



# 陝西西北新技術實業股份有限公司

SHAANXI NORTHWEST NEW TECHNOLOGY INDUSTRY COMPANY LIMITED\*

(a joint stock limited company incorporated in the People's Republic of China with limited liability)



## 2003 ANNUAL REPORT

## Characteristics of the Growth Enterprise Market (“GEM”) of the Stock Exchange of Hong Kong Limited (the “Stock Exchange”)

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed companies.

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*This report, for which the directors (the “Directors”) of Shaanxi Northwest New Technology Industry Company Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange for the purpose of giving information with regard to Shaanxi Northwest New Technology Industry Company Limited. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this report is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this report misleading; and (iii) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

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## DIRECTORS OF THE COMPANY

### Executive Directors

Mr. Wang Cong (*Chairman*)  
Mr. Wang Zheng  
Ms. Zheng Rongfang  
Mr. Wang Feng  
Mr. Guo Qiubao

### Non-executive Directors

Mr. Su Yuanquan  
Mr. Guo Bin

### Independent non-executive Directors

Mr. Hu Yangxiong  
Mr. Li Gangjian

## SUPERVISORS

### Supervisors

Mr. Yan Buqiang  
Ms. Wei Jingling  
Mr. Wang Anjun

### Independent Supervisors

Ms. Wu Xiaoling  
Mr. Qian Ming

## QUALIFIED ACCOUNTANT

Mr. Wong Kwok Kuen, ACCA

## COMPANY SECRETARY

Mr. Wong Kwok Kuen, ACCA

## AUDIT COMMITTEE

Mr. Hu Yangxiong  
Mr. Li Gangjian  
Ms. Zheng Rongfang

## COMPLIANCE OFFICER

Mr. Wang Zheng

## AUTHORIZED REPRESENTATIVE

Mr. Wang Zheng  
Mr. Wong Kwok Kuen

## AUDITORS

Deloitte Touche Tohmatsu  
Certified Public Accountants

## SPONSOR

Core Pacific - Yamaichi Capital Limited

## LEGAL ADVISER

Tsun & Partners

## REGISTER OFFICE

No. 41, Gao Xin Liu Road  
Xi'an National Hi-tech Industrial Development Zone  
Xi'an, Shaanxi  
The PRC

## PRINCIPAL PLACE OF BUSINESS IN CHINA

No. 6, Gao Xin Yi Road  
Xi'an National Hi-tech Industrial Development Zone  
Xi'an, Shaanxi  
The PRC

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 1002  
Aon China Building  
29 Queen's Road Central  
Hong Kong

## STOCK CODE

8258

## **HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE**

Computershare Hong Kong Investor Services Limited  
Shops 1712–1716  
17th Floor Hopewell Centre  
183 Queen's Road East  
Wanchai, Hong Kong

## **PRINCIPAL BANKERS**

China Construction Bank  
(Xi'an Nan Da Street Branch)  
No. 15, Nan Da Street  
Xi'an, Shaanxi, the PRC

China Everbright Bank  
(Xi'an Dong Jiao Branch)  
No. 398 West Chengle Road  
Xi'an, Shaanxi, the PRC

Bank of Communications  
(Xi'an Cheng Bei Branch)  
No. 36 Bei Guan Zheng Road  
Xi'an, Shaanxi, the PRC

China Merchants Bank  
(Xi'an Cheng Nan Branch)  
No. 7 Chang An North Road  
Xi'an, Shaanxi, the PRC

Industrial and Commercial Bank of China  
(Xi'an Nan Guan Branch)  
No. 150 You Yi East Road  
Xi'an, Shaanxi, the PRC

## I Chairman's Statement I

To shareholders,

On behalf of the board of Directors (the "Board") of Shaanxi Northwest New Technology Industry Company Limited (the "Company"), I am pleased to present the Company's annual report for the year ended 31 December 2003.

The Company was officially listed on the GEM of the Stock Exchange on 3 July 2003. Being the first company located in the northwest region in China listed overseas, our listing was listed as "2003 Top 10 Economic News in Shaanxi Province and Xi'an City". The Company received praises and encouragement from Xi'an National Hi-tech Industrial Development Zone. The successful listing of the Company will lay the foundation for the future development.

In 2003, the Company's focuses were on accelerating the production and sales of FA-90 unlead gasoline additive and 2-ethylhexyl thioglycolate and enhancing the development of "Aigile" automobiles maintenance products (FA-D) and the establishment of sales network in accordance with our business objectives. In order to enhance the research and development ability of the Company, we accelerated the construction progress of the Shaanxi Northwest New Technology Industry Company Limited Technology Park (the "Technology Park"). Furthermore, we have strengthened our internal management and improved our management systems based on the needs of our development, which brought better results for our business.

### OPERATING PERFORMANCE

For the financial year 2003, the Company recorded a turnover of approximately RMB85,754,000 and net profit of approximately RMB18,792,000, representing an increase of 0.5% and 11.88% respectively as compared to those of the previous year. The steady growth in income was mainly attributed to the leading product quality of the Company, the relatively stable market and the good credit history of the customers, despite a marginal growth in turnover.

The Board recommended a final dividend of RMB0.0025 per share for the year ended 31 December 2003.

### BUSINESS STRATEGY

In 2003, our prudent business strategies have brought us a steady growth in turnover. We emphasized on satisfying the needs of technology development of China's petrochemical industry as the crucial foundation of the Company and achieved our business objectives by the following strategies:

- **Consolidated the production foundation, continuously enhanced our cost-effectiveness**

We strived to expand the production and sales of our principal product FA-90. We timely developed and conducted research for new product formula to satisfy the needs of customers and ensure the sales of our products.

In October 2003, the 2-ethylhexyl thioglycolate production line has commenced production. It has an annual production capacity up to 1,000 tons, and has reached the designed production capacity. The production line has carried out the industrial production and laid contributions to the profit growth in the Company's business development.

- **Enhanced the technological innovation and continuously increased our research and development ability**

Our principal products FA-90 unlead gasoline additive, FA-J environmental protection multi-function diesel additive and FA-D multi-function fuel oil additive (for gasoline) have been approved and granted patents by the State Intellectual Property Office of the PRC.

In order to further boost the technology level of our existing products and lay the platform for the development of new products, the principal office of our Technology Park, the Technology Building, has been top-out on 25 December 2003.

- **Strengthened scientific management and continuously enhanced our management position**

In order to adapt to the rapid growth of the Company and the ever-changing and competitive market, the Company has enhanced the management of branches. Wei Nan Branch and Jing He Branch have commenced independent operations, and became integrated branches in respect of human resources, finance and product supply and sales. The Company delegated the respective management duties to the branches so as to improve the management efficiency and lay a solid foundation for the further production development of the branches.

## PROSPECT

Following the rapid development of the petrochemical industry in China and the tighter control of environmental protection by the state government, there are stronger needs for fuel additives, which will provide a rooms for the Company's further development. The Company has the ability and confidence to become a well-known fuel additives manufacturer in China, thus brings a satisfying return to the shareholders.

In 2004, the Company will further develop the market, increase the production capacity and sales of FA-90. While we continue to expand the production and sales of 2-ethylhexyl thioglycolate, at the same time, we will actively explore new application scope and new market, and accelerate the construction of the Technology Park and FA-90 production line to increase the return to the shareholders as soon as possible.

On behalf of the Board, I would like to take this opportunity to express my most sincere gratitude for our shareholders and all people who have given their support for the Company.

**Wang Cong**

*Chairman*

17 March 2004

Xi'an, the PRC

### FINANCIAL REVIEW

The Company's revenue was approximately RMB85,754,000 for the financial year ended 31 December 2003, representing an increase of 0.5% over the previous year. The Company just recorded a moderate growth compared to the previous year due to the influence of Severe Acute Respiratory Syndrome (SARS) in 2003. However, our products were in the leading position in terms of quality, so the market was relatively stable. Furthermore, our clients have good reputation, therefore the annual return remained stable.

The Company's gross profit was approximately RMB39,576,000 for the financial year ended 31 December 2003, representing a decrease of 7.2% over the previous year while the gross profit margin in 2003 was 46.2% (2002: 50%).

The Company's net profit for the financial year ended 31 December 2003 was approximately RMB18,792,000 as against approximately of RMB16,796,000 in the previous year. This was a result of tighter internal control and lower costs during the year.

#### **Liquidity, financial resources and capital structure**

As at 31 December 2003, the equity of shareholders of the Company was approximately RMB160,334,000 (2002: RMB98,399,000); cash at bank and in hand was RMB104,876,000 (2002: RMB59,233,000); current assets amounted to RMB129,968,000 (2002: RMB97,278,000) and current liabilities was RMB82,305,000 (2002: RMB102,055,000), which mainly includes a short term bank loan of RMB54,500,000, repayable within 1 year.

The Company's liquidity ratio, defined as total current assets over total current liabilities, increased from 0.95 on 31 December 2002 to 1.58 on 31 December 2003, reflecting the high liquidity position.

#### **Significant investment and material acquisition and disposal of subsidiaries**

The Company did not hold material investments and had not made any material acquisition and disposal of subsidiaries and associated companies for the year ended 31 December 2003 and the same period last year.

#### **Pledge of assets**

During this year, the Group has obtained the release of third party guarantees of loans totaling RMB50 million, the guaranteed by Xi'an Diamond Co., Ltd. and Xi'an Cuibao Jewelry Group Company were replaced by a pledge of the Company's building project and land use right, details of which are set out in the announcement dated 7 October 2003. The status about pledge of assets is set out in note 22 in the auditors' report.

#### **Significant future investment plans and expected financial resources**

Details of the significant future investment plans and the expected financial resources for the capital expenses of the Company are set out in the section headed "Statement of Business Objectives" in the prospectus of the Company dated 23 June 2003 (the "Prospectus"). Except those disclosed in the above, as at 31 December 2003, the Company had no other material investment plan.

#### **Gearing Ratio**

Gearing Ratio, defined as total borrowings over net assets, was 34% (same period of 2002: 89%).



### **Capital Commitment, foreign exchange exposure and contingent liabilities**

As at 31 December 2003, the Company had RMB10,899,000 capital commitment (details of which are set out in note 21 in the auditors' report) and had no significant contingent liabilities. During the year under review, the Company's financial position was not exposed to significant fluctuations in exchange rates and any related hedges.

## **BUSINESS REVIEW**

The results of the Company for the financial year ended 31 December 2003 are as follows:

### **Business development**

In 2003, the Company's focuses were on accelerating the production and sales of FA-90 unlead gasoline additive and 2-ethylhexyl thioglycolate and enhancing the development of "Aigile" automobiles maintenance products (FA-D) and the establishment of sales network in accordance with our business objectives. In order to enhance the research and development ability of the Company, we accelerated the construction progress of the Technology Park. Furthermore, we have strengthened our internal management and improved our management systems based on the needs of our development, which brought better results for our business.

The construction of the production facilities for FA-90 core components has been started. In October 2003, the 2-ethylhexyl thioglycolate production line with an annual production capacity up to 1,000 tons has commenced production and has reached the designed production capacity.

Our principal products of FA-90 unlead gasoline additive, FA-J environmental protection multi-function diesel additive and FA-D multi-function fuel oil additive (for gasoline) have been approved and granted patents by the State Intellectual Property Office of the PRC on 3 September 2003, 3 September 2003 and 26 November 2003 respectively.

### **Products and production**

During the review year, our principal products included FA-90, FA-J, "Aigile" product series (FA-D), 2-ethylhexyl thioglycolate and ferrocene.

The Company mainly focused on the production and sales of FA-90 unlead gasoline additive, which brought a sales revenue of RMB82,155,000 in 2003, representing an increase of 3.9% over the same period of previous year. The sales revenue of 2-ethylhexyl thioglycolate was RMB3,209,000 and the sales revenue of the "Aigile" automobiles maintenance products (FA-D) was RMB206,000.

### **Sales and marketing**

During the review year, the Company conducted sales mainly relied on existing sales and distribution network. By strengthening the management of business development, the Company's result was promising. The Company also focused on exploring the market and distribution of FA-90 unlead gasoline additive. Regarding 2-ethylhexyl thioglycolate, the Company mainly focused on developing new application scope. By conducting application tests and development, the Company has established its distribution market in the plastic processing industry. For "Aigile" product series, the sales channel was still through agents.

### Research and development

The Company focused on the technological advancement and support of existing products, improving the anti-knock capability and environmental effect of FA-90. In respect of FA-J, the Company concentrated on the study of reaction of different fuel products towards agents for improving fluidity. The Company further studied the application scope of the core materials of oil-processing assistants, 2-ethylhexyl thioglycolate and its downstream products and continued to conduct the testing and expand its application in new scopes and industries.

The Company continued to conduct the research and development of FA-Q gasoline cleaner and FA-D (for diesel), collected large volume of domestic and foreign related technology development information, ensured the development direction of FA-Q gasoline cleaner, conducted track study for the use of FA-D (for diesel) and prepared data for FA-D (for diesel).

### Employees and remuneration policy

For the year ended 31 December 2003, the staff remuneration of the Company was RMB3,903,000 (2002: RMB2,499,000) and the Company employed a total of 240 staff (2002: 205 staff). Remuneration is determined by reference to the position and duties of the staff and individual's performance, qualification and experience. Discretionary bonus may be rewarded to employees by reference to their performance to recognize their contribution. Other benefits include the housing allowances and the unemployment, medical and pension schemes as regulated by the social security system of the PRC government.

## PROSPECT

The year of 2004 is our first complete financial year after the listing. The Company will concentrate on technology advancement, strengthen the internal control, continue to strengthen and expand the production and sales of FA-90, enhance the marketing and production technology of FA-90, and accelerate the construction of production facilities for FA-90 at Wei Nan Branch. The Company will further develop the application scope and distribution market of 2-ethylhexyl thioglycolate, and enhance the research and development, production and distribution of 2-ethylhexyl thioglycolate. At the same time, the Company will enhance the marketing and promotion of the "Aigile" automobiles maintenance products, perfect the products specifications and build up the brand name of "Aigile" products.

The Directors believe that with our technical know-how, management expertise and sales and marketing capability, the Company will be able to achieve these business objectives. Maximizing the shareholders' interests is our final objective, thus return the upmost benefits for them.

In 2003, in accordance the business objectives set out in the Prospectus, the Company focused on the production, research and development of the principal product FA-90 unlead gasoline additive series and 2-ethylhexyl thioglycolate, strengthened and expanded the sales and distribution network of the products, accelerated the construction of production facilities for the core components of oil processing assistants and the Technology Park, in order to achieve the overall business objectives of the Company.

## 1. COMPARISON OF BUSINESS PLANS AND ACTUAL BUSINESS PROGRESS

Project	Planned Progress (1 July to 31 December 2003)	Actual business progress
Construction of new production facilities for FA-90 core components	Continuation of the construction of the production plant	As disclosed in the interim report 2003, pursuant to the resolution passed by the Board on 12 August 2003, the Company will change the location for the establishment for FA-90 Core Components production facilities to the Wei Nan Branch. Due to change of location, the project progress was behind the schedule. Currently, the Company has engaged a design company to conduct the design of production facilities, plant, utilities, etc. The pre-stage preparation work of project site and plant are undergoing, and will continue to select the appropriate models of production facilities and to obtain quotations so as to get prepared for the purchase and processing work.
The Technology Building	Top-out of the building	The Technology Building was top-out on 25 December 2003 as scheduled.

<b>Project</b>	<b>Planned Progress (1 July to 31 December 2003)</b>	<b>Actual business progress</b>
The technology center	Purchase and installation of research and chemical testing instruments	The building up of exterior and interior facilities and decoration are undergoing, the installation of facilities and instruments of the technology center has not been commenced. The Company will purchase and install the instruments for the technology center according to the progress.
Production facilities for 2-ethylhexyl thioglycolate and oil-processing assistants at the Wei Nan Branch	Formulation of the production of oil-processing assistants	The project's principal facilities with an annual production capacity of 1,000 tons of 2-ethylhexyl thioglycolate has commenced production in October 2003. The Company will further study the application scope of 2-ethylhexyl thioglycolate, expand its application to new scopes and industries and conduct the application tests.
Expansion of sales and distribution network	Establishment of sales contact points with testing and analytical instruments	The Company still relies on the existing sales and distribution network and will ensure the normal operation by enhancing the sales management.

## 2. USE OF PROCEEDS

According to the Prospectus, the final placing price of the Company was HK\$0.25 per share. The Company would use all the proceeds on upgrading the production capacity of FA-90 core components.

	<b>Planned (1 July to 31 December 2003) HK\$ Million</b>	<b>Actual HK\$ Million</b>
<b>Proceeds from listing</b>		
Construction of new production facilities for FA-90 core components	17.2	0.86

For the year ended 31 December 2003, the actual amount allocated from the proceeds to the pre-stage construction of production facilities for FA-90 core components was approximately HK\$860,000 (RMB925,636).

The remaining proceeds were placed in an account of a bank in China as deposits on 31 December 2003.

## DIRECTORS

### Executive Directors

*Wang Cong* (王聰), aged 46, is the chairman of the Company, and is responsible for the Company's overall strategic planning and the formulation of corporate policies. He graduated from the Department of Textile Engineering of Northwest Textile Technical Institute (西北紡織工學院紡織工程系) with a bachelor's degree in 1982. From July 1982 to December 1990, Mr. Wang served as a secretary to the delegation committee (團委書記) of Northwest Textile Technical Institute (西北紡織工學院). From February 1991 to December 2002, Mr. Wang served as the deputy general manager, general manager, president and chairman of the Company or its predecessor.

*Wang Zheng* (王政), aged 42, is an executive Director and the president of the Company, and is responsible for the implementation of the Company's strategy and business plans. Mr. Wang graduated from Shaanxi Province Broadcasting Television University (陝西省廣播電視大學) majoring in economics. From January 1977 to March 1982, Mr. Wang served in the People's Liberation Army. From March 1982 to April 1994, Mr. Wang served as secretary to the delegation committee (團委書記), branch factory manager, secretary to party branch, deputy factory manager of Xi'an Watch Materials Factory (西安鐘表材料廠). From May 1994 to February 1995, Mr. Wang was the deputy general manager of Xi'an Lighting Appliances Industry Company (西安照明電器工業公司) and the general manager of Xi'an Liguang Lighting Appliances Limited Liability Company (西安麗光照明電器有限責任公司). In March 1995, Mr. Wang joined Northwest Industry Corporation, the predecessor of the Company. Mr. Wang is the compliance officer of the Company.

*Guo Qiubao* (郭秋寶), aged 53, is an executive Director, vice-president and chief engineer of the Company. He is responsible for overseeing the operations of the research and development department of the Company and the technology centre. Mr. Guo graduated from the Department of Chemical Engineering of Northwest University (西北大學化工系) of the PRC with a bachelor's degree in 1976. From September 1976 to January 1991, he worked at Xi'an Chemical Research Institute (西安化工研究所) as deputy director of the research centre. From January 1991 to September 1998, he served as the factory manager of Shaanxi Huaqiao Daily Necessities Chemical Factory (陝西華僑日用化工廠) and deputy general manager of Shaanxi Huaqiao Healthcare Company (陝西華僑保健公司). Mr. Gao joined Northwest Industry Corporation, the predecessor of the Company, in October 1998.

*Zheng Rongfang* (鄭榮芳), aged 56, is an executive Director and financial controller of the Company. She is responsible for overseeing the operations of the accounting department and the financial matters of the Company. She obtained the qualification of an accountant in the PRC in October 1999. From April 1966 to June 1982, Ms. Zheng consecutively served as an accounting clerk of Xi'an Regong Monitors Factory (西安市熱工儀表廠) and a technician of Xi'an Crane Factory (西安市起重機廠). From July 1982 to April 1993, she consecutively served in Xi'an Printing and Dyeing Factory (西安印染廠), Xi'an Cotton Embroidery Factory (西安錦花綉品廠) and Xi'an Gengxin Pharmaceutical Factory (西安市更新製藥廠) as factory manager and deputy factory manager. She was the head of the Finance Division of the Economic Committee of Beilin District, Xi'an, Shaanxi, the PRC (陝西省西安市碑林區經委財務科) from May 1993 to February 1995. Ms. Zheng joined Northwest Industry Corporation, the predecessor of the Company, in March 1995.

## I Directors, Supervisors and Senior Management I

*Wang Feng* (王峰), aged 44, is an executive Director and the general manager of the sales centre of the Company. Mr. Wang is the younger brother of the Company's chairman, Mr. Wang Cong. He is responsible for the overall operations of the marketing and sales of the Company's products. From August 1981 to December 1993, Mr. Wang was the deputy general manager of An Kang District Department Store (安康地區百貨公司). Mr. Wang completed a Chinese language and literature course in Shaanxi Province Broadcasting Television University (陝西省廣播電視大學) in 1993. He joined the predecessor of the Company, Northwest Industry Corporation, in June 1994.

### Non-executive Directors

*Su Yuanquan* (蘇源泉), aged 50, is a non-executive Director. Mr. Su graduated from Northwest University (西北大學) with a bachelor's degree in philosophy in 1983. From July 1983 to September 1992, Mr. So was an instructor of the Cadre College of Economic Management of Shaanxi Province (陝西省經濟管理幹部學院). From October 1992 to June 1996, he served as the director of the strategic research department of China Apollo Group (廣東太陽神集團). From July 1996 to December 1998, he was the deputy general manager of Shaanxi Bailung Group Joint Stock Company (陝西百隆集團股份公司). Mr. So has been the assistant professor of the Cadre College of Economic Management of Shaanxi Province (陝西省經濟管理幹部學院) and an tutor of the MBA Centre of Northwest University (西北大學 MBA 中心) of the PRC since January 1999. Mr. So was appointed as a non-executive Director in August 2002.

*Guo Bin* (郭斌), aged 51, is a non-executive Director. Mr. Guo is a practising lawyer in the PRC and has been a partner and director of Beijing Jiayuan Law Office (北京嘉源律師事務所), the legal adviser of the Company as to PRC law. Mr. Guo graduated from Northwest Political and Legal College (西北政法學院) in 1994 majoring in law. Mr. Guo served as the deputy director of the Safety Monitor Office of Xi'an Railway Sub-bureau (西安鐵路分局安全監察室) from January 1987 to September 1993. He practised as a lawyer in the PRC in Beijing Hai He Law Office (北京海河律師事務所) from October 1993 to August 1995. He served as the deputy general manager of Shaanxi Branch of China Unicom (中國聯通陝西分公司) from September 1995 to June 1997 and as a lawyer in Beijing Jiahe Law Office (北京嘉和律師事務所) from July 1997 to January 2000. Mr. Gao was appointed as a non-executive Director in August 2002.

### Independent non-executive Directors

*Hu Yangxiong* (胡養雄), aged 43, is an independent non-executive Director. He is a senior accountant and a non-executive member of the Society of Certified Accountants of the PRC. Mr. Hu graduated from Zhengzhou Aviation Industry Management College (鄭州航空工業管理專科學校) majoring in industry enterprise finance and Beijing Aviation University (北京航空航天大學) majoring in industry administration engineering, and was an assistant instructor of Zhengzhou Aviation Industry Management College (鄭州航空工業管理學院) from March 1984 to March 1987. He was the director of the General Office of the Finance Department of Aviation Anqing Company (航空安慶公司) from March 1987 to March 1991, the deputy head of the Finance Department of Shaanxi Aviation Industry Bureau (陝西航天工業局) and the deputy head of Shaanxi Yuehua Certified Public Accountants

(陝西岳華會計師事務所) from March 1991 to August 2001. Mr. Hu has been the chairman of Shaanxi Dewei Investment Consulting Company Limited (陝西德威投資諮詢有限公司) since August 2001. He was appointed as an independent non-executive Director in January 2000.

*Li Gangjian* (李剛劍), aged 39, is an independent non-executive Director. Mr. Li graduated from the People's University of the PRC (中國人民大學) in June 1991 with a doctorate degree in economics. From April 1996 to June 1997, he worked at Beijing Bite Industry Joint Stock Company Limited (北京比特實業股份有限公司) as a director and the deputy general manager. Mr. Li has been the general manager of Beijing Huizheng Financial Consultancy Company Limited (北京滙正財經顧問有限公司) since July 1998. He was appointed as an independent non-executive Director in January 2000.

## SUPERVISORS

*Yan Buqiang* (閻步強), aged 49, is a Supervisor and the chairman of the supervisory committee of the Company and is responsible for the implementation of the Company's development plans. Mr. Yan graduated from Northwest Textile Technical Institute (西北紡織工學院) with a major in textile studies in July 1982. From July 1982 to July 1995, he served as the secretary to the delegation division (團總支書記), deputy head of equipment office, deputy head of general office and head of property office of Northwest Textile Technical Institute (西北紡織工學院). Mr. Yan joined the predecessor of the Company, Northwest Industry Corporation, in August 1995.

*Wei Jingling* (魏景嶺), aged 47, is a Supervisor elected by the Company's employees and the manager of the Company's accounting department. From July 1976 to August 1993, she was an accounting clerk and accounting director of Xi'an Printing and Dyeing Factory (西安印染廠). From September 1993 to November 1997, she served as accounting clerk and manager of the accounting department of Xi'an Shuanghuan Property Development Company (西安雙環房地產開發公司). She completed a two-year tertiary education in Shaanxi China's Communist Party School (中共陝西省委黨校) in July 1995 majoring in economics management. Ms. Wei joined the predecessor of the Company, Northwest Industry Corporation, in December 1997.

*Wang Anjun* (王安君), aged 41, is a Supervisor elected by the Company's employees. From January 1990 to August 2000, he worked in Xi'an Qiulin Company (西安秋林公司) and served as a driver in Xi'an Putian Company Limited (西安普天有限公司), Shaanxi Province Television Station and Xi'an Qinfen Property Company (西安秦奮物業公司). Mr. Wang joined the Company in September 2000.

## INDEPENDENT SUPERVISORS

*Wu Xiaoling* (武曉玲), aged 50, is an independent Supervisor of the supervisory committee of the Company. Ms. Wu graduated from the Department of Accountancy of Shaanxi Finance and Economics Institute (陝西財經學院會計系) with a bachelor's degree. From July 1982 to July 1999, she served as an assistant, a lecturer and an assistant professor of the Department of Accountancy of the Management School of Xi'an Jiaotong University (西安交通大學管理學院). Ms. Wu has been an assistant professor in the Department of Technology Economics and Management of the Management School of Xi'an Jiaotong University (西安交通大學管理學院) since August 1999. She was appointed as an independent Supervisor in August 2002.

## I Directors, Supervisors and Senior Management I

*Qian Ming* (龔明), aged 47, is an independent Supervisor of the supervisory committee of the Company. Mr. Qian is a certified accountant of the PRC. Mr. Qian completed tertiary education in Shaanxi Province Broadcasting Television University (陝西省廣播電視大學) majoring in industrial and corporate management in December 1986 and in Xi'an No. 1 Light Industry Bureau University for Employees (西安市第一輕工業局職工大學) majoring in financial accounting in July 1990. From April 1981 to December 1995, he served as the production lines costs auditor, the accountant of the finance division, the head of the enterprise division and the head of the finance department of Xi'an Watch Materials Factory (西安鐘表材料廠). From January 1996 to February 1998, Mr. Qian was the chief accountant of Xi'an Lighting Appliances Industry Company (西安照明電器工業公司) and the chief financial officer and the manager of the investment consulting division of Xi'an Liguang Lighting Appliances Company Limited (西安麗光照明電器有限公司). He served as chief financial officer of Shaanxi Changsheng Company Limited (陝西暢盛有限公司) from March 1998 to August 1998 and as chief financial consultant and manager of investment consulting department of Shaanxi Qingtai Investment Consulting Services Limited (陝西慶泰投資顧問有限公司) from September 1998 to May 2001. Mr. Qian has been the general manager of Shaanxi Hainuoer Investment Consulting Services Limited (陝西海爾諾投資顧問有限公司) since June 2001. He was appointed as an independent Supervisor in August 2002.

### QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

*Wong Kwok Kuen* (王國權), aged 31, is a qualified accountant with over 6 years of experience in accounting, auditing and financial management. Mr. Wong graduated with a Bachelor's degree in Accountancy from the Hong Kong Polytechnic University and is an associate member of the Association of Chartered Certified Accountants. He is also the company secretary of the Company. Mr. Wong worked in an international audit firm as staff accountant from August 1997 to June 1998. He was then employed by the Polytechnic University as an accounting assistant from August 1998 to August 1999. From August 1999 to June 2001, Mr. Wong was a financial accountant of a manufacturing company in Hong Kong. Prior to joining the Company from June 2001 to October 2002, Mr. Wong was an assistant finance manager of an investment holding company in the PRC. Mr. Wong joined the Company in November 2002.

### SENIOR MANAGEMENT

*Zeng Yinglin* (曾應林), aged 49, is the vice-president of the Company in charge of the legal, administration and human resources departments. Mr. Zeng graduated from Northwest Textile Technical Institute (西北紡織工學院) with a major in textile studies in 1982. Before he joined the predecessor of the Company, Northwest Industry Corporation, in June 1994, Mr. Zeng had worked in Sanmenxia Huixing Textile Factory (三門峽會興棉紡織廠) as the factory office director and vice-factory director from July 1982 to October 1991 and Henang No. 2 Printing and Dyeing Factory (河南第二印染廠) as vice-factory director and factory director from October 1981 to June 1994.

*Zheng Yuanyang* (鄭遠洋), aged 63, is the deputy chief engineer of the Company and is in charge of the Company's technology centre. Mr. Zheng graduated from the Science and Technology University of China (中國科學技術大學) with a major in high-molecular chemistry in 1964. From August 1964 to November 1999, he was a research associate



or research fellow in Lanzhou Modern Chemistry Research Institute (蘭州近代化學研究所), Xi'an Modern Chemistry Research Institute (西安近代化學研究所) and three universities in the United States of America. Mr. Zheng joined the Company in December 1999.

*Gu Qijiang (顧企江)*, aged 60, is the head of research of the Company's technology centre. Mr. Gu graduated from East China Engineering Institute (華東工程學院) with a major in Explosive Studies. From February 1968 to December 1997, he conducted research in Institute No. 204 of Xi'an Armaments Industry Company (西安兵器工業總公司二零四所). From January 1998 to September 2000, he conducted research at the University of Wisconsin. He joined the Company in October 2000.

*Lu Xiliang (路西良)*, aged 40, is the secretary to the board of Directors and is responsible for the Company's overall corporate and company secretarial matters. Mr. Lu graduated from Shaanxi Finance Institute (陝西財經學院) and is a senior economist. From July 1986 to January 1996, he worked in Shaanxi Colour Kinescope Factory (陝西彩色顯像管總廠). From February 1996 to April 2002, he served as secretary to the board of directors and the head of the securities department of Irico Display Devices Joint Stock Limited Company (彩虹顯示器件股份有限公司). He joined the Company in July 2002.

*Li Xiaohu (李小虎)*, aged 42, is the assistant to the president of the Company, the general manager of the production department of the Company and the general manager of the Wei Nan Branch. Mr. Li graduated from Shaanxi Mechanical Institute (陝西機械學院) majoring in industrial and electrical automation in 1987. Before he joined the Company in March 2000, Mr. Li had worked in Xi'an Hydraulic Pressure Parts Factory (西安液壓件廠) as the director of the hydraulic pressure valve branch factory, the vice-division head of the production division, the chief coordinator, the assistant manager of the operation department and the factory office director from October 1981 to February 2000.

*Li Yanan (李亞楠)*, aged 34, is the head of the office of the president of the Company and is responsible for public relations of the Company. Ms. Li graduated from Xidian University (西安電子科技大學) with a major in computer application in 1990. From July 1990 to July 2000, she worked at Xi'an Brewery Factory (西安啤酒廠) as general statistician and the Import and Export of Electronic Appliances and Minerals Branch of China Shaanxi International Economic and Technology Cooperation Company (中國陝西國際經濟技術合作公司機電礦產進出口分公司) as the office director. She joined the Company in August 2000.

*Feng Jun (馮君)*, aged 30, is the manager of the human resources department and administration department of the Company. Ms. Feng graduated from Shaanxi Commerce College (陝西商業專科學院) with a major in international tourism and business in July 1994. From July 1995 to October 1999, she served consecutively as the office secretary in Xi'an Jinguishou Pharmacy Group Company (西安市金龜壽藥業集團公司), the head of the dealing department of Shaanxi Hualong Futures Dealers Limited Liability Company (陝西華隆期貨經紀有限責任公司) and the manager of the dealing department of Weinan New Century Information Consultancy Limited Liability Company (渭南新世紀信息諮詢有限責任公司). She joined the Company in November 1999.

## I Directors, Supervisors and Senior Management I

*Xie Chaohong* (謝朝紅), aged 35, is the manager of the Company's project financing department. Ms. Xie graduated from Shaanxi International Business Training College (陝西對外商務培訓學院) with a major in international trade in 1995. From February 1987 to July 1993, she worked in Factory No. 2 of Xi'an Public Transportation Company (西安公交公司電車二廠). From August 1993 to July 1995, she studied at Shaanxi Foreign Trade Training College (陝西對外商務培訓學院). From August 1995 to December 1999, Ms. Xie was the manager of the personnel department of Shenzhen Henggang Songbo Enterprise (深圳橫崗松柏企業). She joined the Company in September 2000.

*Wang Min* (王敏), aged 40, is the manager of the Company's legal department. Mr. Wang graduated from Northwest University of Political Science and Law (西北政法學院) in 1988 and is a qualified lawyer in the PRC. Before he joined the predecessor of the Company, Northwest Industry Corporation, in June 1998, Mr. Wang was a lawyer in various law firms in the PRC.

*Xing Dunping* (邢敦平), aged 48, is the general manager of the Jing He Branch. Mr. Xing worked in Xi'an Yanhe Chemical Factory (西安延河化工廠) as the head of the technology division, the head of the quality control division and the chairman of the labour union from January 1980 to December 1992 and Xi'an Futai Industry Company (西安市福泰實業總公司) responsible for technology management from January 1993 to December 1999. He joined the Company in August 2000.

*Wu Chuandong* (吳傳東), aged 39, is the manager of the Company's audit department. Mr. Wu graduated from Northwest University of the PRC (西北大學) with a major in accountancy in 1996. He is a qualified accountant and a registered tax agent of the PRC. From July 1987 to April 2001, Mr. Wu served consecutively as accountant or auditor in a factory and two accounting firms in the PRC. Before he joined the Company in November 2002, he was the manager of the finance department of Fengxing International Company Limited (蜂星國際有限公司) from May 2001 to October 2002.

The directors of the Company present their first report and the audited financial statements of the Company for the year ended 31 December 2003.

## **REORGANISATION AND LISTING ON THE GROWTH ENTERPRISE MARKET OF THE STOCK EXCHANGE OF HONG KONG LIMITED**

陝西省西北新技術實業有限責任公司 (Shaanxi Northwest New Technology Limited Liability Company) was incorporated in the People's Republic of China (the "PRC") on 9 April 1999 as a limited liability company. On 18 January 2000, pursuant to the approval from the relevant PRC authorities, 陝西省西北新技術實業有限責任公司 (Shaanxi Northwest New Technology Limited Liability Company) was converted into a joint stock limited company and renamed as 陝西西北新技術實業股份有限公司 (Shannxi Northwest New Technology Industry Company Limited) (the "Company") in preparing for the listing of the Company's H Shares on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

On 16 December 2002, the China Securities Regulatory Commission issued an approval for the Company to apply for listing of its H shares.

The H shares of the Company were subsequently listed on GEM on 3 July 2003.

## **PRINCIPAL ACTIVITY**

The Company is principally engaged in the research and development, production and sale of innovative environmental protection energy materials and products and fuel oil additives.

## **ARTICLES OF ASSOCIATION**

Pursuant to a special resolution passed at an extraordinary general meeting held on 6 June 2003, the Company adopted a new Articles of Association.

## **RESULTS AND APPROPRIATIONS**

The results of the Company for the year ended 31 December 2003 are set out in the income statement on page 30 of the annual report.

The directors recommend the payment of a final dividend of RMB0.0025 per share in respect of the year ended 31 December 2003 to shareholders on the register of members at 4:00 p.m. on 19 April 2004.

## **DISTRIBUTABLE RESERVES**

As at 31 December 2003, the Company's reserves available for distribution to shareholders was approximately RMB27,032,000.

## PROPERTY, PLANT AND EQUIPMENT

During the year, the Company spent approximately RMB18 million in aggregate on factory premises and other plant and machinery to expand and upgrade its production capacity.

Details of these and other movements in the property, plant and equipment of the Company during the year are set out in note 12 to the financial statements.

## SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 18 to the financial statements.

## DIRECTORS AND SUPERVISORS

The Directors and supervisors of the Company during the year and up to the date of this report are:

### Executive Directors:

Wang Cong

Wang Zheng

Guo Qiubao

Zheng Rongfang

Wang Feng

### Non-executive Directors:

Su Yuanquan

Guo Bin

### Independent non-executive Directors:

Hu Yangxiong

Li Gangjian

### Supervisors:

Yan Buqiang

Wei Jingling

Wang Anjun

### Independent Supervisors:

Wu Xiaoling

Qian Ming

## DIRECTORS AND SUPERVISORS (Continued)

Each of the directors and supervisors (including the independent non-executive directors and independent supervisors) has entered into a service agreement with the Company for three years from the date of appointment. Each of the directors and supervisors was appointed as director and supervisor of the Company respectively subject to termination in certain circumstances as stipulated in the relevant services contracts.

In accordance with the provisions of the Company's Articles of Association, the directors and supervisors are elected at a shareholders' meeting of the Company for a term of three years, renewable upon re-election and re-appointment.

## DIRECTORS', CHIEF EXECUTIVES' AND SUPERVISORS' INTERESTS IN SHARES

Save as disclosed below, none of the Directors, chief executives' or supervisors, as at 31 December 2003, has any interests or short positions in any shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")): (a) which will be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have taken under such provisions of the SFO); or (b) which will be required pursuant to section 352 of the SFO to be entered in the register referred to therein; or (c) which will be required to notify to the Company and the Stock Exchange as required in Rules 5.40 to 5.58 of the GEM Listing Rules:

### Long positions in shares

Name	Company/name of associated corporation	Capacity	Number and class of securities	Percentage shareholding in the same class of securities
Wang Cong (Note 1)	Company	Interest of controlled corporation	548,000,000 domestic shares	60.22%
Wang Cong (Note 2)	Xian Tian Cheng Environmental Technology Development Company Limited ("Tian Cheng Environmental")	Interest of controlled corporation	13,745,480 ordinary shares	98.18%
Wang Zheng	Company	Beneficial owner	2,000,000 domestic shares	0.22%

## DIRECTORS', CHIEF EXECUTIVES' AND SUPERVISORS' INTERESTS IN SHARES (Continued)

### Long positions in shares (Continued)

Name	Company/name of associated corporation	Capacity	Number and class of securities	Percentage shareholding in the same class of securities
Guo Qiubao	Company	Beneficial owner	2,000,000 domestic shares	0.22%
Zheng Rongfang	Company	Beneficial owner	2,000,000 domestic shares	0.22%
Wang Feng	Company	Beneficial owner	2,000,000 domestic shares	0.22%
Zeng Yinglin	Company	Beneficial owner	2,000,000 domestic shares	0.22%
Yan Buqiang	Company	Beneficial owner	2,000,000 domestic shares	0.22%

*Notes:*

1. The 548,000,000 domestic shares are held by Xian Northwest Industry (Group) Company Limited (formerly known as "Xian Fan Sen Property Development Company Limited" ("Northwest Group")), which is beneficially owned as to 98% by Wang Cong. Wang Cong is deemed to be interested in 548,000,000 domestic shares.
2. Tian Cheng Environment is a 98% owned subsidiary of Northwest Group, the holding company of the Company, and is thus an associated corporation of the Company.

## DIRECTORS', CHIEF EXECUTIVES' AND SUPERVISORS' INTEREST IN UNDERLYING SHARES UNDER EQUITY DERIVATIVES

Save as disclosed above, for the year ended 31 December 2003, no Directors, chief executives' or supervisors have been granted any rights to subscribe domestic shares and H shares of the Company.

## INTEREST DISCLOSEABLE PURSUANT TO THE SFO & SUBSTANTIAL SHAREHOLDERS

Save as disclosed below, none of the Directors and chief executives, as at 31 December 2003, is aware of any person who has any interests or short positions in any shares or underlying shares which will be required to be disclosed pursuant to Divisions 2 and 3 of Part XV of the SFO, or to be recorded pursuant to section 336 of the SFO in the register referred to therein:

Name	Capacity	No. of domestic shares	Percentage of shareholding
Northwest Group	Beneficial owner	548,000,000	60.22%
Shaanxi Jing Dian Investment Company Limited ("Jing Dian Investment")	Beneficial owner	120,000,000	13.19%
Ding Xianguang ( <i>Note</i> )	Interest of controlled corporation	120,000,000	13.19%
Zhang Jianming ( <i>Note</i> )	Interest of controlled corporation	120,000,000	13.19%

*Note:* Each of Ding Xianguang and Zhang Jianming is beneficially interested in 40% of the equity interest in Jing Dian Investment, and is deemed to be interested in 120,000,000 domestic shares under the provisions of Divisions 2 and 3 of Part XV of SFO.

## SHARE OPTION SCHEME

The Company's share option scheme was approved by a resolution of the shareholders of the Company dated 6 June 2003 (the "Share Option Scheme").

### (1) Participants of the Share Option Scheme

The Board of Directors (the "Board") may invite any employees including any executive Director ("Employees") to take up options to subscribe for H shares of the Company (the "H Shares").

### (2) Payment on acceptance of option offer

HK\$1 is payable by the Employees to the Company on acceptance of the option offered.

### (3) Price of Shares

The subscription price for H Shares under the Share Option Scheme will be determined by the Board and notified to each grantee and will be no less than the higher of (a) the closing price of the H Shares as stated in the Stock Exchange's daily quotations sheet on the date of offer, which must be a trading day, (b) the average closing prices of the H Shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of offer and (c) the nominal value of a H Share.

## SHARE OPTION SCHEME (Continued)

### (4) Maximum number of H Shares

The total number of H Shares subject to the Share Option Scheme must not, in aggregate, exceed 30% of the H Shares of the Company in issue from time to time subject to the following:

- (a) The total number of H Shares available for issue under options which may be granted under the Share Option Scheme and any other scheme, must not in aggregate, exceed 10% of the number of the H Shares of the Company in issue as at the date of approval unless further shareholders' approval has been obtained pursuant to paragraph (b) or (c) or (d) below;
- (b) The Board may seek approval of shareholders in general meeting to renew the 10% limit in paragraph (a). However, the total number of H Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and other schemes of the Company under the limit as renewed must not exceed 10% of the number of H Shares of the Company in issue as at the date of the approval to renew the limit;
- (c) The Board may seek separate shareholders' approval in general meeting to grant options beyond 10% limit provided that (i) the total number of H Shares subject to the Share Option Scheme and other schemes of the Company does not in aggregate exceed 30% of the total number of H Shares of the Company in issue at the date of approval and (ii) the options in excess of the 10% limit are granted only to participants specified by the Board before such approval is sought;
- (d) No Employees shall be granted an option which, if all the options granted to the Employee (including both exercised and outstanding options) in any 12-month period up to the date of the grant are exercised in full, would result in such person's maximum entitlement exceeding 1% of the number of H Shares of the Company in issue, unless approved by shareholders in general meeting, with such Employee and his associates abstaining from voting; and
- (e) Each grant of options to a connected person (as defined in the GEM Listing Rules) must be approved by the independent non-executive Directors (excluding independent non-executive Director who is the grantee of the options). Where any grant of options to a substantial shareholder (as defined in the GEM Listing Rules) or an independent non-executive director, or any of their respective associates, would result in the H Shares issued and to be issued upon exercise of all options granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant, representing in aggregate over 0.1% of the H Shares in issue and having an aggregate value, based on the closing price of H Shares at the date of each grant, in excess of HK\$5 million, such further grant of options must be approved by the shareholders.



## SHARE OPTION SCHEME (Continued)

### (5) Time of exercise of option

No Employees who are PRC nationals and have taken up any options to subscribe for H Shares shall be entitled to exercise any such options until (a) the current restrictions imposed by the relevant PRC laws and regulations restricting PRC nationals from subscribing for and dealing in H Shares or any laws and regulations with similar effects have been abolished or removed and; (b) approvals have been obtained from the CSRC or other relevant government authorities in the PRC for the exercise of any options which may be granted under the Share Option Scheme. Subject to the above, an option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period (the "Option Period") to be notified by the Board to each grantee provided that the period within which the option must be exercised shall be not less than three years and not more than ten years from the date of grant of the option.

### (6) Period of the Share Option Scheme

The Share Option Scheme will remain valid for a period of 10 years commencing on the date on which the scheme was adopted and approved by the shareholders of the Company (save that the Company, by ordinary resolution in general meeting or Board may at any time terminate the operation of the Share Option Scheme). After termination, no further options will be granted but the provisions of the Share Option Scheme shall in all other respects remain in full force and effect and options which are granted during the life of the Share Option Scheme may continue to be exercisable in accordance with their terms of issue.

No option has been granted by the Company under the Share Option Scheme since its adoption.

## DIRECTORS AND SUPERVISORS' INTERESTS IN MATERIAL CONTRACTS

There is no other material contracts to which the Company was a party and in which a director or a supervisor of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## COMPETING INTERESTS

None of the Directors or the management shareholders (as defined in the GEM Listing Rules) of the Company and their respective associates (as defined in the GEM Listing Rules) had any interest in a business which competes or may compete with the business of the Company.

## SPONSOR'S INTEREST

As notified and updated by Core Pacific-Yamaichi Capital Limited ("CPY Capital"), Core Pacific-Yamaichi International (H.K.) Limited, an associate (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) of CPY Capital, held 9,000,000 shares in the Company. Save as disclosed herein, neither CPY Capital nor its directors or employees or associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interest in the share capital of the Company as at 31 December 2003.

Pursuant to the sponsor agreement dated 23 June 2003 entered into between CPY Capital and the Company, CPY Capital received fees for acting as the Company's sponsor for the period from 3 July 2003 up to 31 December 2005 or until the sponsor agreement is terminated upon the terms and conditions set out therein.

## MAJOR SUPPLIERS AND CUSTOMERS

During the year, the five largest suppliers of the Company accounted for approximately 58% of the Company's purchases. The largest supplier accounted for approximately 21% of the purchases of the Company.

Aggregate sales attributable to the Group's five largest customers accounted for approximately 62% of the total turnover. The largest customer accounted for approximately 18% of the total turnover of the Company.

None of the directors, the supervisors, their associates or any shareholders which, to the knowledge of the directors, own more than 5% of the Company's issued share capital had any interest in the five largest suppliers or customers.

## SEGMENT INFORMATION

The operations of the Company, analysed by its products, are as follows:

### For the year ended 31 December 2003

	FA-90	FA-D	FA-J	Ferrocene	2-ethylhexyl thioglycolate and others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	82,155	206	113	71	3,209	85,754
Cost of sales	(43,172)	(117)	(81)	(64)	(2,744)	(46,178)
Gross profit	38,983	89	32	7	465	39,576

**SEGMENT INFORMATION (Continued)**

For the year ended 31 December 2002

	FA-90	FA-D	FA-J	Ferrocene	2-ethylhexyl thioglycolate and others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	79,049	425	131	5,595	153	85,353
Cost of sales	(39,417)	(195)	(106)	(2,918)	(77)	(42,713)
Gross profit	39,632	230	25	2,677	76	42,640

**PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY**

The Company did not purchase, sell or redeem any of the Company's listed securities during the period from its listing date to 31 December 2003.

**BOARD PRACTICES AND PROCEDURES**

The Company has complied with the board practices and procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules during the period from its listing date to 31 December 2003.

**AUDIT COMMITTEE**

The Company has established an audit committee on 6 July 2002 with written terms of reference in compliance with Rules 5.23 to 5.25 of the GEM Listing Rules. The committee has definite responsibilities and scope of duties. The principal duties of the audit committee are to review the annual reports and accounts, interim reports and quarterly reports of the Company and to provide relevant recommendations and advice to the Board and supervise the financial reporting process and internal control system of the Company. The audit committee comprises two independent non-executive Directors, Mr. Li Gangjian and Mr. Hu Yangxiong and one executive Director, Ms. Zheng Rongfang. Mr. Hu Yangxiong is the chairman of the audit committee.

The audit committee received and commented on the financial statements, interim report and quarterly report of the Company for the year ended 31 December 2003. During the year ended 31 December 2003, two audit committee meetings were held.

**PRE-EMPTIVE RIGHTS**

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

## **AUDITORS**

The financial statements were audited by Messrs. Deloitte Touche Tohmatsu. A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board of

**Shaanxi Northwest New Technology Industry Company Limited**

**Wang Cong**

*CHAIRMAN*

Xi'an, the PRC, 17 March 2004

To all shareholders,

In 2003, the first supervisory committee of the Company (the "Supervisory Committee"), adhered to the principles of safeguarding all shareholders' interests, carried out their work diligently under the relevant laws and regulations in accordance with the Company Law, Articles of Association and 2003 Supervisory Committee Work Plan. It monitored effectively the financial work of the Company, and the work of the board of directors of the Company (the "Board"), its member and other senior management of the Company.

During the review period, the Supervisory Committee has convened three meetings, and the supervisors of the Company have attended each of the Board meetings and general meetings.

### **I. THE CONDITION OF THE MEETINGS CONVENED BY THE SUPERVISORY COMMITTEE OF THE COMPANY**

1. The sixth meeting of the Supervisory Committee was convened on 6 June 2003, in which the 2002 Supervisory Committee Work Report and 2003 Supervisory Committee Work Plan were approved.
2. The seventh meeting of the Supervisory Committee was convened on 12 August 2003, in which the unaudit interim report of the Company for the six months ended 30 June 2003 was passed.
3. The eighth meeting of the Supervisory Committee was convened on 12 November 2003, in which the unaudit third quarterly report of the Company for the nine months ended 30 September 2003 was passed.

### **II. MONITOR THE OPERATION CONDITION OF THE COMPANY UNDER LAWS AND REGULATIONS**

In 2003, the Supervisory Committee actively cooperated with the Company in relation to its listing, ensured its successful listing and enhanced the level of monitor at the same time. The Supervisory Committee considered that:

1. The Directors and senior management had performed their duties proactively and diligently, which included the positive results, the returning of the benefits to shareholders, successfully listing the shares of the Company on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited, and the building and maintaining of a reputable company image in the overseas capital market.
2. In 2003, the Board thoroughly implemented resolutions of the general meeting based on the requirements its resolutions in accordance with the Company Law, Securities Law, Articles of Association of the Company and relevant laws and regulations of Hong Kong and other relevant regulations of the PRC.
3. During the review period, we did not aware of any violation of any provisions of the PRC laws, regulations and Articles of Association and any actions that would harm the benefits of the Company conducted by the Directors, general manger and other senior management.

4. The financial conditions of the Company remain healthy and there is no sign of any violation of any financial regulations. The financial account is clear, the accounting files are complete, and the financial management complies with the requirements of financial system. In March 2004, the report prepared by Deloitte Touche Tohmatsu was passed, who truly reflected the financial condition and operation results of the Company with its unqualified audited report.

By the order of the Supervisory Committee

**Yan Bu Qiang**

*Chairman of Supervisory Committee*

17 March 2004

Xi'an, the PRC

## 德勤·關黃陳方會計師行

Certified Public Accountants  
26/F, Wing On Centre  
111 Connaught Road Central  
Hong Kong

香港中環干諾道中111號  
永安中心26樓

**Deloitte  
Touche  
Tohmatsu**

TO THE SHAREHOLDERS OF  
**SHAANXI NORTHWEST NEW TECHNOLOGY INDUSTRY COMPANY LIMITED**

陝西西北新技術實業股份有限公司

**(established as a joint stock limited company in the People's Republic of China)**

We have audited the financial statements on pages 30 to 51 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

### **Respective responsibilities of directors and auditors**

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

We are engaged to form an independent opinion, based on our audit, on those statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any of other person for the contents of this report.

### **Basis of opinion**

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

### **Opinion**

In our opinion the financial statements give a true and fair view of the state of affairs of the Company as at 31 December 2003 and of its profit and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

### **DELOITTE TOUCHE TOHMATSU**

*Certified Public Accountants*

Hong Kong, 17 March 2004

## I Income Statement I

For the year ended 31 December 2003

		2003	2002
	Notes	RMB'000	RMB'000
Turnover		85,754	85,353
Cost of sales		(46,178)	(42,713)
Gross profit		39,576	42,640
Other operating income	5	1,676	369
Distribution costs		(1,987)	(3,239)
Administrative expenses		(11,564)	(14,560)
Profit from operations	6	27,701	25,210
Finance costs	8	(4,233)	(4,437)
Profit before taxation		23,468	20,773
Taxation	9	(4,676)	(3,977)
Profit for the year		18,792	16,796
Dividend	10	3,400	12,240
Earnings per share — basic	11	RMB0.023	RMB0.025



# | Balance Sheet |

At 31 December 2003

	<i>Notes</i>	<b>2003</b> RMB'000	2002 RMB'000
<b>Non-Current Assets</b>			
Property, plant and equipment	12	83,954	70,916
Intangible assets	13	28,717	32,260
		<b>112,671</b>	103,176
<b>Current Assets</b>			
Inventories	14	7,361	8,904
Trade and other receivables	15	17,091	27,991
Bills receivable		640	1,150
Bank balances and cash		104,876	59,233
		<b>129,968</b>	97,278
<b>Current Liabilities</b>			
Trade and other payables	16	22,409	12,363
Taxation		5,396	2,392
Borrowings	17	54,500	87,300
		<b>82,305</b>	102,055
<b>Net Current Assets (Liabilities)</b>		<b>47,663</b>	(4,777)
<b>Total assets less current liabilities</b>		<b>160,334</b>	98,399
<b>Capital and Reserves</b>			
Share capital	18	91,000	68,000
Reserves		69,334	30,399
		<b>160,334</b>	98,399

The financial statements on pages 30 to 51 were approved and authorised for issue by the Board of Directors on 17 March 2004 and are signed on its behalf by:

*DIRECTOR*  
Wang Zheng

*DIRECTOR*  
Zheng Rongfang

## I Statement of Changes in Equity I

For the year ended 31 December 2003

	Paid-up capital RMB'000 (Note 18)	Share premium RMB'000	Statutory surplus reserve RMB'000 (Note a)	Statutory welfare fund RMB'000 (Note b)	Accumulated profits RMB'000 (Note c)	Total RMB'000
At 1 January 2002	68,000	16	2,839	1,418	21,570	93,843
Profit for the year	—	—	—	—	16,796	16,796
Transfer	—	—	1,679	840	(2,519)	—
Dividend approved for the year ended 31 December 2001	—	—	—	—	(12,240)	(12,240)
At 31 December 2002	68,000	16	4,518	2,258	23,607	98,399
Profit for the year	—	—	—	—	18,792	18,792
Transfer	—	2,321	1,849	925	(5,095)	—
Shares issued during the year	23,000	38,025	—	—	—	61,025
Share issue expenses	—	(14,482)	—	—	—	(14,482)
Dividend approved for the year ended 31 December 2002	—	—	—	—	(3,400)	(3,400)
At 31 December 2003	91,000	25,880	6,367	3,183	33,904	160,334

Notes:

**(a) Statutory surplus reserve**

As stipulated by the relevant laws and regulations in the People's Republic of China ("PRC"), the Company is required to set aside 10% of its profit after taxation for the statutory surplus reserve (except where the reserve has reached 50% of the Company's registered capital) and 5% to 10% of this profit after taxation for the statutory welfare fund. As a joint stock limited company, statutory surplus reserve can be used to (i) make up prior year losses; (ii) convert into capital, provided such conversion is approved by a resolution at a shareholders' meeting and the balance of the statutory surplus reserve does not fall below 25% of the Company's registered capital.

**(b) Statutory welfare fund**

As stipulated by the relevant PRC laws and regulations, the Company (after conversion to a limited liability company) shall appropriate 5% to 10% of its net profit after taxation (based on the Company's PRC statutory accounts) as the statutory welfare fund. The directors shall have discretion in determining the percentage within the range specified by the relevant PRC laws and regulations.

**(c) Accumulated profits**

Profit appropriation is subject to the approval of the board of directors. In accordance with the Articles of Association of the Company, the reserve available for distribution is the lower of the amount determined under the accounting principles generally accepted in the PRC and the amount determined under accounting principles generally accepted in Hong Kong. In the opinion of the directors, the amount of reserve available for distribution was approximately RMB27,032,000 at 31st December, 2003 (2002: RMB14,713,000).

| Cash Flow Statements |  
For the year ended 31 December 2003

	2003 RMB'000	2002 RMB'000
<b>OPERATING ACTIVITIES</b>		
Profit before taxation	23,468	20,773
Adjustments for:		
Amortisation of intangible assets	3,543	3,544
Depreciation of property, plant and equipment	3,445	3,309
Interest expenses	4,177	4,396
Interest income	(450)	(285)
Loss on disposal of property, plant and equipment	1,126	35
Operating cash flows before movements in working capital	35,309	31,772
Decrease in inventories	1,543	2,819
Decrease (increase) in trade and other receivables	10,900	(390)
Decrease (increase) in bills receivables	510	(1,150)
Increase in trade and other payables	7,306	3,002
Decrease in bills payable	—	(10,000)
Cash generated by from operations	55,568	26,053
Interest paid	(4,177)	(4,396)
PRC enterprise income tax paid	(1,672)	(2,230)
Dividend paid	(660)	(12,884)
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>49,059</b>	<b>6,543</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(17,610)	(34,971)
Interest received	450	285
Proceeds from disposal of property, plant and equipment	1	167
Increase in pledged bank deposits	—	5,100
Repayment from ultimate holding company	—	8,056
Advance from a fellow subsidiary	—	(7,634)

## | Cash Flow Statements |

For the year ended 31 December 2003

	2003	2002
	RMB'000	RMB'000
NET CASH USED IN INVESTING ACTIVITIES	<b>(17,159)</b>	(28,997)
FINANCING ACTIVITIES		
Proceeds from issue of H shares	<b>61,025</b>	-
Repayment of borrowings	<b>(100,100)</b>	(34,500)
Share issue expenses	<b>(14,482)</b>	
New borrowings raised	<b>67,300</b>	54,500
NET CASH GENERATED FROM FINANCING ACTIVITIES	<b>13,743</b>	20,000
INCREASE IN CASH AND CASH EQUIVALENTS	<b>45,643</b>	(2,454)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<b>59,233</b>	61,687
CASH AND CASH EQUIVALENTS AT END OF YEAR, represented by bank balances and cash	<b>104,876</b>	59,233

## 1. GENERAL

The Company was incorporated in the People's Republic of China (the "PRC") on 9 April 1999 as a limited liability company. On 18 January 2000, pursuant to the approval from the relevant PRC authorities, the Company was converted into a joint stock limited company and renamed as 陝西西北新技術實業股份有限公司 Shaanxi Northwest New Technology Industry Company Limited in preparing for the listing of the Company's H Shares on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The H shares of the Company were listed on the GEM on 3 July 2003.

The Company is principally engaged in the research and development, production and sale of innovative environmental protection energy material and products and fuel oil additives.

The Company's books and records are maintained in Renminbi ("RMB"), the currency in which the majority of the Company's transactions is denominated.

## 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Company has adopted for the first time, the following Hong Kong Financial Reporting Standard ("HKFRS"), issued by the Hong Kong Society of Accountants ("HKSA"), the term of HKFRS is inclusive of Statements of Standard Accounting Practice ("SSAP") and Interpretations approved by the HKSA.

In the current year, the Company has adopted for the first time, revised Statement of Standard Accounting Practice 12 ("SSAP 12 (Revised)") issued by the HKSA. The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. The adoption of this standard had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

### 3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

#### **Turnover**

Turnover represents the amounts received and receivable for goods sold, which is net of value-added tax and less returns during the year.

#### **Revenue recognition**

Sales of goods are recognised when goods are delivered and title has passed.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

#### **Property, plant and equipment**

Property, plant and equipment, other than construction in progress, are stated at cost less depreciation and amortisation and accumulated impairment losses.

Construction in progress is stated at cost, which includes land cost and the related construction and borrowings costs, as appropriate, less any identified impairment loss. When the construction is completed and the asset is ready for its intended use, the related cost is transferred to an appropriate category of property, plant and equipment and depreciated in accordance with the above policy.

Buildings are depreciated over the term of the lease of land on which the buildings are erected.

Depreciation and amortisation are provided to write off the cost of other property, plant and equipment, over their estimated useful lives and after taking into account their estimated residual value, from the date on which they become fully operational, using the straight-line method, at the following rates per annum:

Leasehold improvements	8 years
Plant and machinery	7 years
Motor vehicles	7 years
Furniture and office equipment	5 years

The gain or loss arising from the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

### **3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **Intangible assets**

Land use rights are amortised over the term of the leases on a straight-line basis.

Technical know-how is measured initially at cost and amortised on a straight-line basis over its estimated useful life.

#### **Impairment**

At each balance sheet date, the Company reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

#### **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, cost of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the weighted average cost method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

#### **Government grants**

Government grants are recognised as income over the periods necessary to match them with the related costs. Where government grants are given for the purposes of immediate financial support to the Company with no further related cost to be incurred, the grants are recognised as income when they become receivable.

#### **Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income and expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible.

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### **Taxation (Continued)**

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

#### **Operating leases**

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the term of the relevant leases.

#### **Foreign currencies**

Transactions in currencies other than RMB are translated at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are re-translated at the rates ruling on the balance sheet date. Profits and losses arising on exchange are dealt with in the income statement.

#### **Retirement benefit scheme**

The retirement benefit scheme contributions arising from the PRC municipal government retirement scheme charged to the income statement represent contributions paid or payable by the Company at rates specified in the rules of the scheme. Payments are charged as an expenses as they fall due.

### 4. SEGMENT INFORMATION

The Company is engaged solely in the development, manufacture and sales of chemical products in the PRC. All the identifiable assets of the Company are located in the PRC. Accordingly, no segmental information is presented.



## 5. OTHER OPERATING INCOME

	2003	2002
	RMB'000	RMB'000
Bank interest income	450	285
Government grants (note 1)	300	—
Value Added Tax refund (note 2)	800	—
Sundry income	126	84
	1,676	369

*Notes:*

1. The government grants were obtained specifically for certain of the Company's research and development project which is recognised as high technology development project by the government authorities.
2. The amount represents the value-added tax refunded to the Company by the local taxation bureau in Wei Nan of the PRC according to the preferential tax policies.

## 6. PROFIT FROM OPERATIONS

	2003	2002
	RMB'000	RMB'000
Profit from operations has been arrived at after charging:		
Directors' and supervisors' remuneration	705	617
Other staff costs	3,123	1,809
Other staff's retirement benefits scheme contributions	75	73
	3,903	2,499
Allowance of trade and other receivables	—	648
Amortisation of intangible assets (included in administrative expenses)	3,543	3,544
Auditors' remuneration	400	120
Depreciation	3,445	3,309
Loss on disposal of property, plant and equipment	1,126	35
Research and development costs	220	571

## 7. DIRECTORS', SUPERVISORS' AND EMPLOYEES' REMUNERATIONS

Details of emoluments paid by the Company to the Directors and Supervisors are as follows:

	2003 RMB'000	2002 RMB'000
Fees	160	—
Salaries and allowances	522	617
Retirement benefit scheme contributions	23	—
	<b>705</b>	<b>617</b>
Fees for		
— non-executive directors	60	—
— independent non-executive director	60	—
— supervisors	40	—
Other emoluments for independent non-executive directors	—	—
Other emoluments for independent supervisors	—	—
	<b>160</b>	<b>—</b>
Other emoluments for executive directors		
— basic salaries and allowances	420	495
— contributions to retirement benefit scheme	12	—
	<b>432</b>	<b>495</b>
Other emoluments for supervisors		
— basic salaries and allowances	102	122
— contributions to retirement benefit scheme	11	—
	<b>113</b>	<b>122</b>
	<b>705</b>	<b>617</b>

## 7. DIRECTORS', SUPERVISORS' AND EMPLOYEES' REMUNERATIONS (Continued)

The emoluments paid to the Directors and Supervisors during the year were as follows:

	2003 RMB'000	2002 RMB'000
Director A	124	120
Director B	120	115
Director C	64	60
Director D	60	60
Director E	64	60
Director F	30	25
Director G	30	25
Director H	30	15
Director I	30	15
	<b>552</b>	<b>495</b>

	2003 RMB'000	2002 RMB'000
Supervisor A	64	60
Supervisor B	34	30
Supervisor C	15	12
Supervisor D	20	10
Supervisor E	20	10
	<b>153</b>	<b>122</b>

The five highest paid individuals are all directors, details of whose emoluments are included above.

During the year, no emoluments were paid by the Company to any of the Directors, Supervisors or the five highest paid individuals as an inducement to join or upon joining the Company or as compensation for loss of office.

## 8. FINANCE COSTS

	2003	2002
	RMB'000	RMB'000
Interest on bank borrowings wholly repayable within five years	4,177	4,396
Bank charges	56	41
	<b>4,233</b>	<b>4,437</b>

## 9. TAXATION

	2003	2002
	RMB'000	RMB'000
PRC enterprise income tax:		
— provision for current year	3,956	3,670
— underprovision in previous year	720	307
	<b>4,676</b>	<b>3,977</b>

According to the relevant laws and regulations in the PRC, the Company and its branches are entitled to the following tax incentives:

- (i) The Company, other than its branches — referred to as the “Head Office”

The Head Office is recognised as a high technology enterprise and is subject to the PRC enterprise income tax at a reduced rate of 15%.

- (ii) The Company’s branches in Jin He and Wei Nan

The Jin He and Wei Nan Branches are subject to the PRC enterprise income tax at a reduced rate of 15% for the period up to and including the year 2010. The entitlement of such preferential tax policy is subject to annual verification by the relevant tax authority.

The charge for the PRC enterprise income tax has been provided for after taking the above tax incentives into account.

## 9. TAXATION (Continued)

The tax charge for the year can be reconciled to the profit for the year per the income statement as follows:

	2003		2002	
	RMB'000	%	RMB'000	%
Profit before taxation	23,468		20,773	
Tax at domestic income tax rate	3,520	15.0	3,116	15.0
Tax effect of expenses not deductible for tax purpose	589	2.5	554	2.6
Tax effect of income not taxable for tax purpose	(153)	(0.7)	—	—
Underprovision in previous years	720	3.1	307	1.5
<b>Tax effect and effective tax rate for the year</b>	<b>4,676</b>	<b>19.9</b>	<b>3,977</b>	<b>19.1</b>

No provision for deferred taxation has been recognised in the financial statements as the amount involved is insignificant.

## 10. DIVIDEND

On 23 March 2002, a dividend of RMB0.18 per share totalling RMB12,240,000 was approved by the shareholders for the year ended 31 December 2001.

On 6 June 2003, a dividend of RMB0.05 per share totalling RMB3,400,000 was approved by the shareholders of the Company for the year ended 31 December 2002.

The aforesaid dividend was approved before the sub-division of the Company's share as described in note 18.

The final dividend of RMB0.0025 per share for the year ended 31 December 2003 has been proposed by the directors and is subject to approval by the shareholders in the annual general meeting.

## 11. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit for the year ended 31 December 2003 of approximately RMB18,792,000 (2002: approximately RMB16,796,000) and the weighted average number of 794,684,932 (2002: 680,000,000) shares in issue during the year assuming the subdivision of the Company's shares had taken place on 1 January 2002.

Diluted earnings per share is not presented as there were no potential ordinary shares outstanding during either period.

## 12. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Leasehold improvements	Plant and machinery	Motor vehicles	Furniture, and office equipment	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>COST</b>							
At 1 January 2003	10,620	3,883	6,983	7,620	2,060	47,576	78,742
Additions	76	—	325	—	103	17,106	17,610
Disposal	—	—	—	(137)	(7)	(1,098)	(1,242)
Transfer	6,645	—	11,448	—	65	(18,158)	—
<b>At 31 December 2003</b>	<b>17,341</b>	<b>3,883</b>	<b>18,756</b>	<b>7,483</b>	<b>2,221</b>	<b>45,426</b>	<b>95,110</b>
<b>DEPRECIATION AND AMORTISATION</b>							
At 1 January 2003	834	1,870	1,956	2,435	731	—	7,826
Provided for the year	307	350	1,371	972	445	—	3,445
Eliminated on disposal	—	—	—	(111)	(4)	—	(115)
<b>At 31 December 2003</b>	<b>1,141</b>	<b>2,220</b>	<b>3,327</b>	<b>3,296</b>	<b>1,172</b>	<b>—</b>	<b>11,156</b>
<b>NET BOOK VALUES</b>							
<b>At 31 December 2003</b>	<b>16,200</b>	<b>1,663</b>	<b>15,429</b>	<b>4,187</b>	<b>1,049</b>	<b>45,426</b>	<b>83,954</b>
<b>At 31 December 2002</b>	<b>9,786</b>	<b>2,013</b>	<b>5,027</b>	<b>5,185</b>	<b>1,329</b>	<b>47,576</b>	<b>70,916</b>

### 13. INTANGIBLE ASSETS

	<b>Land use right</b>	<b>Technical know-how</b>	<b>Total</b>
	RMB'000	RMB'000	RMB'000
	<i>(note 1)</i>	<i>(note 2)</i>	
<b>COST</b>			
At 1 January and 31 December 2003	25,443	20,000	45,443
<b>AMORTISATION</b>			
At 1 January 2003	683	12,500	13,183
Provided for the year	210	3,333	3,543
At 31 December 2003	893	15,833	16,726
<b>NET BOOK VALUES</b>			
At 31 December 2003	24,550	4,167	28,717
At 31 December 2002	24,760	7,500	32,260

Notes:

1. Land use right are amortised over the periods ranging from 48.5 years to 50 years.
2. Technical know-how is amortised over a period of six years.

### 14. INVENTORIES

	<b>2003</b>	2002
	<b>RMB'000</b>	RMB'000
Raw materials	<b>2,170</b>	4,754
Work in progress	<b>554</b>	441
Finished goods	<b>4,637</b>	3,709
	<b>7,361</b>	8,904

Included above are raw materials and finished goods of RMB514,000 (2002: RMB531,000) and RMB361,000 (2002: RMB295,000), respectively, which are carried at net realisable value.

## 15. TRADE RECEIVABLES

The Company allows an average credit period ranging from 0 to 90 days to its trade customers. The aged analysis of trade receivables at the respective balance sheet dates is as follows:

	2003	2002
	RMB'000	RMB'000
Within 90 days	13,468	12,876
91–180 days	97	2,572
180–365 days	47	613
Over 365 days	86	—
	<b>13,698</b>	16,061
Other receivables	<b>3,393</b>	11,930
	<b>17,091</b>	27,991

## 16. TRADE PAYABLES

The aged analysis of trade payables at the respective balance sheet dates is as follows:

	2003	2002
	RMB'000	RMB'000
Within 90 days	5,380	4,122
91–180 days	545	404
180–365 days	30	131
Over 365 days	182	37
	<b>6,137</b>	4,694
Other payables	<b>16,272</b>	7,669
	<b>22,409</b>	12,363

Including in other payables is an amount of RMB2,740,000 that is a dividend payable to Xian Northwest Industry (Group) Company Limited, a major shareholder of the Company.



## 17. BORROWINGS

	2003	2002
	RMB'000	RMB'000
The bank borrowings are wholly repayable within one year and are analysed as follows:		
Secured	50,000	10,000
Unsecured	4,500	77,300
	54,500	87,300

The bank borrowings are guaranteed by independent third parties as follows:

西安達爾曼實業股份有限公司 Xi'an Diamond Co., Ltd.	—	52,800
西安翠寶首飾集團公司 Xi'an Cuibao Jewelry Group Company	4,500	34,500
	4,500	87,300

## 18. SHARE CAPITAL

	Number of shares	Value
	'000	RMB'000
Registered, issued and fully paid:		
Domestic Shares of RMB1.00 each at 1 January 2002 and 2003	68,000	68,000
Subdivision of each issued Domestic Share into 10 Domestic Shares of RMB0.10 each during 2003	612,000	—
Domestic Shares of RMB0.1 each	680,000	68,000
Issuance of H Shares of RMB0.10 each upon listing on the GEM during 2003	230,000	23,000
Balance of share capital of RMB0.10 each at 31 December 2003	910,000	91,000

## 18. SHARE CAPITAL (Continued)

On 18 January 2000, the Company was converted from a limited liability company to a joint stock limited in the PRC under the Company Law. During the year ended 31 December 2003, the following changes in the share capital of the Company took place:

- (a) Resolutions were passed on 23 March 2002 at an extraordinary meeting of the Company for, among other matters, applying to the CSRC for the approval of the sub-division of a share of nominal value of RMB1.00 into ten shares of nominal value of RMB0.10 each. On 16 December 2002, the China Securities Regulatory Commission ("CSRC") issued an approval confirming the Company's application of sub-division of shares. On 6 June 2003, at an annual general meeting of the Company, the resolution on the Company's sub-division of shares was passed.
- (b) At an extraordinary general meeting of the Company held on 17 August 2002, it was passed, inter alia, that the Directors be authorized to effect the Placing and to allot and issue the H Shares pursuant thereto. On 16 December 2002, the CSRC issued an approval confirming the Company's issuance of H Shares and its listing on the GEM. On 3 July 2003, 230,000,000 H shares were issued at a price of HK\$0.25 per share.

## 19. SHARE OPTION SCHEME

The Company's share option scheme was approved by a resolution of the shareholders of the Company dated 6 June 2003 (the "Share Option Scheme").

### (1) Participants of the Share Option Scheme

The Board of Directors (the "Board") may invite any employees including any executive Director ("Employees") to take up options to subscribe for H shares of the Company (the "Shares").

### (2) Payment on acceptance of option offer

HK\$1 is payable by the Employees to the Company on acceptance of the option offer.

### (3) Price of Shares

The subscription price for H Shares under the Share Option Scheme will be determined by the Board and notified to each grantee and will be no less than the higher of (a) the closing price of the H Shares as stated in the Stock Exchange's daily quotations sheet on the date of offer, which must be a trading day, (b) the average closing prices of the H Shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of offer and (c) the nominal value of a H Share.

## **19. SHARE OPTION SCHEME (Continued)**

### **(4) Maximum number of H Shares**

The total number of H Shares subject to the Share Option Scheme must not, in aggregate, exceed 30% of issued H Shares of the Company in issue from time to time subject to this:

- (a) The total number of H Shares available for issue under options which may be granted under the Share Option Scheme and any other scheme, must not in aggregate, exceed 10% of the number of the H Shares of the Company in issue as at the date of approval unless further shareholders' approval has been obtained pursuant to paragraph (b) or (c) or (d) below;
- (b) The Board may seek approval of shareholders in general meeting to renew the 10% limit in paragraph (a). However, the total number of H Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and other schemes of the Company under the limit as renewed must not exceed 10% of the number of H Shares of the Company in issue as at the date of the approval to renew the limit;
- (c) The Board may seek separate shareholders' approval in general meeting to grant options beyond 10% limit provided that (i) the total number of H Shares subject to the Share Option Scheme and other such schemes of the Company does not in aggregate exceed 30% of the total number of H Shares of the Company in issue at the date of approval and (ii) the options in excess of the 10% limit are granted only to participants specified by the Board before such approval is sought;
- (d) No Employees shall be granted an option which, if all the options granted to the Employee (including both exercised and outstanding options) in any 12-month period up to the date of the grant are exercised in full, would result in such person's maximum entitlement exceeding 1% of the number of H Shares of the Company in issue, unless approved by shareholders in general meeting, with such Employee and his associates abstaining from voting; and
- (e) Each grant of options to a connected person (as defined in the GEM Listing Rules) must be approved by the independent non-executive Directors (excluding independent non-executive Director who is the grantee of the options). Where any grant of options to a substantial shareholder (as defined in the GEM Listing Rules) or an independent non-executive director, or any of their respective associates, would result in the H Shares issued and to be issued upon exercise of all options granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant, representing in aggregate over 0.1% of the H Shares in issue and having an aggregate value, based on the closing price of H Shares at the date of each grant, in excess of HK\$5 million, such further grant of options must be approved by the shareholders.

## 19. SHARE OPTION SCHEME (Continued)

### (5) Time of exercise of option

No Employees who are PRC nationals and have taken up any options to subscribe for H Shares shall be entitled to exercise any such options until (a) the H Shares Restrictions have been abolished or removed and; (b) approvals have been obtained from the CSRC or other relevant government authorities in the PRC for the exercise of any options which may be granted under the Share Option Scheme. Subject to the above, an option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period (the "Option Period") to be notified by the Board to each grantee provided that the period within which the option must be exercised shall be not less than three years and not more than ten years from the date of grant of the option.

### (6) Period of the Share Option Scheme

The Share Option Scheme will remain valid for a period of 10 years commencing on the date on which the scheme was adopted and approved by the shareholders of the Company (save that the Company, by ordinary resolution in general meeting or Board may at any time terminate the operation of the Share Option Scheme). After termination, no further options will be granted but the provisions of the Share Option Scheme shall in all other respects remain in full force and effect and options which are granted during the life of the Share Option Scheme may continue to be exercisable in accordance with their terms of issue.

No option has been granted by the Company under the Share Option Scheme since its adoption.

## 20. OPERATING LEASE ARRANGEMENTS

	2003	2002
	RMB'000	RMB'000
Minimum lease payments paid under operating lease during the year	511	514

At the balance sheet date, the Company had commitments for future minimum lease payments under non-cancellable operating leases in respect of land and buildings which fall due as follows:

	2003	2002
	RMB'000	RMB'000
Within one year	366	350
More than one year but within five years	1,560	1,240
Over five years	542	1,163
	2,468	2,753

Operating lease payments represent rentals payable by the Company for its office premises. Leases are negotiated for an average term of three years and rentals are fixed during the lease term.

## 21. CAPITAL COMMITMENTS

	2003	2002
	RMB'000	RMB'000
Capital expenditure in respect of acquisition of property, plant and equipment:		
— authorised but not contracted for	—	30,313
— contracted for but not provided in the financial statements	10,899	13,624

## 22. PLEDGE OF ASSETS

At the balance sheet date, certain assets of the Company with the following carrying values had been pledged to secure borrowings granted to the Company:

	2003	2002
	RMB'000	RMB'000
Property, plant and equipment	59,032	15,794
Intangible assets	9,347	9,557
	<b>68,379</b>	<b>25,351</b>

## 23. RETIREMENT BENEFIT SCHEME

The Company contributed to a local municipal government retirement scheme for all qualified employees in the PRC. The employer and its employees are each required to make contributions to the scheme at the rates specified in the rules. The only obligation of the Company with respect to the retirement scheme is to make the required contributions under the scheme. No forfeited contribution is available to reduce the contribution payable in the future years.

The total cost charged to the income statement of approximately RMB98,800 (2002: RMB39,300) represents contributions payable to the scheme by the Company during the year.

**RESULTS**

	For the year ended 31 December		
	2003	2002	2001
	RMB'000	RMB'000	RMB'000
TURNOVER	<b>85,754</b>	85,353	78,450
PROFIT BEFORE TAXATION	<b>23,468</b>	20,773	21,225
TAXATION	<b>(4,676)</b>	(3,977)	(78)
NET PROFIT FOR THE YEAR	<b>18,792</b>	16,796	21,147

**ASSETS AND LIABILITIES**

	At 31 December		
	2003	2002	2001
	RMB'000	RMB'000	RMB'000
TOTAL ASSETS	<b>242,639</b>	200,454	189,427
TOTAL LIABILITIES	<b>(82,305)</b>	(102,055)	(95,584)
SHAREHOLDERS' FUNDS	<b>160,334</b>	98,399	93,843

## I Notice of Annual General Meeting I

**Notice is hereby given** that the 2003 Annual General Meeting (the “AGM”) of Shaanxi Northwest New Technology Industry Company Limited (the “Company”) will be held at the Conference Room, No. 6, Gao Xin Yi Road, Xi’an National Hi-tech Industrial Development Zone, Xi’an, Shaanxi, the People’s Republic of China (the “PRC”) at 9:00 a.m. (Beijing time) on Thursday, 13 May 2004 to consider the following businesses:

### A. As ordinary resolutions

1. To consider and approve the report of the board of directors (the “Board”) of the Company for 2003;
2. To consider and approve the report of the supervisory committee of the Company for 2003;
3. To consider and approve the final dividend distribution proposal for 2003;
4. To consider and approve the audited financial statements and the auditors’ report for 2003;
5. To consider and approve the re-appointment of Deloitte Touche Tohmatsu CPA Ltd. and Deloitte Touche Tohmatsu as the Company’s domestic and international auditors respectively for 2004 and to authorize the Board to determine their remunerations;
6. To appoint directors and supervisors of the Company;
7. To authorize the Board to determine the remunerations of the directors and supervisors of the Company.

### B. As special resolutions

1. To consider and approve the issue by the Company of additional H Shares and/or domestic shares representing not more than 20% of the total number of the Company’s H Shares and/or domestic shares in issue subject to requisite approvals by the China Securities Regulatory Commission, the Stock Exchange and other competent regulatory authorities; to grant to the Board (or such representatives as the Board may appoint) all powers to deal with all matters relating to the aforesaid issue of additional H Shares and/or domestic shares by the Company, including but not limited to the number of H Shares and/or domestic shares to be issued, the issue price, the period of issue and the number of H Shares and/or domestic shares to be issued to existing shareholders (if applicable);

The above approval and mandate shall be effective for a period of 12 months commencing the date on which this resolution is passed, unless revoked or varied by the Company’s shareholders by way of special resolution.



Subject to the passing of the resolution stated above and the implementation of the same by the Board, the Board is authorised to amend relevant provisions in the Company's Articles of Association (the "Articles") to reflect resulting changes in the Company's share capital structure.

2. To consider and approve the amendments of the Articles based on their existing context and in accordance with Appendix 3 to the Rules Governing the Listing of Securities on GEM of the Stock Exchange as revised and effective from 31 March 2004. Details of the amendments are set out as follow:

- (1) Article 6 be amended in the following manner:

"In accordance with the relevant provisions stipulated in the Company Law, the Special Regulations and the Mandatory Provisions for Articles of Association of Companies to be Listed Overseas (the "Mandatory Provisions") and other laws and administrative regulation of the State, the Company convened its general meeting on 13 May 2004 on which amendments were made to the existing Articles of Association of the Company (the "Former Articles") and formulate this Articles of Association of the Company (the "Articles")."

- (2) Article 7 be amended in the following manner:

"The Former Articles have been registered and filed with the Administrative Bureau of Industry and Commerce of Shaanxi Province and become effective from 6 June 2003."

- (3) That the following be added to Article 71 as paragraph 5 of Article 71:

"Where any shareholder is, under the GEM Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted."

- (4) Paragraph 2 of Article 96 be amended in the following manner:

"Notices to the Company of the intention to propose a person for election as a director and of such person's willingness to be elected shall be given to the Company no earlier than the day after the despatch of the notice of meeting appointed for the election of directors and no later than 7 days prior to the date of such meeting."

## I Notice of Annual General Meeting I

- (5) Paragraph 1 of Article 133 be amended in the following manner:

“Where any director, supervisor, president or other senior management officer of the Company is in any way directly or indirectly, materially interested in a contract, transaction or arrangement or proposed contracts, transactions or arrangements with the Company (other than a contract of service of that director, supervisor, president and other senior management officer of the Company), shall declare the extent and nature of his interests to the board of directors whether or not the contract, transaction, arrangement or proposal therefor is otherwise subject to the approval of the directors in normal circumstances.”

- (6) That the following be added to Article 133 as paragraph 4 of Article 133:

“A director shall not vote on any board resolution approving any contract or arrangement or any other proposal in which he or any of his associates (as such term is defined in the GEM Listing Rules) has a material interest nor shall he be counted in the quorum present at the same board meeting.”

3. To consider and approve any provisional resolution in writing, if any, proposed by shareholders holding in aggregate 5% or above in the Company's voting shares.

By order of the Board

**Shaanxi Northwest New Technology Limited Liability Company**

**Wang Cong**

*Chairman*

Xi'an, the PRC, 22 March 2004

### **Notes:**

1. The register of members of the Company will be closed from 13 April 2004 (Tuesday) to 13 May 2004 (Thursday), both days inclusive, during which period no share transfer shall be effected. Shareholders whose names appear on the register of members of the Company at 4:00 p.m. on 8 April 2004 (Thursday) shall be entitled to attend and vote at the annual general meeting.

2. Shareholders who are entitled to attend and vote at the annual general meeting convened by the above notice may appoint one or more proxies in writing to attend and vote at the annual general meeting on their behalf. A proxy need not be a member of the Company.
3. A proxy form for used at the annual general meeting is enclosed. In order to be valid, the proxy form shall be signed by the appointer or his attorney duly authorized in writing or, in case of a legal person, under the company seal or in person by its director or a duly authorized attorney.
4. Proxy forms shall be lodged 24 hours prior to the convening of the annual general meeting. In case of H shares, the proxy form shall be lodged at Computershare Hong Kong Investor Services Limited, the Company's share registrar, at 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong. In case of domestic shares, the proxy form shall be lodged at the principal place of business of the Company in the PRC.
5. Shareholders who wish to attend the annual general meeting shall complete and return the reply slip for the annual general meeting on or before 22 April 2004 (Thursday). In case of H shares, the slip shall be lodged at Computershare Hong Kong Services Limited, the Company's H shares registrar, at 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong. In case of domestic shares, the slip shall be lodged at the principal place of business of the Company in the PRC.
6. The final dividend for the year ended 31 December 2003 is expected to be paid on or before 31 July 2004 (Saturday) to shareholders whose names appear on the register of members of the Company at 4:00 p.m. on 19 April 2004 (Monday). In order to ascertain the identity of shareholders who are entitled to receive the dividend mentioned above, all transfers documents together with relevant share certificates shall be deposited at the Company's share registrar, in case of holders of H shares, or the principal place of business of the Company in the PRC, in case of holders of domestic shares by 4:00 p.m. on 8 April 2004 (Thursday).
7. Shareholders or proxies attending the annual general meeting shall state clearly, in respect of each resolution requiring a vote, whether they are voting for or against a resolution. Abstention votes will not be regarded by the Company as having voting rights for the purpose of vote counts.
8. The annual general meeting is expected to last for about half a day. Shareholders or proxies attending the annual general meeting shall be responsible for their own traveling and accommodation expenses.

## I Notice of Annual General Meeting I

9. The principal place of business of the Company in the PRC is as follow:  
No. 6, Gao Xin Yi Road  
Xi'an National Hi-tech Industrial Development Zone  
Xi'an  
PRC

Contact person: Office of the Board

Tel no: 8629-88375411

Fax no: 8629-88375297