climbed about 19.6% benefiting from the boosted production capacity since February 2006.

Currently, the Group produces more than 800 models of disc brake pads and lined brake shoes, which together account for about 50.2% of total auto parts manufacturing sales. The Group signed a composite friction material technology license agreement with Delphi in September 2006 and secured the first OE order for friction material products in March 2007. Covering OEM and OES endeavors, the order entails provision of disc brake pads for the Lacrosse series manufactured by Shanghai General Motors Co. Ltd. ("Shanghai GM"). Lacrosse was among the best selling middle-end sedans in the China market and ranked the second best seller among all new automobile models last year according to China Association of Automobile Manufacturers. Winning the order marked Norstar's entry into the international OE supply chain, as well as another breakthrough of the Group in China's OE market following the launch of its suspension systems/axle modules and shock absorbers. The management believes Norstar's landing the order so shortly after it forged strategic relationship with Delphi is proof of its outstanding execution capability.

The Group is developing OE products for various vehicles manufactured by Shanghai GM and GM in the North America. It has also been actively pursuing joint efforts with other leading vehicle manufacturers to develop more OEM and OES products to raise product value and profit margin, as well as increase RMB revenue.

During the year, the utilization rate of the Group's facilities to produce stamping parts (i.e. brake plates/shoes) was more than 86.5% and that of composite friction material was 84.1%. The management is considering adding new OE production lines to increase production capacity for friction material and bringing in new testing and inspection equipments in the coming financial year, so as to satisfy the OE market demand for composite friction material. It is also looking into increasing the production capacity of stamping parts as a whole.

— **Assembly business**

In July 2006, the Group increased its annual production capacity from 60,000 sets of suspension system/axle modules to 120,000 sets. Utilization rate increased to 74.7% from last year's 16.9%. Together with shock absorbers, turnover of assembly products rose to RMB424,492,000 from RMB22,977,000 in the previous year, and their contribution to the total turnover of auto parts also leaped from approximately 1% in the previous year to 13.6%. As more and more domestic automobile manufacturers are willing to use quality auto parts to enhance product quality and more joint venture automobile manufacturers are replacing imported auto parts with locally made ones, the management sees huge demands for the Group's suspension systems/axle modules and shock absorbers. It believes that such products will become the leading products and major turnover growth driver of the Group. As these products are denominated in RMB, it will also optimize the overall currency mix of the Group's turnover and help to mitigate the negative impact of RMB appreciation.

— **Trading business**

Compared with last year, income from trading of auto parts increased a substantial 84.0% to RMB 283,747,000, accounting for approximately 9.1% of the year's total auto parts sales. During the year, universal joints and transmission shafts were the major auto part products sourced by customers. With the addition of 5 new qualified suppliers, the Group has been able to satisfy customers' demands and boost the results of trading business. The Group aims to achieve stable and continuous growth for the business by satisfying demand in terms of quality and volume of existing customers.

**Construction decorative hardware**

In the year, construction decorative hardware products generated a turnover of approximately RMB380,564,000, which was 5.3% higher than in the previous year. Its contribution to total sales of the Group dropped 2.7ppts to 10.9%. The gross profit margin of construction decorative hardware products declined from last year's 12.5% to 11.8% mainly due to change in export VAT rebate policy and RMB appreciation.

**Production costs**

During the year, the cost structure of the Group's production business changed reflecting changes in product mix. As a result of the flourishing business of suspension system assembly, its purchasing costs of parts and components accounted for 13.0% of the Group's total production costs against last year's 1.0%. Although the cost of steel continued to make up the largest share of the Group's production costs, its percentage dropped from around 46.0% last year to around 36.9% this year. Total composite friction material costs to total production costs decreased from approximately 20.1% last year to approximately 18.8% this year.

The average unit price of steel dropped approximately 3%. The cost of friction materials and chemicals used for surface finishing and electroplating remained generally stable.

**Gross profit margin**

The Group's overall gross profit margin dropped slightly from 18.6% to 17.6%, the result of increasing sales of suspension systems/axle modules and shock absorbers, which caused overall gross profit margin to drop temporarily. In addition, the Group adjusted its book exchange rate of USD to RMB from 8.1 to 7.9 on 1 October 2006 to reflect appreciation of the RMB, which resulted in a drop in revenue exchanged from RMB to USD. Assuming no adjustment of book exchange rate was made, the overall gross profit margin would have increased slightly, because of decreasing unit price of steel and better production efficiency achieved during the year.

Looking to the coming financial year, the Chinese Government's austerity measures over the steel industry has been effective. Pushing for energy conservation and cutting wastage and catering for domestic needs will be the focus next. The Group does not expect substantial increase in the price of steel. As for other major raw materials such as friction materials and chemicals, taking reference from terms in the latest purchase contracts, their costs will remain stable in the coming financial year. In the middle to long run, the Group will gradually increase the proportion of high value-added products and OE products in its offers, facilitate vertical integration, expand production capacity and exercise stringent cost control in order to assure steady growth of the Group's profit margin.

**Product research and development**

During the year, the Group invested approximately RMB115,635,000 (FY2005/06: RMB 95,537,000) in research and development ("R&D") of products. The amount was equivalent to approximately 3.3% of the Group's total turnover (FY2005/06: 3.6%). The Anhui plant developed over 500 product items including brake plates/shoes, disc brake pads and lined brake shoes, ball joints, brake systems and chassis stamping parts, etc., bringing the total number of auto part products it offers to over 1,500. The Beijing plant also developed 20 models of suspension systems and axle modules.

The Group's Technology License Agreement with Delphi has given it access to 18 formulations and entire technologies for 172 products suitable for all GM vehicles. Delphi has helped the Group to improve its overall operation to reach the standard of those of international automotive OE product manufacturers.

**Prospects**

As more and more US and European automobile giants are setting up purchasing centres, R&D facilities and production lines in China, the country's auto parts industry is presented with substantial orders, new technologies and huge market opportunities. However, competition has also intensified. Facing opportunities and challenges, Chinese auto parts enterprises have to shape up quickly if they are to compete effectively. A leader in the auto parts industry in China, Norstar's long-term goal is to become a world-class system integrator of auto parts. Within the next two to three years, the Group will strive to expand the scale of its business and enhance R&D capabilities by investing in new plants/joint ventures and mergers and acquisitions. This can help speed up its transformation into an automobile chassis system parts manufacturer and system integrator.

As for investment in new plants, the Group will build new plants for producing chassis system parts such as brake systems, suspension systems, steering systems and transmission systems. As for mergers and acquisitions, the Group will pursue projects that focus on supplying various modules and systems to OE customers. The Group will keep looking for M&A opportunities to facilitate the development in integrated systems including the chassis module, wheel system, steering system, transmission system and powertrain system. The Group will also look into projects that can enhance its existing surface finishing technology, or bring in technologies other than stamping so as to help optimize the Group's existing industry chain and technology portfolio.

**Market/ Customer Prospects**

Looking ahead, the Group expects its existing brake shoes/plates business to mature and enter a stage of steady and balanced growth in the international aftermarket. The business will serve the sourcing needs of the Group's existing customers. In the domestic market, riding on its cooperation with Delphi in the R&D of composite friction material technology, the Group will step up efforts in exploring opportunities in the OE market. Having successfully entered the supply system of Shanghai GM, the Group will actively approach other internationally renowned automobile manufacturers.

The Group secured over 10 OE customers for its suspension systems/axle modules in Beijing in FY2006/07. Among them, Beijing Benz-Daimler Chrysler Automotive Co., Ltd contributed satisfactory revenue. Other customers had indicated the need to increase purchase amounts, which is the reason behind the Group's on-going capacity expansion. Furthermore, the Group will also cooperate with several potential customers to develop and test new suspension system/ axle module products.

In the coming year, the Group will focus on boosting sales of suspension systems/axle modules and shock absorbers in China and sales of lined brake shoes/ disc brake pads and ball joint products in the domestic OE market. Its aim is to increase the proportion of domestic sales to over 30% of the Group's total turnover within the next two to three years.

**Project Progress**

— **Disc brake pads for OE system**

As the Group seeks to use Delphi's friction material technology in more applications, it will be able to increase production capacity slightly. It also plans to expand its product mix from mostly semi-metallic frictional materials to include also ceramic frictional materials to meet both domestic and overseas demands.

— **Suspension system assembly**

The Group had already increased its production capacity for suspension systems / axle modules from 60,000 sets to 120,000 sets. However, heeding the growing demand of existing customers and the purchasing need of potential customers, the Group targets to increase related capacity to 200,000 sets by the end of FY2007/08 and to 400,000 sets by the end of FY 2010/11.

— **Suspension system parts**

Currently, the Group still purchases certain key parts of suspension systems from other suppliers. The management plans to internalize the manufacturing of certain key parts used in suspension systems and shock absorbers at the Anhui plant, which will not only ensure the Group has stable supply of quality components, but will also effectively raise the overall profit margin of the suspension system and shock absorber business. Apart from supplying needs of the Beijing plant, the components also have huge domestic and export market potential. The Group has commenced trial production of ball joint products and the designed capacity for phase one of the project is 3,000,000 pieces. Trial production of shock absorbers will begin in FY2007/08 with an initial designed capacity of 2,000,000 sets.

— **Brake systems**

The Group's existing disc brake pad/lined brake shoe products are major components of brake systems. The pursuit of vertical integration will boost the value of the Group in the supply chain. Preparation work for production of brake system products has begun at the Group's Anhui plant during the year. The designed production capacity for disc brakes/drum brakes for phase one of the project is 400,000 sets and trial production is scheduled for the first half of 2008.

**R&D Plan**

Looking forward, the Group will work with certain leading automobile manufacturers and develop chassis systems for several new vehicle models. Its Anhui R&D and tooling centre will focus on development of ball joints, shock absorbers, brake systems and chassis stamping parts, etc. The Group plans to develop about 600 models of these products in FY2007/08. As for stamping parts,, the Group will focus on upgrading its fine blanking capability, and extend its current stamping technology to cover parts other than brake plates/shoes. On friction material side, apart from deepening its production capability for semi-metallic pads, the Group will dedicate efforts in developing ceramic pads with the help of Delphi's technology.

At its chassis systems research centre in Beijing, the Group plans to develop new chassis assembly products for 20 vehicle models in the coming financial year. In addition to the chassis systems for cross country vehicles, SUV, MPV, light passenger vehicles and pickups, the Group has participated in several joint development projects for chassis system, mainly on independent suspension system for sedans. Regarding the R&D of auto parts, the Group will not only develop various auto parts including driveshaft housings, final drive reduction housings, differential housings, semi axles, disc brake pads and steering knuckles, it will also include limited slip differentials, locking differentials and energy savers etc. into the R&D list for the coming year.

**Order book**

In the first quarter of FY2007/08, the Group has already registered sales orders totaling RMB 893 million (exchange rate: USD1=RMB7.6). If eliminating RMB appreciation effect, the sales orders would have amounted to RMB942 million (exchange rate: USD1=RMB8.1), 22.7% more than that in the same period last year.

The management believes, as various high value-added products in the pipeline move into production, the Group will be able to deliver promising growth in near future.

**Operating cost**

**Distribution and selling expenses**

The Group's total distribution and selling expenses increased by 17.0% during the year. Sea freight and local transportation charges, which accounted for 95.3% (31 March 2006: 96.1%) of the Group's total distribution and selling expenses, was up 16.1% during the year. Such increase was mainly attributable to higher unit charges for local transportation and increased sales volume during the year.

**Administrative expenses**

Total administrative expenses rose 95.2% during the year, or 77.3% after excluding exchange loss which increased from RMB8,024,000 to RMB24,941,000 (please refer to the section "Impact from RMB appreciation" for details). Additional administrative expenses and depreciation as a result of full year production of Beijing's suspension system assembly operation (commenced in October 2005), and the subsequent doubling of its production capacity in July 2006, accounted for around 40.0% of the increase after excluding exchange loss. Head counts for the rest of the Group were also increased to support the Group's development of the PRC market. Labour and management salaries and corresponding staff welfare provisions also saw moderate increases. Also included in administrative expenses were property tax provisions for Anhui and Beijing facilities and amortization of share options granted in September 2006.

**Other revenues**

Other revenues mainly consisted of sales of scrap metals and waste materials and interest income during the year. The higher revenue from sale of scrap metals was mainly attributable to an increased scrap metal sales volume due to rising production volume and higher product development activities, and higher selling prices for scrap metals.

Interest income soared by 141.3% during the year, due mainly to the increase in cash balance which surged 61.5% compared with the year ended 31 March 2006 and an increase in placement of idle cash in fixed deposits.

**Finance costs**

During the year, total finance costs rose by approximately 7.0% compared with last year. Interest costs on bank borrowings however surged by 49.3% due to higher bank borrowings after the drawdown of a US-dollar denominated syndicated loan totaling USD94.6 million in November 2005, and a moderate increase in USD LIBOR during the year. Gradual repayment of the syndicated loan commenced in November 2006, which resulted in a lower bank loan balance as at 31 March 2007 compared to the amount as at 31 March 2006.

Interest on convertible bonds and arrangement fee amortisation however decreased sharply by around 79.9%, as 80% of the USD40m-convertible bonds were already converted into equity during FY2005/06. As at 31 March 2007, total outstanding convertible bonds amounted to USD6,750,000, representing 16.9% of the total issued amount.

**Share of profits of an associate**

The Group owned 40% stake in Profound Global Group, which engages in the manufacturing and distribuiton of metal hardware products as well as the trading and distribution of auto parts in the PRC. During the period from 1 April 2006 to 31 March 2007, Profound Global Group recorded total turnover of approximately RMB1,360,807,000 (FY2005/06: RMB 1,588,480,000) unaudited profit before taxation of RMB113,093,000 (FY2005/06: RMB 121,889,000) and unaudited net profit of RMB89,138,000 (FY2005/06: RMB 106,888,000), representing declines of 14.3%, 7.2% and 16.6% respectively, against last year. Despite an increase in turnover from sales of metal hardware products during the period, intensifying competition for auto parts trading and distribution in China dragged down total turnover of the company. Income tax rate for the company's auto parts trading and distribution business also increased to 33% during the period, which resulted in higher taxation charges for Profound Global Group.

Profound Global Group declared a dividend of HKD8,000,000 to the Group for the year.

**Impact of RMB appreciation**

During the year, the Group generated approximately 87.4% 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. Hence, appreciation of the RMB against US dollars during the year had affected the earnings of the Group.

The Group's book exchange rate of US dollar against the RMB was 8.27 until 1 July 2005 when the rate was adjusted to 8.1. The Group had since then maintained the same book exchange rate until October 2006 when the rate was revised to 7.9 to reflect the continuing RMB appreciation. The adjustment in book exchange rate has resulted in 1.8% decrease in the Group's total export revenue. Furthermore, additional exchange losses totaling RMB44,228,000 were also incurred with respect to the settlement and revaluation of the Group's accounts receivable balances recorded during the year, as a result of differences between book and actual exchange rate at the point of settlement or revaluation.

The Group has adopted a few measures to mitigate the impact of RMB appreciation on its profits. Apart from mapping plan to raise its PRC turnover to over 30% within the next 2-3 years, the Group has been maintaining a bank loan portfolio which is mainly denominated in foreign currencies, i.e. US dollars and HK dollars.

All in all, the Group recorded a net exchange loss of approximately RMB24,941,000 for the year ended 31 March 2007 (31 March 2006: RMB8,024,000).

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

As at 31 March 2007, the Group had total net assets of approximately RMB2,964,298,000 and net current assets of around RMB1,879,430,000, compared to approximately RMB2,030,230,000 and RMB1,490,154,000 respectively as at 31 March 2006.

The average receivable turnover for the year was 60 days compared to 56 days for FY2005/06. The Group maintains credit terms of 30-90 days. The increase in receivable turnover days for the year was mainly due to a gradual reduction in the proportion of exports to overseas customers through the Group's agent with a shorter credit term. During the year, the Group's export via agent accounted for 12.4% of its total sales compared to 16.8% for FY2005/06. Excluding such sales and the corresponding accounts receivable balance, the Group's average receivable turnover for the year was 61 days, representing a slight improvement from 64 days for FY2005/06.

Average payable turnover for the year increased slightly to 18 days from last year's 16 days. Average inventory turnover also increased to 9 days from last year's 7 days.

During the year under review, total cashflow from operations amounted to approximately RMB565,433,000 compared to RMB208,107,000 last year. Total capital expenditure was RMB167,651,000 (FY2005/06: RMB 101,816,000).

As at 31 March 2007, the Group's cash and bank balance increased to approximately RMB1,743,535,000 compared to RMB1,079,833,000 as at 31 March 2006. Total borrowings including bank loans and convertible bonds for the Group declined from RMB1,047,296,000 to RMB884,716,000, resulting in a net cash position of approximately RMB858,819,000 (31 March 2006: RMB32,537,000).

Over 90% of the Group's cash and bank balance is denominated in RMB with a small portion in HK dollars and US dollars. Continuing RMB appreciation has prompted management to maintain most of the Group's cash and bank balances in RMB so as to minimize foreign exchange losses for the cash holdings. In addition, to mitigate the impact of RMB appreciation on its earnings, the Group's loan portfolio is principally denominated in foreign currencies such as HK dollars and US dollars. As at 31 March 2007, approximately 84% of the Group's total borrowings were denominated in foreign currencies, and 93% of such borrowings bear floating interest at prevailing market rates.

Looking ahead, the Group's cash and bank balances will be principally used to finance operations, capital expenditures required for various green-field and capacity expansion projects. They will also form part of the "war chest" for the Group's potential acquisitions in the future. Please refer to the "Prospects" section for further details.

**Charge on assets**

As at 31 March 2007, bank deposits of approximately RMB16,450,000 (31 March 2006: RMB16,670,000) were pledged as security for certain banking facilities of the Group.

**Capital Commitments and Contingent Liabilities**

As at 31 March 2007, the Group's total capital commitments amounted to RMB148,068,000 (31 March 2006: RMB138,022,000). There were no material contingent liabilities as at 31 March 2007 (31 March 2006: Nil).

**Employees and Remuneration Policies**

As at 31 March 2007, the Group had a total of approximately 2,200 employees. Total staff costs amounted to RMB75,401,000 (FY2005/06: RMB53,631,000)during the year. Remuneration packages of the Group are determined by reference to the qualifications and experience of the employee concerned and are reviewed annually by management with reference to market conditions and performance of the employee. The Group also participates in the 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 to reward them for their contribution to the Group.

**Pre-emptive rights**

There is no provision for pre-emptive rights under the Company's Articles of Association and there were no pre-emptive rights under the laws of Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

**Purchase, sale or redemption of securities**

Save as disclosed in the announcement dated 24 April 2006 in relation to the placing of 170,000,000 shares, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed shares.

**Directors' interest in competing business**

None of the directors of the Company had any interest, either direct or indirect, in any business, which may compete or constitute a competition with the business of the Group.

**Sufficiency of public float**

According to the information that is publicly available to the Company and within the knowledge of the directors, the percentage of the Company's shares which are in the hands of the public exceeds 25% of the Company's total number of issued shares.

**Auditors**

The accounts have been audited by RSM Nelson Wheeler who will retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of RSM Nelson Wheeler as auditors of the Company will be proposed at the forthcoming annual general meeting of the Company.

**Corporate governance practices**

The Company has complied with code provisions and, to certain extent, the recommended best practices of the Code on Corporate Governance Practices (the "Code") which is set out in Appendix 14 to Rules Governing the Listing of Securities in Hong Kong throughout the year ended 31 March 2007.

**Remuneration committee**

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

The main elements of the Company's emolument policy are that no individual should determine his or her own remuneration, remuneration should reflect performance, complexity and responsibility of the individual, and the remuneration package will be structured to include salary, bonus and share options to provide incentives to Directors and senior management to improve their individual performance.

During the year, the committee reviewed the remuneration package of executive directors and made recommendation to the Board. As at 31 March 2007, the remuneration committee comprised of three independent non-executive Directors, Mr. Choi Tat Ying, Jacky (Chairman), Mr. Zhang Jian Chun, Ms. Zhang Xin, Cindy, and one non-executive Director, Mr. Lee Cheuk Yin, Dannis.

**Nomination committee**

The primary duties of the nomination committee are to consider and assess the qualifications and character of candidates for directorships on the Board, if any. The recommendations of the nomination committee are then put forward for consideration and adoption by the Board. The selection of individual to become Director is based on assessment of their professional qualifications and experience.

As at 31 March 2007, the nomination committee comprised one non-executive Director, Mr. Lee Cheuk Yin, Dannis (chairman) and three independent non-executive Directors, Mr. Choi Tat Ying, Jacky, Mr. Zhang Jian Chun and Ms. Zhang Xin, Cindy.

**Audit committee**

The primary duties of the audit committee are to review and supervise the accounting principles and practices adopted by the Group, and the financial reporting process and internal control systems of the Group. It also monitors the appointment and function of the Group's external auditor.

During the year, it reviewed the Group interim result, annual result and internal control system. As at 31 March 2007, the audit committee comprised of three independent non-executive Directors, namely, Mr. Choi Tat Ying, Jacky (chairman), Mr. Zhang Jian Chun and Ms. Zhang Xin, Cindy. The audit committee met three times during the year, and the meetings were held on 22 June 2006,16 November 2006 and 29 March 2007 respectively.

**Internal control and risk management**

The Board of the Company is granted full authority to maintain the soundness and effectiveness of the internal control system and risk management procedures of the Group, including setting an internal review team composed of members from various department to ensure efficient and effective use of the Group's resources to assist the Group in achieving its operation objectives, safeguarding the Group's assets against any unauthorized use or disposal, ensuring an appropriate maintenance of accounting records and the availability of reliable financial information for internal use or external release, and ensuring compliance of all operating activities with laws and regulations. The control system is intended to have in place reasonable safeguards against material misrepresentation or loss, and to ensure safeguard on shareholders' interests.

The Board has conducted a meeting on 29 March 2007 to review the internal control system of the Group and confirmed its effectiveness. The Board intends to further improve its internal control and risk management with a view to achieve a better work flow in future.

**Directors' securities transactions**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuer (the "Model Code") contained in Appendix 10 of the Listing Rules as the Company's code of conduct regarding securities transactions by directors. The Company has made specific enquiry of all Directors, and the Directors confirmed that they had complied with the required standard set out in the Model Code and its code of conduct regarding securities transactions by directors.

Specified employees who are likely to be in possession of unpublished price-sensitive information of the Group are also subject to compliance with guidelines on no less exacting terms than the Model Code. No incident of non-compliance was noted by the Company for the year ended 31 March 2007.

**Investor relations**

The Company uses two-way communication channels to account to shareholders and investors for the performance of the company. All the shareholders have 21 days' notice of annual general meeting at which directors are available to answer questions on the business. Extensive information about the Group's activities is provided in its Annual Report and Interim Report which are sent to shareholders and investors.

The Company conducts briefings with analysts and press to apprise them of the Group's operating results, business strategies and outlook right after reporting its interim or annual results. Highlights of the Company's operating performance are also released on a quarterly basis. Other than those regular updates, the Company issues announcements or press releases where appropriate to comply with the Listing Rules requirement or keep the public informed of the Company's latest development. In order to further enhance communication with the investment community, the Group's management holds regular roadshows, and participates actively in company visits and investors' conferences.

**Final Dividends**

The directors recommend the payment of a final dividend of HK$0.065 (2006: HK$0.057) per share to the shareholders on the register of members as of 15 August 2007 amounting to approximately HK$81,655,000 (2006: HK$71,097,000).

**Closure of Register of Members**

The Company's register of members will be closed from 10 August 2007 to 15 August 2007, both days inclusive, during which period no transfer of shares can be registered. In order to qualify for the final dividend and attendance at the Annual General Meeting, all transfers 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 9 August 2007.

On behalf of the Board
**Norstar Founders Group Limited**
**Lilly Huang**
*Chairman*

Hong Kong, 28 June 2007

As the date of this announcement, the Board comprises of the following Directors:

*Executive Directors:*
Ms. Lilly Huang *(Chairman)*
Mr. Zhou Tian Bao *(Chief Executive Officer)*
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 Tai Ying, Jacky
Ms. Zhang Xin, Cindy
Mr. Zhang Jian Chun