



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)

2004
Annual 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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CORPORATE INFORMATION

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. Guo Bin

Independent non-executive Directors

Mr. Hu Yangxiong
 Mr. Li Gangjian
 Mr. Su Yuanquan

SUPERVISORS**Supervisors**

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

Independent Supervisors

Ms. Wu Xiaoling
 Mr. Qian Ming

AUDIT COMMITTEE

Mr. Hu Yangxiong
 Mr. Li Gangjian
 Mr. Su Yuanquan

COMPLIANCE OFFICER

Mr. Wang Zheng

AUTHORIZED REPRESENTATIVE

Mr. Wang Cong
 Mr. Wang Zheng
 Mr. Gao Peng

AUDITORS

CCIF CPA Limited
 Certified Public Accountants

SPONSOR

Core Pacific – Yamaichi Capital Limited

LEGAL ADVISER

As to Hong Kong laws
 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

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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

CHAIRMAN'S STATEMENT

Dear 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 2004.

In 2004, since two of our substantial shareholders went into serious economic dispute, the Company's focuses were on accelerating the production and sales of FA-90 unlead gasoline additive and 2-ethylhexyl thioglycolate, enhancing the development of "Aigile" automobiles maintenance products (FA-D) and the establishment of sales network in accordance with our business objectives. Furthermore, the Company has strengthened its internal management and improved its management systems based on the needs of its development, which brought better results for its business.

OPERATING PERFORMANCE

For the financial year 2004, the Company recorded a turnover of approximately RMB85,446,000 and net profit of approximately RMB20,345,000, representing a decrease of approximately 0.36% and an increase of approximately 8.26% respectively as compared to those of the previous year. The Board did not recommend to pay any final dividend for the year ended 31 December 2004.

BUSINESS STRATEGY

In 2004, despite the dispute between shareholders, other aspects of the business were able to develop well. 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 consolidated the production foundation, continuously enhanced our profitability. 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. The 2-ethylhexyl thioglycolate production line 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. \$15,720,000 has been invested for the construction and improvement of the FA-90 core material production line facilities and part of the facilities have achieved the investment standard, setting up a solid foundation for further production of the Company.

CHAIRMAN'S STATEMENT

PROSPECT

In 2005, the Company mainly focused on solving various unfavourable effects resulting from the dispute between shareholders and the freezing of our assets so that our businesses can resume promptly. Details of the legal proceedings between the substantial shareholders have been disclosed by the Company in the announcements dated 18 May 2004, 24 December 2004 and 21 April 2005 respectively. As a result of the legal proceedings, 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.

Following the rapid development of the petrochemical industry in China and the tighter control of environmental protection by the state government, in particular a significant increase of domestic and overseas oil price, there are stronger needs for fuel additives, which will provide rooms for the Company's further development. The Company has the ability and confidence to resume its rapid growth, once the mentioned legal proceedings to be settled, thus brings a satisfying return to the shareholders.

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

28 October 2005

Xi'an, the PRC

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The Company's turnover was approximately RMB85,446,000 for the financial year ended 31 December 2004, representing a decrease of 0.36% over the previous year. In 2004, disputes arose between our substantial shareholders and led to a litigation but the Company still recorded a stable turnover. Our products were in the leading position in terms of quality, so the market was relatively stable.

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

For the year ended 31 December 2004

	FA-90 <i>RMB'000</i>	FA-D <i>RMB'000</i>	FA-J <i>RMB'000</i>	Ferrocene <i>RMB'000</i>	2-ethylhexyl thioglycolate and others <i>RMB'000</i>	Total <i>RMB'000</i>
Turnover	74,533	676	–	–	10,237	85,446
Cost of sales	(39,044)	(621)	–	–	(6,509)	(46,174)
Gross profit	35,489	55	–	–	3,728	39,272

For the year ended 31 December 2003

	FA-90 <i>RMB'000</i>	FA-D <i>RMB'000</i>	FA-J <i>RMB'000</i>	Ferrocene <i>RMB'000</i>	2-ethylhexyl thioglycolate and others <i>RMB'000</i>	Total <i>RMB'000</i>
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

The Company's gross profit was approximately RMB39,272,000 for the financial year ended 31 December 2004, representing a decrease of approximately 0.77% over the previous year while the gross profit margin in 2004 was approximately 45.96% (2003: 46.15%).

The Company's net profit for the financial year ended 31 December 2004 was approximately RMB20,345,000 as against approximately RMB18,792,000 in the previous year. This was the result of tighter internal control and lower costs during the year.

Liquidity, financial resources and capital structure

As at 31 December 2004, the equity of shareholders of the Company was approximately RMB178,404,000 (2003: RMB160,334,000); cash at bank and in hand was RMB86,355,000 (2003: RMB104,876,000); current assets amounted to RMB148,771,000 (2003: RMB129,968,000) and current liabilities was RMB89,094,000 (2003: RMB82,305,000), which mainly includes a short term bank loan of RMB54,500,000, repayable within 1 year. All of our loans have already overdue. The Company has been actively negotiating with the relevant banks for extending or refinancing our overdue loans in order to secure the Company with sufficient fund to maintain normal operational activities.

The Company's liquidity ratio, defined as total current assets over total current liabilities, increased slightly from 1.58 as at 31 December 2003 to 1.67 as at 31 December 2004.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW *(Continued)*

Significant investment held 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 2004 and for the same period last year.

Pledge of assets

As at 31 December 2004, the carrying values of property, plant and equipment of approximately RMB46,702,000 and intangible assets of approximately RMB15,203,000 were pledged to secure borrowings granted to the Company.

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"). At the 17th meeting of the First Board of Directors of 2004, a resolution was passed, pursuant to which the proposed investment in the FC resin project of 洛阳市商州廣達有限公司 was terminated, and it will be confirmed in the next meeting of the Board of Directors. Except disclosed above, as at 31 December 2004, the Company had no other material investment plan.

Gearing Ratio

Gearing Ratio, defined as total borrowings over net assets, was 30.55% (same period of 2003: 33.99%).

Capital Commitment, foreign exchange exposure and contingent liabilities

As at 31 December 2004, the Company had RMB12,571,000 capital commitments (details of which are set out in note 22 to the financial statement) 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 2004 are as follows:

Business development

In 2004, the Company's focuses were on accelerating the production and sales of FA-90 unlead gasoline additive and 2-ethylhexyl thioglycolate.

Products and production

During the review year, our principal products included FA-90, "Aigile" automobiles maintenance products (FA-D) and 2-ethylhexyl thioglycolate. The Company mainly focused on the production and sales of FA-90 unlead gasoline additive, which brought a sales revenue of RMB74,533,000, representing a decrease of 0.06% over the same period of previous year. The sales revenue of 2-ethylhexyl thioglycolate was RMB10,237,000, representing an increase of 219% over the same period of previous year. The sales revenue of the "Aigile" automobiles maintenance products (FA-D) was RMB676,000.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW *(Continued)*

Sales and marketing

During the review year, the Company conducted sales mainly relied on existing sales and distribution network, and modestly expanded the sales and distribution channel. The Company also focused on exploring the market and distribution of FA-90 unlead gasoline additive.

Research and development

The Company focused on the technological advancement and support of existing products, improving the anti-knock capability and environmental protection effect of FA-90. The Company further studied the application scope of the core materials of oil-processing assistants, 2-ethylhexyl thioglycolate and its downstream products and attained a certain progress in this regard.

The Company continued to conduct the research and development of FA-Q gasoline cleaner and FA-D (for diesel), and attained certain results which the Company will apply for the registration of patent.

Employees and remuneration policy

For the year ended 31 December 2004, the staff remuneration of the Company was approximately RMB2,679,000 (2003: RMB3,903,000) and the Company employed a total of 208 staff (2003: 240 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 2005 is a year the Company faced the most difficulties. The production and operation of the Company almost suspended in 2005 due to the material adverse effects on various aspects of the Company resulting from a dispute between shareholders and the related long-term litigation. Therefore, during the year of 2005, the Company should carry out all kinds of effective measures. For example, the Company would put more efforts on recovering our trade receivables, actively negotiate with the banks for refinancing or extending our overdue loans, and negotiate with the court for unfreezing our assets promptly, so that the production and operation of the Company can resume and the loss in 2005 from the aforesaid unfavourable factors can be reduced. At the same time, we will continue to develop our market and maintain business relations with our clients, and to research and develop more new products. We will speed up the construction of FA-90 production facility after solving the funding problems. By strengthening our internal control system and enhancing the standard of governance, we expect an ongoing improvement of the Company's performance in the future.

REVIEW OF BUSINESS OBJECTIVES

In 2004, 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 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, in order to achieve the overall business objectives of the Company.

1. COMPARISON OF BUSINESS PLANS AND ACTUAL BUSINESS PROGRESS

Project	Planned Progress (1 January to 31 December 2004)	Actual business progress
Construction of new production facilities for FA-90 core components	Purchase of production equipment Setting up production line	The reconstruction of some production line has been completed and some production equipment has been purchased. The new production facility is under construction.
The Technology Building	Construction of fundamental facilities Exterior and interior decoration Occupation of the building	The project is suspended.
The technology center	Decoration of the technology centre Interior decoration Installation of the research and testing instruments Completion of the technology centre	The project is suspended.

REVIEW OF BUSINESS OBJECTIVES

1. COMPARISON OF BUSINESS PLANS AND ACTUAL BUSINESS PROGRESS *(Continued)*

Project	Planned Progress (1 January to 31 December 2004)	Actual business progress
Production facilities for 2-ethylhexyl thioglycolate and oil-processing assistants at the Wei Nan Branch	Improvement of the formulae for oil-processing assistants Trial production of oil-processing assistants	Completed.
Expansion of sales and distribution network	Purchase of transportation vehicle & storage facilities Enhancement of equipment for the sales contact points	The project is suspended.

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.

Proceeds from listing	Planned (1 January to 31 December 2004) <i>HK\$ Million</i>	Actual <i>HK\$ Million</i>
Construction of new production facilities for FA-90 core components	15.0	9.76

For the year ended 31 December 2004, the actual amount allocated from the proceeds to the pre-stage construction of production facilities for FA-90 core components was approximately HK\$9,764,000 (RMB10,350,000).

The remaining proceeds were placed in an account of a bank in China as deposits on 31 December 2004.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Wang Cong (王聰), aged 48, 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 44, 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 (西安鐘錶材料廠). 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 55, 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 58, 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 (中國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.

Wang Feng (王峰), aged 46, 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.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Non-executive Directors

Guo Bin (郭斌), aged 53, 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 (中國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 45, 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 (航空安慶公司財務處) from March 1987 to March 1991, the deputy head of the Finance Department of Shaanxi Aviation Industry Bureau (陝西航天工業局財務處) 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 41, 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 (北京匯正財經顧問有限公司) since July 1998. He was appointed as an independent non-executive Director in January 2000.

Su Yuanquan (蘇源泉), aged 52, 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.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

SUPERVISORS

Yan Buqiang (閻步強), aged 51, 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 49, 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 43, 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 52, 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.

Qian Ming (龔明), aged 49, 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.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

To be appointed

SENIOR MANAGEMENT

Li Xiaohu (李小虎), aged 44, is the vice president of the Company in charge of legal, administration and human resources departments. 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.

Zeng Yinglin (曾應林), aged 51, is the vice-president of the Company and the General Manager of the Wei Nan Branch in charge of the business department. 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.

Wang Xiaojun (王孝軍), aged 42, is the chief financial officer of the Company. Mr. Wang was graduated from university and he is an accountant. From July 1985 to November 1994, he served as accountant and the head of accounting department for the financial department of 西安西飛集團. From November 1994 to November 1997, he was the deputy chairman of 西飛鋁業股份有限公司. He then served as deputy chairman of 西飛財務公司 from November 1997 to October 2003. He joined the Company in October 2003.

Gao Peng (高鵬), aged 33, is the secretary to the board of Directors and is responsible for the Company's overall corporate and company secretarial matters. Mr. Gao graduated with a Bachelor's degree in Economics and obtained qualifications of Accountant, Registered Accountant, Certified Accountant in Securities and Independent Director. From December 1996 to April 2000, he was the Audit Manager of 中信會計師事務所. From August 2000 to May 2003, he was the Audit Manager of Deloitte Touche Tohmatsu. In May 2003, Mr. Gao joined the Company as its Assistant General Manager. Since 24 July 2004, he has been the secretary to the board of Directors.

Xing Dunping (邢敦平), aged 50, 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.

Zheng Yuanyang (鄭遠洋), aged 65, 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.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT *(Continued)*

Wang Min (王敏), aged 42, 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.

Wu Chuandong (吳傳東), aged 41, 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.

Xie Chaohong (謝朝紅), aged 37, 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.

Feng Jun (馮君), aged 32, 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.

DIRECTORS' REPORT

The Directors present the annual report and the audited financial statements of the Company for the year ended 31 December 2004.

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 2004 are set out in the income statement on page 25 of the annual report. The Directors do not recommend the payment of a final dividend in respect of the year ended 31 December 2004.

DISTRIBUTABLE RESERVES

As at 31 December 2004, the Company's reserves available for distribution to shareholders were approximately RMB29,948,000.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Company spent approximately RMB17,674,000 in aggregate on factory premises and other plant and machinery to expand and upgrade its production capacity.

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

TRADE RECEIVABLES

The trade receivables in aggregate as at 31 December 2004 amounted to RMB50,948,000, with approximately RMB20,645,000 was invoiced amount and the balance was the amount of delivered goods.

In order to expedite the collection of trade receivables, the sales department of the Company has actively negotiated with clients. Repayment schemes have been entered and implemented with clients in respect of trade receivables of approximately RMB18,333,000. However, due to factors including that part of the delivered goods has not been invoiced promptly, it may have some adverse impact on the collection of trade receivables.

FREEZING OF A BANK ACCOUNT

The principal banks of the Company have obtained an order dated 4 January 2005 from the Supreme People's Court of Shaanxi province of the PRC to freeze a bank account of the Company with an aggregate deposit of approximately RMB64 million. Please see the Company's announcement of "Freezing of a bank account and unaudited results for the year ended 31 December 2004" dated 13 May 2005 for details.

DIRECTORS' REPORT

DISCLOSURE UNDER CHAPTER 17 OF THE GEM LISTING RULES

As at 31 December 2004, trade receivables due from Nanjing Ding Jun Petrochemical Plant* (南京鼎鈞石油化工廠), Zibo Xin Ye Petrochemical Co., Ltd.* (淄博市信業化工有限公司), Yumen Tian Yu Industrial Trading Co., Ltd.* (玉門市天宇工貿有限公司), Xi'an Dong Dong Sheng Petrochemical Co., Ltd.* (西安東盛石油有限公司), Shenyang Jin Xing Petrochemical Co., Ltd.* (瀋陽金星石油化工有限公司), Yumen Kong Tai Industrial Trading Co., Ltd.* (玉門市康泰工貿有限責任公司), Shandong Tai An Zhong Tian Petrochemical Co., Ltd.* (山東泰安中天化工有限公司) and Zibo Lin Zi Heng Xin Industrial Co., Ltd.* (淄博市臨淄恒鑫實業公司) amounted to approximately RMB8,769,000, RMB7,854,000, RMB5,500,000, RMB4,838,000, RMB4,792,000, RMB2,500,000, RMB1,757,000 and RMB1,675,000 respectively, representing approximately 43.1%, 38.6%, 27.0%, 23.8%, 23.6%, 12.3%, 8.6% and 8.2% of the Company's net profit for the year ended 31 December 2004 respectively. This constitutes disclosure obligations on the part of the Company pursuant to Rule 17.15 of GEM Listing Rules.

The Directors confirm the aforementioned customers are independent third parties not connected with the Directors and substantial shareholders of the Company.

Save for the above, as at 31 December 2004, so far as is known to the Directors, there is no other advance which would give rise to disclosure obligations under Rules 17.15 and 17.17 of GEM Listing Rules.

Note: * for identification purpose only

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 (the "Supervisors") 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:

Guo Bin

Independent non-executive Directors:

Hu Yangxiong
Li Gangjian
Su Yuanquan

Supervisors:

Yan Buqiang
Wei Jingling
Wang Anjun

DIRECTORS' REPORT

DIRECTORS AND SUPERVISORS (Continued)**Independent Supervisors:**

Wu Xiaoling

Qian Ming

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. Details of the Directors' and the Supervisors' remuneration and the five highest paid individuals of the Company are set out in note 7 to the financial statements in this report.

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

As at 31 December 2004, 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%

DIRECTORS' REPORT

DIRECTORS', CHIEF EXECUTIVES' AND SUPERVISORS' INTERESTS IN SHARES (Continued)**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 Xian Northwest Industry (Group) 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. 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 31 December 2004, 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%
Shaanxi Jing Dian Investment Company Limited (陝西精典投資有限公司)	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 Shaanxi Jing Dian Investment Company Limited (陝西精典投資有限公司), 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.

DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDERS' INTEREST *(Continued)***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 31 December 2004, no share option has been granted under the share option scheme.

DIRECTORS AND SUPERVISORS' INTERESTS IN MATERIAL CONTRACTS

During the year ended 31 December 2004, none of the Directors or Supervisors had a material interest, directly or indirectly, on any contract of significance to the business of the Company to which the Company was a party.

COMPETING INTERESTS

During the year ended 31 December 2004, none of the Directors or Supervisors 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.

INTEREST OF 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 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 2004.

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.

MAJOR SUPPLIERS AND CUSTOMERS

During the year, the five largest suppliers of the Company accounted for approximately 54% of the Company's purchases. The largest supplier accounted for approximately 16% of the purchases of the Company.

Aggregate sales attributable to the Group's five largest customers accounted for approximately 63% of the total turnover. The largest customer accounted for approximately 19% 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 during the year ended 31 December 2004.

DIRECTORS' REPORT

ANALYSIS OF THE OPERATION OF THE COMPANY

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

For the year ended 31 December 2004

	FA-90	FA-D	FA-J	Ferrocene	2-ethylhexyl thioglycolate and others	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Turnover	74,533	676	–	–	10,237	85,446
Cost of sales	(39,044)	(621)	–	–	(6,509)	(46,174)
Gross profit	35,489	55	–	–	3,728	39,272

For the year ended 31 December 2003

	FA-90	FA-D	FA-J	Ferrocene	2-ethylhexyl thioglycolate and others	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
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

LITIGATION

As at 31 December 2004, the Company has no significant pending litigation.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

The Company had not purchase, sell or redeem any of the Company's listed securities during the year ended 31 December 2004.

CODE ON CORPORATE GOVERNANCE PRACTICES

During the year ended 31 December 2004, the Company was in compliance with the Board Practices and Procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules, which were in force prior to the amendment of the GEM Listing Rules relating to the Code on Corporate Governance Practices and Rules of the Corporate Governance Report on 1 January 2005. The Company will comply with the amended GEM Listing Rules in the financial year ended 31 December 2005.

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.

DIRECTORS' REPORT

AUDIT COMMITTEE

The Company established an audit committee on 6 July 2002 with written terms of reference in compliance with the requirements as set out in Rules 5.28 to 5.31 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 three independent non-executive Directors, Mr. Li Gangjian, Mr. Hu Yangxiong and Mr. Su Yuanquan. 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 2004. During the year ended 31 December 2004, four audit committee meetings were held.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive Directors an annual confirmation of his independence pursuant to Rule 5.09 of the GEM Listing Rules and the Board considers each of the independent non-executive Directors to be independent.

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

Deloitte Touche Tohmatsu were auditors of the Company for the year ended 31 December 2003 and they resigned as the auditors on 26 July 2005. CCIF CPA Limited was appointed to fill the casual vacancy on 12 August 2005.

CCIF CPA Limited will retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting.

On behalf of the Board of

Shaanxi Northwest New Technology Industry Company Limited

Wang Cong

Chairman

Xi'an, the PRC, 28 October 2005

REPORT OF SUPERVISORY COMMITTEE

To the shareholders,

In 2004, 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 of the PRC, the Articles of Association and 2004 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. MEETINGS CONVENED BY THE SUPERVISORY COMMITTEE OF THE COMPANY

1. The first meeting of the Supervisory Committee was convened on 8 May 2004, in which Mr. Yan Buqiang was elected as the Chairman of the Supervisory Committee of the Company.
2. The second meeting of the Supervisory Committee was convened on 12 August 2004, in which the unaudit interim report of the Company for the six months ended 30 June 2004 was passed.
3. The third meeting of the Supervisory Committee was convened on 12 November 2004, in which the unaudit third quarterly report of the Company for the nine months ended 30 September 2004 was passed.

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

In 2004, the Supervisory Committee enhanced the level of monitoring. The Supervisory Committee considered that:

1. In 2004, the disputes among our substantial shareholders adversely affected the business of the Company. In these circumstances, the board of Directors and the senior management of the Company should adopt all effective measures to resolve all kinds of difficulties and existing problems so as to reduce the loss of the Company and resume the operation of the Company promptly.
2. In 2004, the Board thoroughly implemented resolutions of the general meeting in accordance with the Company Law of the PRC, Securities Law of the PRC, the 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 the 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. In 2004, the results of the Company was affected by the shareholders disputes. Nevertheless, the financial conditions of the Company remain normal 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.

By the order of the Supervisory Committee
Yan Bu Qiang
Chairman of Supervisory Committee

28 October 2005
Xi'an, the PRC

AUDITORS' REPORT

**CCIF****CCIF CPA LIMITED**

37/F Hennessy Centre
500 Hennessy Road
Causeway Bay Hong Kong

**AUDITORS' REPORT 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 IN THE PEOPLE'S REPUBLIC OF CHINA WITH LIMITED LIABILITY)

We have audited the financial statements on pages 25 to 43 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.

It is our responsibility to form an independent opinion, based on our audit, on those financial 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 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 Institute of Certified Public Accountants, except that the scope of our work was limited as explained below.

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 judgements 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 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. However, the evidence available to us was limited because we were unable to obtain sufficient information to verify the recoverability of a sum of RMB49,948,000 included in the Company's accounts receivable of approximately RMB50,948,000 in the balance sheet as at 31 December 2004. There were no other satisfactory alternative procedures that we could adopt to confirm the recoverability of this sum.

Any consequential adjustments found to be necessary would affect the net assets of the Company as at 31 December 2004 and the profit of the Company for the year then ended.

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.

AUDITORS' REPORT

FUNDAMENTAL UNCERTAINTY RELATING TO THE GOING CONCERN BASIS

In forming our opinion, we have considered the adequacy of the disclosures made in notes 2 and 25 to the financial statements concerning the basis of their preparation by the directors. As explained in notes 2 and 25 to the financial statements, subsequent to the balance sheet date, the Bank of Communications and the China Merchant Bank of the People's Republic of China have obtained an order dated 4 January 2005 from the Supreme People's Court of Shaanxi Province of the People's Republic of China to freeze the bank accounts of the Company at China Construction Bank of the People's Republic of China with an aggregate deposit of approximately RMB86,000,000.

The financial statements have been prepared on a going concern basis, the validity of which depends upon the unfreeze of bank accounts of the Company and the ability to raise sufficient funds to meet the Company's financial obligations and liabilities and funding requirements for the Company's daily operation. The financial statements do not include any adjustments that may result from failure to unfreeze the bank accounts of the Company.

We consider that the fundamental uncertainty has been adequately accounted for and disclosed in the financial statements and our opinion is not qualified in this respect.

QUALIFIED OPINION ARISING FROM LIMITATION OF AUDIT SCOPE

Except for any adjustments that might have been found to be necessary had we been able to obtain sufficient evidence concerning the recoverability of a sum of RMB49,948,000 included in the Company's accounts receivable of approximately RMB50,948,000, in our opinion the financial statements give a true and fair view of the state of the Company's affairs as at 31 December 2004 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.

In respect alone of the limitation of our work relating to the recoverability of accounts receivable, we have not obtained all the information and explanations that we considered necessary for the purpose of our audit.

CCIF CPA Limited

Certified Public Accountants

Hong Kong

28 October 2005

Chan Wai Dune, Charles

Practising Certificate Number P00712

INCOME STATEMENT

Year ended 31 December 2004

	<i>Notes</i>	2004 RMB'000	2003 <i>RMB'000</i>
Turnover		85,446	85,754
Cost of sales		<u>(46,174)</u>	<u>(46,178)</u>
Gross profit		39,272	39,576
Other revenue	5	464	1,676
Distribution costs		(2,686)	(1,987)
Administrative expenses		(9,908)	(11,564)
Other operating expenses		<u>(1,055)</u>	<u>–</u>
Profit from operations	6	26,087	27,701
Finance costs	8	<u>(3,217)</u>	<u>(4,233)</u>
Profit before taxation		22,870	23,468
Taxation	9	<u>(2,525)</u>	<u>(4,676)</u>
Profit for the year		<u>20,345</u>	<u>18,792</u>
Dividend	10	<u>–</u>	<u>2,275</u>
Earnings per share – basic	11	<u>RMB0.022</u>	<u>RMB0.023</u>

The notes on pages 29 to 43 form an integral part of these financial statements.

BALANCE SHEET

31 December 2004

	Notes	2004 RMB'000	2003 RMB'000
Non-current assets			
Property, plant and equipment	12	93,554	83,954
Intangible assets	13	25,173	28,717
		118,727	112,671
Current assets			
Inventories	14	4,878	7,361
Trade and other receivables	15	56,912	17,091
Due from a fellow subsidiary		626	–
Bills receivable		–	640
Cash and bank balances	25	86,355	104,876
		148,771	129,968
Current liabilities			
Trade and other payables	16	25,551	22,409
Taxation		7,337	5,396
Due to a fellow subsidiary		389	–
Due to ultimate holding company		1,317	–
Bank loans	17	54,500	54,500
		89,094	82,305
Net current assets		59,677	47,663
Net assets		178,404	160,334
Capital and reserves			
Share capital	18	91,000	91,000
Reserves		87,404	69,334
		178,404	160,334

Approved and authorised for issue by the board of directors on 28 October 2005

On behalf of the board

Wang Zheng
Director

Zheng Rongfang
Director

The notes on pages 29 to 43 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2004

	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)	Retained profits RMB'000 (Note c)	Total RMB'000
At 1 January 2003	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
Profit for the year	-	-	-	-	20,345	20,345
Transfer	-	-	1,213	606	(1,819)	-
Dividend approved for the year ended 31 December 2003	-	-	-	-	(2,275)	(2,275)
At 31 December 2004	91,000	25,880	7,580	3,789	50,155	178,404

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) Retained 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 RMB29,948,000 at 31 December 2004 (2003: RMB27,032,000).

The notes on pages 29 to 43 form an integral part of these financial statements.

CASH FLOW STATEMENT

Year ended 31 December 2004

	2004 RMB'000	2003 RMB'000
OPERATING ACTIVITIES		
Profit before taxation	22,870	23,468
Adjustments for:		
Amortisation of intangible assets	3,544	3,543
Depreciation of property, plant and equipment	4,267	3,445
Interest expenses	3,188	4,177
Interest income	(431)	(450)
Loss on disposal of property, plant and equipment	377	1,126
Operating cash flows before movements in working capital	33,815	35,309
Decrease in inventories	2,483	1,543
(Increase)/decrease in trade and other receivables	(39,821)	10,900
Decrease in bills receivables	640	510
Increase in trade and other payables	3,142	7,306
Cash generated from operations	259	55,568
Interest paid	(3,188)	(4,177)
PRC enterprise income tax paid	(584)	(1,672)
Dividend paid	(2,275)	(660)
NET CASH (USED IN)/GENERATED FROM OPERATING ACTIVITIES	(5,788)	49,059
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(17,674)	(17,610)
Interest received	431	450
Proceeds from disposal of property, plant and equipment	3,430	1
Advance from a fellow subsidiary	389	-
Advance from ultimate holding company	1,317	-
Advance to a fellow subsidiary	(626)	-
NET CASH USED IN INVESTING ACTIVITIES	(12,733)	(17,159)
FINANCING ACTIVITIES		
Proceeds from issue of H shares	-	61,025
Repayment of borrowings	-	(100,100)
Share issue expenses	-	(14,482)
New borrowings raised	-	67,300
NET CASH GENERATED FROM FINANCING ACTIVITIES	-	13,743
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(18,521)	45,643
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	104,876	59,233
CASH AND CASH EQUIVALENTS AT END OF YEAR		
Represented by cash and bank balances	86,355	104,876

The notes on pages 29 to 43 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2004

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.

The Company's ultimate holding company is Xian Northwest Industry (Group) Company Limited, a company established in the PRC.

2. BASIS OF PREPARATION

As disclosed in Note 25 to the financial statement, subsequent to the balance sheet date, the Bank of Communications and the China Merchant Bank of the PRC have obtained an order dated 4 January 2005 from the Supreme People's Court of Shaanxi Province of the PRC to freeze the bank accounts of the Company at China Construction Bank of the PRC with an aggregate deposit of approximately RMB86,000,000.

The directors have considered the liquidity of the Company in light of the above and the funding requirements of the Company for the foreseeable future. The directors believe that the bank account will be unfroze in the near future and the company has the ability to raise sufficient funds to meet its financial obligations and liabilities and funding requirements for the Company's daily operation. Accordingly, the financial statements have been prepared on a going concern basis.

3. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The financial statements have been prepared under the historical cost convention.

The financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and applicable disclosure provisions of the Listing Rules of the GEM of the Stock Exchange.

In 2004, the HKICPA issued a number of new and revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards ("HKFRSs") (hereinafter collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The Company has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004.

The Company has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to determine whether these new HKFRSs would have a significant impact on its results of operations and financial position.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2004

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

The principal accounting policies adopted by the Company are set out below:

(a) Turnover

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

(b) Revenue Recognition

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

Interest income is recognised on a time-proportion basis by reference to the principal outstanding and at the interest rate applicable.

(c) 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 machineries 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.

(d) Intangible Assets

Land use rights are stated as cost less accumulated amortisation and accumulated impairment losses. 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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2004

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)***(e) Impairment**

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets are impaired. If such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the income statement except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent 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. Unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

(f) 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. Provision is made for obsolete, slow-moving or defective terms where appropriate.

(g) 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.

(h) 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2004

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(h) Taxation *(Continued)*

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.

(i) Operating Leases

Lease where substantially all the rewards and risk of ownership of assets remain with the leasing company are accounted for as 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.

(j) 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. Gains or losses arising on exchange are dealt with in the income statement.

(k) 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 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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2004

5. OTHER REVENUE

	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
Bank interest income	431	450
Government grants (<i>note 1</i>)	9	300
Value-added tax refund (<i>note 2</i>)	–	800
Sundry income	24	126
	<u>464</u>	<u>1,676</u>

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

Profit from operations has been arrived at after charging:

	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
Directors' and supervisors' remuneration	705	705
Other staff costs	1,740	3,123
Other staff's retirement benefits scheme contributions	234	75
	<u>2,679</u>	<u>3,903</u>
Amortisation of intangible assets (included in administrative expenses)	3,544	3,543
Auditors' remuneration	400	400
Depreciation	4,267	3,445
Loss on disposal of property, plant and equipment	377	1,126
Research and development costs	–	220
	<u>–</u>	<u>–</u>

NOTES TO THE FINANCIAL STATEMENTS

31 December 2004

7. DIRECTORS', SUPERVISORS' AND EMPLOYEES' REMUNERATIONS

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

	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
Fees	160	160
Salaries and allowances	522	522
Retirement benefit scheme contributions	23	23
	705	705
Fees for		
– non-executive directors	60	60
– independent non-executive director	60	60
– supervisors	40	40
Other emoluments for independent non-executive directors	–	–
Other emoluments for independent supervisors	–	–
	160	160
Other emoluments for executive directors		
– basic salaries and allowances	420	420
– contributions to retirement benefit scheme	12	12
	432	432
Other emolument for supervisors		
– basic salaries and allowances	102	102
– contributions to retirement benefit scheme	11	11
	113	113
	705	705

The emoluments paid to the directors and supervisors during the year were as follows:

	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
Director A	124	124
Director B	120	120
Director C	64	64
Director D	60	60
Director E	64	64
Director F	30	30
Director G	30	30
Director H	30	30
Director I	30	30
	552	552

NOTES TO THE FINANCIAL STATEMENTS

31 December 2004

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

	2004 RMB'000	2003 RMB'000
Supervisor A	64	64
Supervisor B	34	34
Supervisor C	15	15
Supervisor D	20	20
Supervisor E	20	20
	<u>153</u>	<u>153</u>

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

	2004 RMB'000	2003 RMB'000
Interest on bank borrowings wholly repayable within five years	3,188	4,177
Bank charges	29	56
	<u>3,217</u>	<u>4,233</u>

9. TAXATION

	2004 RMB'000	2003 RMB'000
PRC enterprise income tax:		
– provision for current year	2,525	3,956
– underprovision in previous year	–	720
	<u>2,525</u>	<u>4,676</u>

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%.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2004

9. TAXATION (Continued)

(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.

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

	2004		2003	
	RMB'000	%	RMB'000	%
Profit before taxation	<u>22,870</u>		<u>23,468</u>	
Tax at domestic income tax rate	3,430	15.0	3,520	15.0
Tax effect of expenses not deductible for tax purpose	2,906	12.7	589	2.5
Tax effect of income not taxable for tax purpose	(3,811)	(16.7)	(153)	(0.7)
Underprovision in previous years	-	-	720	3.1
Tax effect and effective tax rate for the year	<u>2,525</u>	<u>11</u>	<u>4,676</u>	<u>19.9</u>

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

10. DIVIDEND

On 13 May 2004, a dividend of RMB0.0025 per share totalling RMB2,275,000 for the year ended 31 December 2003 was approved by the shareholders of the Company (2003: RMB0.05 per share totalling RMB3,400,000).

No final dividend for the year ended 31 December 2004 has been proposed (2003: RMB0.0025 per share) by the directors and is subject to approval by the shareholder 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 2004 of approximately RMB20,345,000 (2003: approximately RMB18,792,000) and the weighted average number of 910,000,000 (2003: 794,684,932) shares in issue during the year.

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2004

12. PROPERTY, PLANT AND EQUIPMENT

	Buildings <i>RMB'000</i>	Leasehold improvements <i>RMB'000</i>	Plant and machinery <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Furniture, and office equipment <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Total <i>RMB'000</i>
Cost							
At 1 January 2004	17,341	3,883	18,756	7,483	2,221	45,426	95,110
Additions	-	-	5,509	150	16	11,999	17,674
Disposal	-	-	(747)	(5,942)	-	(208)	(6,897)
Transfer	946	-	(962)	-	150	(134)	-
At 31 December 2004	18,287	3,883	22,556	1,691	2,387	57,083	105,887
Depreciation and amortisation							
At 1 January 2004	1,141	2,220	3,327	3,296	1,172	-	11,156
Charge for the year	551	350	2,512	439	415	-	4,267
Written back on disposal	-	-	(383)	(2,707)	-	-	(3,090)
At 31 December 2004	1,692	2,570	5,456	1,028	1,587	-	12,333
Net book values							
At 31 December 2004	16,595	1,313	17,100	663	800	57,083	93,554
At 31 December 2003	16,200	1,663	15,429	4,187	1,049	45,426	83,954

13. INTANGIBLE ASSETS

	Land use rights <i>RMB'000</i> (Note 1)	Technical know-how <i>RMB'000</i> (Note 2)	Total <i>RMB'000</i>
Cost			
At 1 January 2004 and 31 December 2004	25,443	20,000	45,443
Amortisation			
At 1 January 2004	893	15,833	16,726
Charge for the year	210	3,334	3,544
At 31 December 2004	1,103	19,167	20,270
Net book values			
At 31 December 2004	24,340	833	25,173
At 31 December 2003	24,550	4,167	28,717

Notes:

1. Land use rights 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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2004

14. INVENTORIES

	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
Raw materials	1,830	2,170
Work in progress	274	554
Finished goods	2,774	4,637
	<u>4,878</u>	<u>7,361</u>

None of the inventories was stated at net realisable value (2003: raw materials and finished goods of RMB514,000 and RMB361,000, respectively are carried at net realisable value).

15. TRADE AND OTHER 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:

	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
Within 90 days	42,939	13,468
91 – 180 days	4,544	97
181 – 365 days	1,656	47
Over 365 days	1,809	171
	<u>50,948</u>	<u>13,783</u>
Other receivables	6,049	3,393
	<u>56,997</u>	<u>17,176</u>
Less: Provision for doubtful debts	(85)	(85)
	<u>56,912</u>	<u>17,091</u>

NOTES TO THE FINANCIAL STATEMENTS

31 December 2004

16. TRADE AND OTHER PAYABLES

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

	2004 RMB'000	2003 <i>RMB'000</i>
Within 90 days	518	5,380
91 – 180 days	408	545
181 – 365 days	217	30
Over 365 days	565	182
	<hr/>	<hr/>
	1,708	6,137
Other payables	23,843	16,272
	<hr/>	<hr/>
	25,551	22,409
	<hr/> <hr/>	<hr/> <hr/>

Including in other payables is an amount of RMB2,490,000 (2003: RMB2,740,000) that is a dividend payable to Xian Northwest Industry (Group) Company Limited, ultimate holding company of the Company.

17. BANK LOANS

The bank loans are wholly repayable within one year and are analysed as follows:

	2004 RMB'000	2003 <i>RMB'000</i>
Secured	50,000	50,000
Unsecured	4,500	4,500
	<hr/>	<hr/>
	54,500	54,500
	<hr/> <hr/>	<hr/> <hr/>

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

	2004 RMB'000	2003 <i>RMB'000</i>
西安翠寶首飾集團公司 Xi'an Cuibao Jewelry Group Company	4,500	4,500
	<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE FINANCIAL STATEMENTS

31 December 2004

18. SHARE CAPITAL

	Number of shares <i>'000</i>	Value <i>RMB'000</i>
Registered, issued and fully paid:		
As at 31 December 2003	910,000	91,000
	<u>910,000</u>	<u>91,000</u>
As at 31 December 2004	<u>910,000</u>	<u>91,000</u>

During the year, there was no change in the Company's registered and issued share capital.

19. RELATED PARTY TRANSACTIONS

- (a) During the year, the Company purchased goods from a fellow subsidiary amounting to RMB8,964,000 (2003: Nil). The transactions were carried out on terms similar to those applicable to transactions with unrelated parties.
- (b) During the year, the Company disposed of certain of its motor vehicles at their net book value of RMB3,235,000 to its ultimate holding company.

20. 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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2004

20. 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 issued 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 issued, 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.

(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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2004

20. SHARE OPTION SCHEME *(Continued)***(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.

21. OPERATING LEASE ARRANGEMENTS

	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
Minimum lease payments paid under operating lease during the year	<u>310</u>	<u>511</u>

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:

	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
Within one year	310	366
More than one year but within five years	1,550	1,560
Over five years	<u>310</u>	<u>542</u>
	<u>2,170</u>	<u>2,468</u>

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

22. CAPITAL COMMITMENTS

	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
Capital expenditure in respect of acquisition of property, plant and equipment:		
– contracted for but not provided in the financial statements	<u>12,571</u>	<u>10,899</u>

NOTES TO THE FINANCIAL STATEMENTS

31 December 2004

23. 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:

	2004	2003
	RMB'000	RMB'000
Property, plant and equipment	46,702	59,032
Intangible assets	15,203	9,347
	61,905	68,379

24. 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 RMB31,174 (2003: RMB98,800) represents contributions payable to the scheme by the Company during the year.

25. SUBSEQUENT EVENT

During the year, there were legal proceedings between Shaanxi Jing Dian Investment Company Limited, a substantial shareholder of the Company, and Xian Northwest Industry (Group) Company Limited ("Northwest Group"), the ultimate holding company of the Company. 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.

The Bank of Communications and the China Merchant Bank ("the Bankers") of the PRC concerned that the legal proceedings might affect the Company's repayment ability of the loans owed to the Bankers. The Bankers obtained an order dated 4 January 2005 from the Supreme People's Court of Shaanxi Province to freeze the bank accounts of the Company at China Construction Bank of the PRC with an aggregate deposit of approximately RMB86 million.

Based on the advice of the Company's legal advisers, the directors of the Company are of the opinion that judgement will be given in favour of Northwest Group.

FINANCIAL SUMMARY

RESULTS

	For the year ended 31 December			
	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>	2001 <i>RMB'000</i>
TURNOVER	<u>85,446</u>	<u>85,754</u>	<u>85,353</u>	<u>78,450</u>
PROFIT BEFORE TAXATION	<u>22,870</u>	<u>23,468</u>	<u>20,773</u>	<u>21,225</u>
TAXATION	<u>(2,525)</u>	<u>(4,676)</u>	<u>(3,977)</u>	<u>(78)</u>
NET PROFIT FOR THE YEAR	<u><u>20,345</u></u>	<u><u>18,792</u></u>	<u><u>16,796</u></u>	<u><u>21,147</u></u>

ASSETS AND LIABILITIES

	At 31 December			
	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>	2001 <i>RMB'000</i>
TOTAL ASSETS	<u>267,498</u>	<u>242,639</u>	<u>200,454</u>	<u>189,427</u>
TOTAL LIABILITIES	<u>(89,094)</u>	<u>(82,305)</u>	<u>(102,055)</u>	<u>(67,300)</u>
SHAREHOLDERS' FUNDS	<u><u>178,404</u></u>	<u><u>160,334</u></u>	<u><u>98,399</u></u>	<u><u>122,127</u></u>

Note: Results for each of the two years ended 31 December 2002 and assets and liabilities as at 31 December 2001 and 2002 were extracted from the prospectus of the Company dated 23 June 2003.

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the 2004 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 Friday, 23 December 2005 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 2004;
2. To consider and approve the report of the supervisory committee of the Company for 2004;
3. To consider and approve the audited financial statements and the auditors' report for 2004;
4. To consider and approve the re-appointment of CCIF CPA Limited as the Company's auditors for 2005 and to authorize the Board to determine their remunerations; and
5. 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 to reflect resulting changes in the Company's share capital structure.

By order of the Board

Shaanxi Northwest New Technology Limited Liability Company

Wang Cong

Chairman

Xi'an, the PRC, 31 October 2005

NOTICE OF ANNUAL GENERAL MEETING

Notes:

1. The register of members of the Company will be closed from 23 November 2005 (Wednesday) to 23 December 2005 (Friday), 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 22 November 2005 (Tuesday) 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 3 December 2005 (Saturday). 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. 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.
7. 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.
8. 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