



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)



2005 Interim Report

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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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Summary

- For the six months ended 30 June 2005, the turnover of the Company was approximately RMB284,000, representing a decrease of 99% over the same period of previous year;
- For the six months ended 30 June 2005, the loss of the Company was approximately RMB7,014,000, compared to the net profit of approximately RMB8,123,000 over the same period of previous year;
- The Directors do not recommend the payment of any dividend for the six months ended 30 June 2005.

Interim Results

The board of Directors (the “Board”) of Shaanxi Northwest New Technology Industry Company Limited (the “Company”) hereby announces the unaudited operating results of the Company for the three months and six months ended 30 June 2005 and the comparative unaudited figures for the corresponding periods in 2004 as follows:

Unaudited Profit and Loss Account

	Note	For the three months ended 30 June		For the six months ended 30 June	
		2005 RMB'000	2004 RMB'000	2005 RMB'000	2004 RMB'000
Turnover	2	106	18,805	284	35,202
Cost of sales		(108)	(9,722)	(258)	(18,215)
Gross (loss)/profit		(2)	9,083	26	16,987
Other operating income		15	108	(4)	195
Distribution costs		(162)	(579)	(401)	(1,082)
Administrative expenses		(2,029)	(2,224)	(5,077)	(4,874)
(Loss)/Profit from operation		(2,178)	6,388	(5,456)	11,226
Finance costs		(747)	(774)	(1,558)	(1,670)
(Loss)/Profit before taxation		(2,925)	5,614	(7,014)	9,556
Taxation	3	-	(842)	-	(1,433)
Net (loss)/profit		(2,925)	4,772	(7,014)	8,123
Dividend	4	-	-	-	-
Earnings/(loss) per share	5	RMB(0.003)	RMB0.005	RMB(0.001)	RMB0.009

Balance Sheets

		As at 30 June 2005 Unaudited RMB'000	As at 31 December 2004 Unaudited RMB'000
	<i>Note</i>		
Non-current Assets			
Land use right	6	24,236	24,341
Property, Plant and equipment	7	89,397	91,077
Intangible Assets	8	-	833
		113,633	116,251
Current Assets			
Inventories		20,095	20,728
Trade receivables, other receivables and prepayments	9	30,708	32,642
Bills receivable		-	100
Bank balances and cash		86,170	86,355
		136,973	139,825
Current liabilities			
Trade payables, other payables and accruals	10	26,325	24,794
Dividends payable		2,820	2,820
Taxation payable		3,791	3,778
Bank borrowings		54,500	54,500
		87,436	85,892
Net current assets/(liabilities)		49,537	53,933
Total assets less current liabilities		163,170	170,184
Capital and Reserve			
Share capital	11	91,000	91,000
Reserve	12	72,170	79,184
		163,170	170,184

Unaudited Condensed Cash Flow Statement

	For the six months ended 30 June	
	2005 <i>RMB'000</i>	2004 <i>RMB'000</i>
Net cash inflow from operating activities	14	6,169
Net cash outflow investment activities	(199)	(7,162)
Net cash from financing	—	—
Decrease in bank balance and cash	(185)	(993)
Bank balance and cash as at 1 January	86,355	104,876
Bank balance and cash as at 30 June	86,170	103,883

Unaudited Statement of Changes in Equity

	Share capital <i>RMB'000</i>	Reserves <i>RMB'000</i>	Total equity <i>RMB'000</i>
At 1 January 2004	91,000	69,334	160,334
Earnings for the period	—	8,123	8,123
Payment of dividend	—	(2,275)	(2,275)
At 30 June 2004	91,000	75,182	166,182
At 1 January 2005	91,000	79,184	170,184
Loss for the period	—	(7,014)	(7,014)
At 30 June 2005	91,000	72,170	163,170



NOTES TO THE ACCOUNTS

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited condensed interim accounts (“interim accounts”) are prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants, and Chapter 18 of the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “GEM Listing Rules”).

The condensed interim accounts have been prepared under the historical cost convention except for the technical know-how, which are measured at fair values.

The accounting policies used in the condensed interim accounts are consistent with those followed in the preparation of the Company’s annual financial statements for the year ended 31 December 2004 except as described below.

In the current period, the Company has applied, for the first time, a number of new Hong Kong Financial Reporting Standards (“HKFRS(s)”), Hong Kong Accounting Standards and Interpretations (hereinafter collectively referred to as “new HKFRSs”) issued by HKICPA that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the profit and loss account, balance sheet and the statement of changes in equity. The adoption of the new HKFRSs have no significant impact on the results for the current or prior accounting periods and, accordingly, no prior period adjustment has been required.

The accounting policies and methods of computation adopted in the preparation of this interim accounts are consistent with those used in the annual accounts for the year ended 31 December 2004.

Certain comparative figures have been reclassified to conform with the presentation of the current period.

2. SEGMENTAL INFORMATION

The turnover and results of the Company during the periods are analyzed in terms of business segments as follows:

For the six months ended 30 June 2005

	FA-90 and others	Total (RMB'000)
Turnover	284	284
Cost of sales	(258)	(258)
Gross profit	26	26
Other operating income		(4)
Distribution costs		(401)
Administrative expenses		(5,077)
Finance costs		(1,558)
Loss before taxation		(7,014)
Taxation		-
Net loss		(7,014)

For the six months ended 30 June 2004

	FA-90	FA-D	FA-J	Ferrocene	Others	Total (RMB'000)
Turnover	28,767	664	46	4	5,721	35,202
Cost of sales	(13,913)	(524)	(37)	(3)	(3,738)	(18,215)
Gross profit	14,854	140	9	1	1,983	16,987
Other operating income						195
Distribution costs						(1,082)
Administrative expenses						(4,874)
Finance costs						(1,670)
Profit before taxation						9,556
Taxation						(1,433)
Net profit						8,123

3. TAXATION

Taxes charged from the profit and loss account are as follows:

	For the three months ended 30 June		For the six months ended 30 June	
	2005 RMB'000	2004 RMB'000	2005 RMB'000	2004 RMB'000
PRC (Note)	<u>-</u>	<u>(842)</u>	<u>-</u>	<u>(1,433)</u>

Note: Taxes in respect of profit derived in the PRC are provided on the estimated assessable profit for the period at the applicable tax rate in the PRC.

4. INTERIM DIVIDEND

The Board does not recommend the payment of the interim dividend for the period (2004: Nil).

5. EARNINGS PER SHARE

The loss per share for the three months and six months ended 30 June 2005 are RMB0.003 and RMB0.008 respectively. Calculations are based on the total share capital of 910,000,000 shares.

6. Land use right

	As at 30 June 2005 (Unaudited) RMB'000	As at 31 December 2004 (Unaudited) RMB'000
At the beginning of the period	24,341	24,550
Amortisation charges	<u>(105)</u>	<u>(209)</u>
At the end of the period	<u>24,236</u>	<u>24,341</u>

7. PROPERTY, PLANT AND EQUIPMENT

	As at 30 June 2005 (Unaudited) RMB'000	As at 31 December 2004 (Unaudited) RMB'000
At the beginning of the period	91,077	83,954
Additions	199	14,262
Disposals	(157)	(6,248)
Depreciation charges	(1,795)	(3,750)
Elimination on disposals	73	2,859
	<hr/> 89,397	<hr/> 91,077

8. INTANGIBLE ASSETS

	As at 30 June 2005 (Unaudited) RMB'000	As at 31 December 2004 (Unaudited) RMB'000
Technical know-how		
At the beginning of the period	833	4,167
Amortisation charges	(833)	(3,334)
	<hr/> -	<hr/> 833

9. TRADE RECEIVABLES, OTHER RECEIVABLES AND PREPAYMENTS

	As at 30 June 2005 (Unaudited) RMB'000	As at 31 December 2004 (Unaudited) RMB'000
Trade receivables	20,053	20,560
Prepayments, deposits and other receivables	10,655	12,082
	<hr/> 30,708	<hr/> 32,642

Trade receivables of the Company at the end of the periods are analysed as follows:

	As at 30 June 2005 (Unaudited) RMB'000	As at 31 December 2004 (Unaudited) RMB'000
Within 90 days	286	12,468
90–180 days	–	3,897
180–365 days	15,688	2,538
More than 365 days	4,079	1,657
	20,053	20,560

10. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

	As at 30 June 2005 (Unaudited) RMB'000	As at 31 December 2004 (Unaudited) RMB'000
Trade payables	4,602	4,920
Other payables	14,499	17,486
Accrued expenses	7,224	2,388
	26,325	24,794

Trade payables of the Company at the end of the periods are analysed as follows:

	As at 30 June 2005 (Unaudited) RMB'000	As at 31 December 2004 (Unaudited) RMB'000
Within 90 days	49	3,982
90–180 days	166	352
180–365 days	3,976	255
More than 365 days	411	331
	4,602	4,920

11. SHARE CAPITAL

	As at 30 June 2005		As at 31 December 2004	
	Number of shares	RMB'000	Number of shares	RMB'000
Authorised Ordinary shares of RMB0.1 each	910,000,000	91,000	910,000,000	91,000
Issued and fully paid at the end of the period	910,000,000	91,000	910,000,000	91,000

12. RESERVES

	Share capital	Capital reserve	Statutory surplus reserve	Statutory welfare reserve	Accumulated profit	As at 30 June 2005	As at 31 December 2004
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At the beginning of the period	91,000	25,880	6,367	3,183	43,754	170,184	160,334
(Loss)/Profit for the period					(7,014)	(7,014)	12,125
Payment of dividend approved as at 31 December 2003	-	-	-	-	-	-	(2,275)
At the end of the period	91,000	25,880	6,367	3,183	36,740	163,170	170,184

13. PLEDGE OF ASSETS

As at 30 June 2005, the status of the Company's assets pledged was as follows:

Bank	Loan amount (RMB'000)	Status of pledges
Bank of Communications	20,000	Pledge over the land use right of the Technology Park of the Company
China Merchants Bank	20,000	Pledge over the construction project of the Technology Park of the Company
China Merchants Bank	10,000	Pledge over the construction project of the Technology Park of the Company

14. COMMITMENTS

(a) Capital commitments

	As at 30 June 2005 RMB'000	As at 31 December 2004 RMB'000
Capital expenses of property, plant and equipment		
– Authorised but not contracted for		
– Contracted for but not yet provided for in the financial statements	3,475	3,693

(b) Operating lease commitments

As at 30 June 2005, the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	As at 30 June 2005 Production plants and office buildings RMB'000	As at 31 December 2004 Production plants and office buildings RMB'000
Within 1 year	310	345
After 1 year but not more than 5 years	1,240	1,240
After 5 years	103	109



Taxation

Tax payable in respect of profits arising in the PRC have been provided at the applicable rate of 15% in the PRC on the assessable profit.

There is no material deferred taxation not provided for during the Relevant Period or on the respective balance sheet dates.

Dividend

The Directors do not recommend the payment of any dividend for the six months ended 30 June 2005 (For the six months ended 30 June 2004: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

For the six months ended 30 June 2005, the unaudited turnover of the Company was approximately RMB284,000, representing a decrease of 99% over the corresponding period of 2004. The unaudited loss of the Company for the six months ended 30 June 2005 was RMB7,014,000. The net profit of the corresponding period of 2004 was RMB8,123,000. The drastic decrease in net profit attributed to the reason that the principal bankers of the Company have obtained an order from the court to freeze the bank account of the Company with an aggregate deposit of approximately RMB64 million. The bankers concerned about the legal proceedings between Shaanxi Northwest Industry (Group) Limited (陝西西北實業(集團)公司) (“Northwest Group”) and Shaanxi Jing Dian Investment Company Limited (陝西精典投資有限公司) (“Jing Dian Investment”) might affect the Company’s repayment ability of the loans owed to the bankers. Details of the legal proceedings have been disclosed by the Company in the announcements dated 18 May 2004, 24 December 2004 and 21 April 2005 respectively. Therefore, the normal operations of the Company could not be carried out, hence a drastic plunge of its turnover occurred for the first half of the year 2005.

Liquidity, Financial Resources and Capital Structure

As at 30 June 2005, the shareholders' equity of the Company was approximately RMB163,170,000 (31 December 2004: RMB170,184,000); cash and bank balances denominated in Renminbi were approximately RMB86,170,000 (31 December 2004: RMB86,355,000); current assets were about RMB136,973,000 (31 December 2004: RMB139,825,000); and current liabilities were approximately 87,436,000 (31 December 2004: RMB85,892,000), which mainly comprised short-term bank loans of RMB54,500,000.

Employee Information and Remuneration Policy

For the six months ended 30 June 2005, remuneration of employees of the Company was about RMB714,000 (2004: RMB2,779,000) and the Company employed 162 staff (2004: 289 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 the 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.

Acquisition and Disposal of Substantial Investments and Subsidiaries:

For the six months ended 30 June 2005 and the corresponding period of the previous year, there was no significant investment or significant acquisition or disposal of subsidiaries and associates.

Future Significant Investment Plans and Expected Capital Sources:

The details for estimated capital sources of the future significant investments or capital expenditure scheme were respectively set out in the section headed "Statement of Business Objectives" of the prospectus of the Company dated 23 June 2003 (the "Prospectus"). Save as disclosed therein, there was no other future significant investment plan as at 30 June 2005.



Capital Commitments

Please refer to Note 13 to the interim results.

Gearing Ratio

The gearing ratio as at 30 June 2005 (calculated as the ratio of total loan to net assets) was 33% (31 December 2004: 32%).

Exchange Rate Risk

The Directors believe that there will be no significant exchange rate risk because all the income and expenditure of the Company are denominated and paid in Renminbi.

Contingent Liability

As at 30 June 2005, there was no significant contingent liabilities.

Review of Business Objectives

As at 30 June 2005, the achievements of the Company were as follows:

Business Development:

For the six months ended 30 June 2005, the Company concentrated its effort on the production and sales of FA-90 with sales of RMB284,000, representing a decrease of 99% over the corresponding period of previous year. Such decrease in net profit is mainly due to the freezing of principal bank accounts by the principal bankers of the Company as a result of the legal proceedings between Northwest Group and Jing Dian Investment. The Company was unable to carry out its normal production and operating activities during the period due to the freezing of its principal bank account.

Prospects

After the discharge of the frozen bank deposit, the Company will review its business objectives and strategies as set out in the Prospectus, and resume its business operation in accordance therewith.

Comparison Between the Business Plan and the Actual Progress

Projects	Planned Progress (1 January 2005 to 30 June 2005)	Actual Progress
Construction of new production facilities for FA-90 core components	Purchase of production equipment.	The project was suspended *
Technology Building	Installation of peripheral facilities.	The construction of the building was completed but the other plans were suspended.
Technical Centre	Commence research and development.	The project was suspended.*
Production facilities for 2-Ethylhexyl Thioglycolate and oil-processing assistants at the Wei Nan Branch	Small scale production of oil-processing assistants.	The project was suspended *
Expansion of sales and distribution network	Establishment of sales office.	The project was suspended.*

* *The legal proceedings between Northwest Group and Jing Dian Investment resulted in the freezing of the Company's bank account, therefore, the projects were suspended.*

Uses of the proceeds

Since the business plans of the Company were suspended, the unutilised proceeds were deposited into a bank account of the Company in the PRC.

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

As at 30 June 2005, the interests or short positions of the Directors, supervisors and chief executives of the Company in 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”)) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of listed issuer as referred to in Rule 5.46 of the GEM Listing Rules are as follows:

Interests in domestic shares of the Company (long positions)

Name	Capacity	Number of domestic shares	Approximate shareholding percentage in the same class of securities	Approximate shareholding percentage in the entire issued share capital of the Company
Wang Cong (Note 1)	Interest of controlled corporation	548,000,000	80.58%	60.22%
Wang Zheng	Beneficial owner	2,000,000	0.29%	0.22%
Guo Qiubao	Beneficial owner	2,000,000	0.29%	0.22%
Zheng Rongfang	Beneficial owner	2,000,000	0.29%	0.22%
Wang Feng	Beneficial owner	2,000,000	0.29%	0.22%
Zheng Yinglin	Beneficial owner	2,000,000	0.29%	0.22%
Yan Buqiang	Beneficial owner	2,000,000	0.29%	0.22%

Interests in associated corporations (long positions)

Name	Name of associated corporation	Capacity	Number of securities	Approximate shareholding percentage in the entire issued share capital
Wang Cong (Note 2)	Xi'an Tian Cheng Environmental Technology Development Company Limited (西安天成環保科技發展有限公司)	Interest of controlled corporation	13,745,480 ordinary shares	98.18%

Note:

1. The 548,000,000 domestic shares are held by 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. Xi'an Tian Cheng Environmental Technology Development Company Limited (西安天成環保科技發展有限公司) is a subsidiary of Northwest Group, the holding company of the Company, and is thus an associated corporation of the Company.

SUBSTANTIAL SHAREHOLDERS' INTEREST

As at 30 June 2005, the persons (other than a director, supervisor or chief executive of the Company) who have an interest or short position in any share or underlying share of the Company as recorded in the register required to be kept under section 336 of the SFO were as follows:

Interests in domestic shares of the Company (long positions)

Name	Capacity	Number of domestic shares	Approximate shareholding percentage in the same class of securities	Approximate shareholding percentage in the entire issued share capital of the Company
Northwest Group	Beneficial owner	548,000,000	80.58%	60.22%
Jing Ding Investment	Beneficial owner	120,000,000	17.64%	13.19%
Ding Xianguang (Note)	Interest of controlled corporation	120,000,000	17.64%	13.19%
Zhang Jianming (Note)	Interest of controlled corporation	120,000,000	17.64%	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 the SFO.

Interests in H shares of the Company (long positions):

Name	Capacity	Number of H shares	Approximate shareholding percentage in the same class of securities	Approximate shareholding percentage in the entire issued share capital of the Company
Lin Ko Ming	Beneficial owner	12,000,000	5.22%	1.32%



SHARE OPTION SCHEME

The Company has conditionally adopted a share option scheme. The major terms and conditions of the share option scheme are set out in the section headed “Share option scheme” in Appendix VI to the Prospectus. As at 30 June 2005, no share option has been granted under the share option scheme.

COMPETING INTEREST

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

INTEREST OF THE COMPLIANCE ADVISER

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 8,800,000 H 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 30 June 2005.

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 compliance adviser 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.



AUDIT COMMITTEE

The Company has established an audit committee on 6 July 2002 with written terms of reference in compliance with Rules 5.28 and 5.30 of 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 three independent non-executive Directors, namely Mr. Li Gangjian, Mr. Hu Yangxiang and Mr. Su Yuanguan. Mr. Hu Yangxiang is the chairman of the audit committee.

The Company's unaudited interim results for the six months ended 30 June 2005 have been reviewed by the audit committee.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has been considering the appropriate candidates to be appointed as the members of the Remuneration Committee and Nomination Committee of the Company. Save as disclosed aforesaid, the Company was in compliance with the Code on Corporate Governance Practices as set out in Appendix 15 of the GEM Listing Rules.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

Since the listing of the Company on GEM on 3 July 2003, the Company had adopted a code of conduct regarding the securities transactions by directors on terms no less exacting than the required standard of dealings. The Company also had made specific enquiry of all Directors and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by directors.



BOARD PRACTICES & PROCEDURES

The Company has complied with the board practices and procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules during the six months ended 30 June 2005.

REPURCHASE, SALE OR REDEMPTION OF SECURITIES

The Company did not purchase, sell or redeem any of the Company's listed securities during the six months ended 30 June 2005.

By order of the Board
Shaanxi Northwest New Technology Industry Company Limited*
Wang Cong
Chairman

Xi'an, the People's Republic of China, 12 August 2005

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

*Executive directors: Mr. Wang Cong, Mr. Wang Zheng, Mr. Guo Qiubao,
Ms. Zheng Rongfang and Mr. Wang Feng*

Non-executive directors: Mr. Guo Bin

*Independent non-executive directors: Mr. Hu Yangxiong, Mr. Li Gangjian
and Mr. Su Yuanquan*

* *For identification purpose only*