# 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 INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2008

**HIGHLIGHTS**

| | For the six months ended 30 September | | |
|---|---|---|---|
| | **2008** | 2007 | |
| | **RMB'000** | RMB'000 | **Changes** |
| | **(unaudited)** | (unaudited) | |
| **Turnover** | **2,244,126** | 1,946,521 | **+15.3%** |
| **Profit attributable to shareholders** | **200,145** | 222,539 | **-10.1%** |
| **Earnings per share – basic (RMB cents)** | **15.89** | 17.74 | **-10.4%** |

The board of directors (the "**Board**") announce that the unaudited consolidated results of Norstar Founders Group Limited (the "**Company**") and its subsidiaries (together, the "**Group**") for the six months ended 30 September 2008, in particular that the unaudited consolidated profit attributable to shareholders for the six months ended 30 September 2008 was RMB200,145,000, representing a decrease of 10.1% over the corresponding period in 2007.

# Condensed Consolidated Income Statement

*For the six months ended 30 September 2008*

| (RMB'000) | Notes | **2008 (unaudited)** | 2007 (unaudited) |
|---|---|---|---|
| **Turnover** | 3 | **2,244,126** | 1,946,521 |
| Cost of goods sold | | **(1,882,575)** | (1,627,777) |
| Gross profit | | **361,551** | 318,744 |
| Other income | 3 | **63,089** | 37,026 |
| Distribution and selling expenses | | **(25,379)** | (27,201) |
| Administrative expenses | | **(140,773)** | (48,584) |
| Profit from operations | 4 | **258,488** | 279,985 |
| Finance costs | 5 | **(24,338)** | (41,366) |
| | | **234,150** | 238,619 |
| Share of profit of an associate | | **18,681** | 8,490 |
| **Profit before tax** | | **252,831** | 247,109 |
| Income tax expense | 6 | **(52,686)** | (24,570) |
| **Profit for the period attributable to equity holders of the Company** | | **200,145** | 222,539 |
| **Dividends** | 7 | **—** | 27,015 |
| **Earnings per share** | 8 | | |
| Basic | | **RMB15.89 cents** | RMB17.74 cents |
| Diluted | | **RMB15.89 cents** | RMB17.47 cents |

# Condensed Consolidated Balance Sheet

*At 30 September 2008*

| (RMB'000) | **30 September 2008 (unaudited)** | 31 March 2008 (audited) |
|---|---|---|
| **Non-current assets** | | |
| Property, plant and equipment | **955,205** | 979,068 |
| Prepaid land lease payments | **54,410** | 55,034 |
| Goodwill | **29,639** | 29,639 |
| Other intangible assets | **10,114** | 10,823 |
| Interest in an associate | **451,632** | 435,248 |
| | **1,501,000** | 1,509,812 |
| **Current assets** | | |
| Inventories | **63,014** | 62,290 |
| VAT receivable | **102,730** | 75,009 |
| Trade and other receivables | **759,355** | 621,079 |
| Derivative financial instruments | **732** | 4,261 |
| Pledged bank deposits | **15,217** | 15,439 |
| Cash and bank balances | **2,674,995** | 2,782,306 |
| | **3,616,043** | 3,560,384 |
| **Current liabilities** | | |
| Trade and other payables | **134,368** | 114,433 |
| Derivative financial instruments | **39,145** | 15,212 |
| Short-term borrowings | **71,708** | 186,946 |
| Current portion of non-current borrowings | **309,549** | 39,564 |
| Current Tax liabilities | **29,929** | 16,297 |
| | **584,699** | 372,452 |
| **Net current assets** | **3,031,344** | 3,187,932 |
| **Total assets less current liabilities** | **4,532,344** | 4,697,744 |
| **Non-current liabilities** | | |
| Non-current borrowings | **1,026,236** | 1,321,677 |
| **NET ASSETS** | **3,506,108** | 3,376,067 |
| **Capital and reserves** | | |
| Share capital | **132,383** | 132,383 |
| Reserves | **3,373,725** | 3,243,684 |
| **Equity attributable to Equity holders of the Company** | **3,506,108** | 3,376,067 |

# Condensed Consolidated Statement of Changes in Equity (unaudited)

*For the six months ended 30 September 2008*

| | Attributable to equity holders of the Company | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| (in RMB'000) | Share capital | Share premium | Capital reserve | Foreign Currency translation reserve | Share-based payment reserve | Merger reserve | General reserve fund | Enterprise expansion fund | Retained profits | Total |
| At 1 April 2008 | 132,383 | 1,719,525 | – | 5,181 | 11,828 | (299,310) | 185,597 | 185,597 | 1,435,266 | 3,376,067 |
| Translation differences | – | – | – | (3,898) | – | – | – | – | – | (3,898) |
| Profit for the period | – | – | – | – | – | – | – | – | 200,145 | 200,145 |
| Recognition of share-based payments | – | – | – | – | 5,679 | – | – | – | – | 5,679 |
| 2008 Final dividend paid | – | – | – | – | – | – | – | – | (71,885) | (71,885) |
| **At 30 September 2008** | **132,383** | **1,719,525** | **–** | **1,283** | **17,507** | **(299,310)** | **185,597** | **185,597** | **1,563,526** | **3,506,108** |
| At 1 April 2007 | 131,598 | 1,699,017 | 1,190 | 26,984 | 3,554 | (299,310) | 136,304 | 136,304 | 1,128,657 | 2,964,298 |
| Profit for the period | – | – | – | – | – | – | – | – | 222,539 | 222,539 |
| Recognition of share-based payments | – | – | – | – | 3,341 | – | – | – | – | 3,341 |
| Issuance of shares upon conversion of convertible bonds | 785 | 20,508 | (404) | – | – | – | – | – | – | 20,889 |
| Transfer to General & Enterprise expansion fund | – | – | – | – | – | – | 3,054 | 3,054 | (6,108) | – |
| Exchange arised from Assoicate | – | – | – | 1,852 | – | – | – | – | – | 1,852 |
| 2007 Final dividend paid | – | – | – | – | – | – | – | – | (79,483) | (79,483) |
| **At 30 September 2007** | **132,383** | **1,719,525** | **786** | **28,836** | **6,895** | **(299,310)** | **139,358** | **139,358** | **1,265,605** | **3,133,436** |

# Notes to the Financial Statements

For the six months ended 30 September 2008

## 1. Basis of Preparation

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (HKICPA).

## 2 Significant Accounting Policies

The condensed consolidated financial statements have been prepared on historical cost basis except for financial instruments, which are measured at fair values. The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2008.

The Group has not applied any new standards or interpretation that is not yet effective for the current accounting period. The Group has already commenced an assessment of the impact of these new standards and interpretations but the management considered the new standards has no material impact to the Group's accounting policies.

## 3. Turnover, Other Income and Segment Information

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 and other income are as follows:

| | **Six months ended 30 September** | |
|---|---|---|
| | **2008** | 2007 |
| (RMB'000) | **(unaudited)** | (unaudited) |
| Turnover | | |
| Auto parts | **2,013,829** | 1,717,070 |
| Construction decorative hardware products | **230,297** | 229,451 |
| | **2,244,126** | 1,946,521 |
| Other income | | |
| Fair value gains on derivative financial instruments | **2,572** | 2,292 |
| Gain on disposals of property, plant and equipment | **236** | 1,249 |
| Interest income | **34,183** | 21,703 |
| Income from scrap sales | **24,174** | 9,633 |
| Rental income | **1,800** | 1,800 |
| Sundry income | **124** | 349 |
| | **63,089** | 37,026 |
| Total turnover and other income | **2,307,215** | 1,983,547 |

## 3. Turnover, Other Income and Segment Information (continued)

### Primary reporting format — geographical segments

The Group operates within one geographical segment in the People's Republic of China (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 turnover and segment results. Segment turnover and segment results are presented based on 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 six months ended 30 September 2008 (unaudited)**

| (RMB'000) | United States | Canada | Europe | PRC | Total |
|---|---|---|---|---|---|
| Segment turnover | 876,665 | 486,044 | 416,348 | 465,069 | 2,244,126 |
| Segment results | 135,822 | 82,061 | 66,156 | 77,512 | 361,551 |

For the six months ended 30 September 2007 (unaudited)

| (RMB'000) | United States | Canada | Europe | PRC | Total |
|---|---|---|---|---|---|
| Segment turnover | 810,199 | 448,103 | 387,764 | 300,455 | 1,946,521 |
| Segment results | 128,771 | 77,159 | 64,324 | 48,490 | 318,744 |

### (ii) Secondary reporting format — business segments

**For the six months ended 30 September 2008 (unaudited)**

| (RMB'000) | Auto parts | Construction decorative hardware products | Total |
|---|---|---|---|
| Turnover | 2,013,829 | 230,297 | 2,244,126 |
| Segment results | 335,480 | 26,071 | 361,551 |
| Other income | | | 63,089 |
| Unallocated costs | | | (166,152) |
| Profit from operations | | | 258,488 |

## 3. Turnover, Other Income and Segment Information (continued)

### (ii) Secondary reporting format — business segments (continued)

For the six months ended 30 September 2007 (unaudited)

| (RMB'000) | Auto parts | Construction decorative hardware products | Total |
|---|---|---|---|
| Turnover | 1,717,070 | 229,451 | 1,946,521 |
| Segment results | 296,453 | 22,291 | 318,744 |
| Other income | | | 37,026 |
| Unallocated costs | | | (75,785) |
| Profit from operations | | | 279,985 |

## 4. Profit from Operations

Profit from operations has been arrived at after charging:

| | Six months ended 30 September | |
|---|---|---|
| (RMB'000) | **2008 (unaudited)** | 2007 (unaudited) |
| Staff costs | **44,795** | 45,642 |
| Cost of inventories sold | **1,882,575** | 1,627,777 |
| Amortization of other intangible assets | **709** | 463 |
| Depreciation | **40,432** | 32,971 |
| Gain on disposals of property, plant and equipment | **272** | — |
| Operating lease rentals in respect of: | | |
| — Land | **624** | 624 |
| — Factory and office premises | **1,697** | 4,028 |
| — Plant and machinery | **1,410** | 2,550 |
| Net exchange loss / (gain) | **8,151** | (7,249) |

## 5. Finance Costs

| | Six months ended 30 September | |
|---|---|---|
| (RMB'000) | **2008 (unaudited)** | 2007 (unaudited) |
| Interest on bank borrowings | **22,727** | 37,605 |
| Interest on convertible bonds | **—** | 791 |
| Finance charges on obligations under finance leases | **916** | 904 |
| Bank charges | **695** | 2,066 |
| | **24,338** | 41,366 |

## 6. Income tax expense

The amount of taxation charged to the condensed consolidated income statement represents:

| | Six months ended 30 September | |
|---|---|---|
| | **2008** | 2007 |
| (RMB'000) | **(unaudited)** | (unaudited) |
| PRC enterprise income tax | **52,686** | 24,570 |

No provision for Hong Kong profits tax has been made for the current and prior period as the Group had no assessable profits in Hong Kong.

Norstar Automotive Industries, Inc. ("Norstar Automotive") and Norstar Auto Suspension Manufacturing (Beijing) Inc. ("Norstar Auto Suspension"), the principal subsidiaries of the Group, are incorporated in the PRC.

Pursuant to the approval document issued by local tax bureau and based on existing legislation, Norstar Automotive is subject to PRC enterprise income tax of 18% in year 2008. Further, the applicable tax rate for Norstar Auto Suspension is 9%.

(a) Deferred taxation

As at 30 September 2007 and 2008 respectively, no provision for deferred tax has been made in the financial statements as tax effect of temporary differences is immaterial to the Group.

(b) Reconciliation between tax expense and accounting profit at applicable tax rate:

| | Six months ended 30 September | |
|---|---|---|
| | **2008** | 2007 |
| (RMB'000) | **(unaudited)** | (unaudited) |
| **Profit before tax (excluding share of profit of an associate)** | **234,150** | 238,619 |
| Tax at the applicable tax rate | **42,147** | 27,441 |
| Tax effect of (income) / expenses that are not (taxable) / deductible in determining taxable profit | **8,190** | (6,704) |
| Tax effect of unrecognized tax losses | **2,349** | 3,833 |
| Income tax expense | **52,686** | 24,570 |

# Notes to the Financial Statements (continued)

For the six months ended 30 September 2008

## 7. Dividends

The directors do not recommend the payment of any interim dividend for the six months ended 30 September 2008 (2007: HK$0.022 per share each).

Final dividend for the year ended 31 March 2008 amounting to HK$81,865,000 was approved by the shareholders at the annual general meeting held on 25 July 2008 and was paid during the Period.

## 8. Earnings Per Share

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

| | Six months ended 30 September | |
|---|---|---|
| (RMB'000) | **2008 (unaudited)** | 2007 (unaudited) |
| **Earnings** | | |
| Earnings for the purpose of calculating basic earnings per share | **200,145** | 222,539 |
| Finance costs saving on exercise of convertible bonds | **—** | (239) |
| **Earnings for the purpose of calculating diluted earnings per share** | **200,145** | 222,300 |
| **Number of shares** | | |
| Issued ordinary shares at 1 April | **1,259,461,601** | 1,251,367,851 |
| Effect of conversion of convertible bonds | **—** | 2,985,400 |
| **Weighted average number of ordinary shares for the purpose of calculating basic earnings per share** | **1,259,461,601** | 1,254,353,251 |
| Effect of dilutive potential ordinary shares | | |
| arising from convertible bonds outstanding | **—** | 13,759,375 |
| arising from share options | **—** | 4,512,631 |
| **Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share** | **1,259,461,601** | 1,272,625,257 |

# Management Discussion and Analysis

## Business and Financial Review

For the six months ended 30 September 2008, the Group recorded a total turnover of RMB2,244,126,000, representing a 15.3% increase from RMB1,946,521,000 in the same period last year. Gross profit grew 13.4% to approximately RMB361,551,000 against around RMB318,744,000 in the same period last year.

Including the profits from an associated company, profit attributable to shareholders was RMB200,145,000, a 10.1% year-on-year decrease when compared to the approximately RMB222,539,000 in the last corresponding period. Earnings per share were RMB15.89 cents, 10.4% lower than in the same period last year.

The overall gross profit margin of the Group for the period was approximately 16.1%, against 16.4% in the same period last year.

In the wake of economic uncertainty and an unstable global market, the Group believes it is in the best interest of shareholders that it reserves cash for maintaining liquidity. Accordingly, the Board of Directors does not recommend payment of interim dividend (2007: HK$0.022 per share) for the period under review.

### Auto Parts

This segment continued to be the core business of the Group. During this period, its turnover amounted to approximately RMB2,013,829,000, up by 17.3% from last year's approximately RMB1,717,070,000, accounting for around 89.8% of the Group's total turnover. However, the gross profit margin of the segment decreased to 16.7% from 17.3% in the same period last year, attributable to the surge in material cost, in particular steel cost, and appreciation of the RMB bearing directly and negatively on production cost.

— Assembly Business

It accounted for approximately 21.7% of the total sales of the auto parts segment during the period. As a result of the Group increasing production capacity for suspension systems/axle modules in early 2008, sales grew 40.6% when compared with the same period last year. The sales of shock absorbers, however, were down by approximately 11.3%. The gross profit margins of the two products were of levels similar with those of the same period last year. The Group started production of ball joints in October 2007 and achieved sales of approximately RMB48,000,000 for the period.

— Manufacturing Business

During the period, the segment grew steadily. Sales grew 9.4% year-on-year to RMB1,412,216,000 and accounted for approximately 70.1% of the total turnover from auto parts. Disc brake pads and lined brake shoes, which are high value added products sold at relatively higher prices, have been driving sales. However, as they are mainly for export to the U.S., Canada and Europe and the RMB appreciated sharply during the period, their higher selling prices did not translate into obvious gain and gross profit margin of the segment dropped a slight 1 percentage point.

— Trading Business

Compared with the same period last year, income from trading of auto parts increased 14.1% to approximately RMB 165,560,000, accounting for approximately 8.2% of the total auto parts sales for the period. Universal joints and transmission shafts were the major auto part products sourced by customers. Business of the segment remained stable with a gross profit margin at similar level as in the last corresponding period.

### Construction Decorative Hardware

During the period, construction decorative hardware products generated turnover of approximately RMB230,297,000, which was slightly higher than the amount in the previous corresponding period. Contribution of the segment to total sales of the Group dropped from 11.8% in the same period last year to 10.2%. The gross profit margin of the segment, however, rose to 11.3% from 9.7% in the same period last year.

## Operating Cost

### Distribution and Selling Expenses

The total distribution and selling expenses of the Group for the period dropped 6.7% against the same period last year, thanks to more effective logistic delivery arrangement and the sharing of part of the delivery costs with some of its customers.

### Administrative Expense

Total administrative expenses increased substantially over the last corresponding period to RMB140,773,000. As the Group denominates sales mainly in US dollars (except for sales in the PRC), it incurred exchange loss from appreciation of the RMB against US dollars during the period. Furthermore, in the second quarter of 2008/09, the Group booked an approximately RMB39,000,000 professional fee in relation to undertaking a development project study. The Group had suspended the related research work due to its estimation of the global market development.

### Other Revenues

During the period, other revenues rose 70.4% year-on-year. Interest income was also up, by 57.5%, to RMB 34,183,000, mainly resulting from risen interest rate for deposit in the PRC. In addition, income from sales of waste materials surged more than a fold to approximately RMB24,174,000. Increasing demand for raw materials in the market has boosted waste material prices substantially.

### Finance Costs

During the period, total finance costs dropped 41.2% against the previous period last year, as a result of decrease in interest rate of syndicated loan.

### Share of Profits of an Associate

The Group owned 40% stake in Profound Global, which specialises in manufacturing metal products and distributing those products in the PRC and overseas, and surface finishing for auto parts manufacturers in the PRC. During the period, Profound Global Group recorded turnover of approximately RMB596,561,000 and unaudited net profit of RMB46,703,000. The rise in net profit was mainly the result of the Group enjoying a 50% exemption on profit tax under the new government policy.

## Prospects

Although the Group performed steadily during the period under review, deterioration of the global economy in the last few months and fluctuating raw material prices and exchange rates have created uncertainty in the economy and automobile market in short term. However, the Group is ready to face the likely more severe challenges in the future. The management remains optimistic about the Group's mid- to long-term prospect.

Given that the European and American automobile markets are more developed, the PRC automobile market has been the focus of foreign automobile companies. With China promising to be one of the fastest growing automobile markets in the world, the Group will step up effort in developing OE business and providing high-tech automobile components to the mid- to high-end automobile markets. Armed with solid experience in chassis system business, the Group will seek to upgrade production and R&D capabilities using advanced technologies introduced from overseas. These initiatives will allow the Group to expand production capacity and its product scope promptly in respond to market demands. In addition, the Group will strive to capture opportunities to work with more foreign and local mainstream automobile manufacturers to help customers enhance chassis system technology and develop new products, with the aim of increasing the proportion of contribution from OE and aftermarket businesses in China to the Group's total turnover.

In 2008, the sales of new vehicles in Europe and the U.S. plummeted. However, as the auto parts exported by the Group target mainly the aftermarket. The continuously weak markets and exchange rate fluctuation though are expected to pose pressure on the profitability of the Group's products. Expecting international automakers and auto parts distributors to continue to procure quality auto parts at lower price from the PRC, the Group believes its auto parts export business will be able to grow steadily in the long run.

To develop the aftermarket in the medium to long run, Norstar will push forward with optimising its cost and business structures, aiming to enhance profitability by increasing the sales proportion of high value-added products. Moreover, the Group will seek to take advantage of the economies of scale presented by the chassis systems production to extend its export product range to cover shock absorbers and ball joints for sale in the international automobile parts aftermarket.

Aspiring to become a world-class auto parts manufacturer and system integrator, the Group is dedicated to expanding through organic growth and mergers and acquisitions and riding on its vertically and horizontally integrated operation to enlarge market share and bring better returns to shareholders.

## Progress of projects

— Axle modules/suspension system assembly

The Group expanded production capacity for axle modules/suspension systems to 200,000 sets per annum in FY2007/08. To cater to strong domestic demand for these products, the Group had subsequently deployed resources to upgrade related technologies, systems and production lines. Apart from orders from more than 10 existing customers, the Group has been negotiating with several new customers including foreign automobile manufacturers to build business relationship. The Group is conducting quality inspection and tests on some of the related products.

— Disc brake pads/lined brake shoes for OE market

With access to the friction material technology of Delphi for supporting development of OE and aftermarket businesses in local and overseas, the Group will gradually increase the proportion of OE product supply to enhance profitability and sales contribution.

— Suspension system and shock absorber parts

The Group commenced production of ball joints in second half of FY2007/08. The new product is for internal use and selling to local automakers in the PRC. This has enabled the Group to have a vertically integrated operation and an improved overall profit margin for its suspension system products. The Group will plan to increase production capacity for ball joints according to customer demands in the future.

The Group is developing core parts of shock absorbers. It had completed installation, quality inspection and testing of related equipment and has started production for supplying internal demand. The Group has also made considerable progress in cooperating with automobile manufacturers like Dongfeng Motor Corporation to develop shock absorbers. These endeavours are expected to contribute revenue to the Group in FY2009/10.

— Brake systems

The disc brake pads/lined brake shoes produced by the Group are the major components of brake systems. The Group has begun to produce brake systems at its Anhui plant. Some of the products have been supplied for internal use and some of the production facilities are being installed and adjusted for manufacturing products for external sales in FY2009/10.

## Research & Development plan

With energy in short supply, developing automobiles with low carbon dioxide emission and light weight has become a trend for the automobile industry. Norstar will focus on developing core production technologies for light weight automobiles. To this end, it will strengthen strategic international cooperation and research and development efforts. It will also take part in helping major automakers to optimize chassis systems of existing automobile models and develop new systems for new models. The Group aims to become a leading new generation manufacturer of chassis systems and modules.

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

As at 30 September 2008, the Group had total net assets of approximately RMB3,506,108,000 and net current assets of around RMB3,031,344,000, compared with approximately RMB3,133,436,000 and RMB2,890,283,000 respectively as at 30 September 2007.

During this period, total cashflow from operations amounted to RMB119,967,000, compared to RMB241,154,000 for the same period last year. Capital expenditure for the period amounted to RMB17,027,000.

As at 30 September 2008, the Group maintained a total cash and bank balance of approximately RMB2,690,212,000, which was principally denominated in RMB with a small portion in HK dollars and US dollars. Total bank borrowings for the Group, which amounted to approximately RMB1,407,493,000 as at 30 September 2008. The Group will closely monitor and manage its currency and interest rate exposure.

## Charge on assets

As at 30 September 2008, bank deposits of approximately RMB15,217,000 (31 March 2008: RMB15,439,000) were pledged as security for certain banking facilities of the Group.

## Capital commitments and contingent liabilities

As at 30 September 2008, the Group's total capital commitments amounted to RMB329,400,000 (31 March 2008: RMB142,490,000). There were no material contingent liabilities as at 30 September 2008 (31 March 2008: Nil).

## Employees and remuneration policies

As at 30 September 2008, the Group had a total of 1,626 employees. Total staff costs amounted to RMB44,795,000 during the period. Remuneration packages are determined by reference to the qualifications and experience of the staff concerned and are reviewed annually by 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. As at 30 September 2008, a total of 39,054,000 share options were granted to eligible participants under the share option scheme of the Company in order to reward them for their contribution to the Group.

## Purchase, sale or redemption of securities

During the six months period ended 30 September 2008, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed shares.

## Compliance with the code on corporate governance practices

The Board and the management of the Company are committed to the maintenance of good corporate governance practices and procedures. The Company is firmly committed to maintaining a quality Board, sound internal control, and transparency and accountability to all shareholders. The Company had complied with the Code on Corporate Governance Practices (the "CG Code") as set out in appendix 14 of the Listing Rules throughout the six months ended 30 September 2008.

## The Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by directors of the listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. Having made specific enquiry of all directors, they all confirmed that they have complied with the Model Code throughout the period under review.

## The Board

The Board is comprised of six executive Directors and four non-executive Directors. Of the four non-executive Directors, three of them are independent non-executive Directors.

The Board is responsible for preparing the accounts, and is accountable to shareholders for the overall activities and financial performance of the Group. The Board considers that the financial statements have been prepared in conformity with the generally accepted accounting standards in Hong Kong, and reflect amounts that are based on the best estimates and reasonable, informed and prudent judgment of the Board with an appropriate consideration to materiality. As at 30 September 2008, the Board, having made appropriate enquiries, is not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Company's ability to continue as a going concern. Accordingly, the Board has prepared the financial statements of the Company on a going concern basis.

## Audit committee

The Company has established an audit committee in compliance with Rule 3.21 of the Listing Rules.

The existing audit committee is comprised of three independent non-executive Directors, namely, Mr. Choi Tat Ying, Jacky (Chairman), Mr. Zhang Jian Chun and Ms. Zhang Xin, Cindy. The primary duty of the audit committee include the review and supervision of the Group's financial reporting process and internal control systems, review of the Group's financial information and monitors the appointment and function of the Group's external auditor.

The financial statements for the six months ended 30 September 2008 have been reviewed by the audit committee.

## Remuneration committee

The remuneration committee is comprised of three independent non-executive Directors, namely, Mr. Choi Tat Ying, Jacky (Chairman), Mr. Zhang Jian Chun, Ms. Zhang Xin, Cindy and one non-executive Director, Mr. Lee Cheuk Yin, Dannis. The primary duties of the committee are to make recommendation to the Board the remuneration of executive Directors, senior management and the fees and emoluments of non-executive Directors.

## Publication of Results Announcement and Interim Report

The interim results announcement is published on the websites of the Company (http://www.norstar.com.hk) and the Stock Exchange (www.hkex.com.hk) respectively. The 2008 interim report will be despatched to the shareholders of the Company and available on the same websites in due course.

By Order of the Board
**Norstar Founders Group Limited**
**Lilly Huang**
Chairman

Hong Kong, 29 December 2008

As at the date of this report, the Board comprises of:

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| Ms. Lilly Huang | Executive Director and Chairman |
| Mr. Zhou Tian Bao | Executive Director and Chief Executive Officer |
| Ms. Zhang Zhen Juan | Executive Director |
| Mr. Yang Bin | Executive Director |
| Mr. Dai Wei | Executive Director |
| Mr. Chen Xiang Dong | Executive Director |
| Mr. Lee Cheuk Yin, Dannis | Non-executive Director |
| Mr. Choi Tat Ying, Jacky | Independent Non-Executive Director |
| Ms. Zhang Xin, Cindy | Independent Non-Executive Director |
| Mr. Zhang Jian Chun | Independent Non-Executive Director |