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)
(Stock Code: 8258)

2005 Annual Report

* for identification purposes only

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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 Director
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 REPRESENTATIVES

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

AUDITORS

CCIF CPA Limited
Certified Public Accountants

LEGAL ADVISORS

As to Hong Kong law
Tsun & Partners

REGISTERED 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

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

Dear Shareholders:

On behalf of the board (the "Board") of directors (the "Directors") of Shaanxi Northwest New Technology Industry Company Limited (the "Company"), I am pleased to present the annual report of the Company for the year ended 31 December 2005.

Since May 2004, as two of our substantial shareholders went into serious economic dispute, the Company's principal bank accounts were freezed and the Company's business encountered serious setbacks. The operating activities in 2005 were basically suspended, causing substantial loss to the Company.

OPERATING PERFORMANCE

For the financial year 2005, the Company recorded a turnover of approximately RMB322,000, representing a decrease of 99.62% over the previous year, and a net loss of approximately RMB57,327,000, as compared to a net profit of RMB20,345,000 for the previous year. Since the Company is facing liquidity problem, the Board did not recommend to pay any final dividend for the year ended 31 December 2005.

BUSINESS STRATEGY

Despite the dispute between shareholders, the Company gained certain progress in other aspects of business. First, the Company put more efforts in collecting trade receivables, and as at 31 December 2005, it recovered approximately RMB9,441,000. In addition, the largest shareholder, Shaanxi Northwest Industry (Group) Company Limited (陝西西北實業(集團)公司) ("Northwest Group"), provided an interest-free loan of RMB4,030,000 to the Company, enabling the Company to start the preparation of production and operation in late 2005 and resume partial production and operation in early 2006. The Company finally began to recover from the difficulties in 2005 and made a good start.

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 consolidating the production foundation and continuously enhancing our profitability. We strived to expand the production and sales of FA-90 unleaded gasoline additive ("FA-90"), our principal product, timely developed and conducted research on new product formula to satisfy the needs of customers and ensure the sales of our products. The designed production capacity of 2-ethylhexyl thioglycolate of up to 1,000 tons per year was reached. The production line has carried out industrial production and became a new profit base for the Company's business development. RMB15,720,000 has been invested for the construction and upgrading of the FA-90 core components production line and part of the facilities have reached investment standard, setting up a solid foundation for production of the Company.

CHAIRMAN'S STATEMENT

PROSPECT

In 2005, the Company focused mainly on solving various unfavorable effects resulting from the dispute between shareholders and the freezing of its bank accounts. Those difficulties have been overcome and the Company resumed its businesses.

Substantial progress in the litigation between substantial shareholders was also made as the Supreme People's Court of Shaanxi Province delivered a judgement on 10 March 2006, ruling in favour of the Company's largest shareholder, Northwest Group, providing desirous room for solving the problem of the freezing of bank accounts and re-financing of bank loans. Details of the judgement have been set out in the announcement of the Company dated 30 March 2006. Looking forward to the year 2006, the Company will make its development in a more solid pace after experiencing the previous setbacks and difficulties.

With the rapid development of petrochemical industry in China and tightened control of environmental protection by the PRC government, in particular the soaring domestic and overseas oil prices, there are increased demand for fuel additives, which will create opportunities for the future development of the Company. The Company has the ability and confidence to resume its rapid growth and bring satisfactory return to the shareholders.

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

Wang Cong
Chairman

31 March 2006
Xi'an, the PRC

FINANCIAL REVIEW

The Company's turnover was RMB322,000 for the financial year ended 31 December 2005, representing a decrease of approximately 99.62% over the previous year.

The Company's net loss was RMB57,327,000 for the financial year ended 31 December 2005, as compared to a net profit of RMB20,345,000 for the previous year.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2005, the equity of shareholders of the Company (the "Shareholders") was approximately RMB121,077,000 (2004: RMB178,404,000); cash at bank and in hand was RMB87,072,000 (2004: RMB86,355,000); current assets amounted to RMB102,915,000 (2004: RMB149,284,000); and current liabilities amounted to approximately RMB94,570,000 (2004: RMB89,094,000), mainly including a short term bank loan of RMB54,401,000 (2004: RMB54,500,000) repayable within one year. The loans have been due for settlement. The Company has been actively negotiating with the relevant banks for extending or revolving its overdue loans in order to maintain sufficient funds for the normal production and operational activities of the Company.

The Company's liquidity ratio, defined as total current assets over total current liabilities, was 1.09 as at 31 December 2005 as compared to 1.68 as at 31 December 2004.

SIGNIFICANT INVESTMENT HELD AND MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES

The Company neither held any material investment nor made any material acquisition and disposal of subsidiaries and associated companies for the year ended 31 December 2005 and for the same period last year.

PLEDGE OF ASSETS

As at 31 December 2005, the carrying values of property, plant and equipment of approximately RMB48,271,000 and land lease premium of approximately RMB13,683,000 were pledged to secure borrowings granted to the Company.

SIGNIFICANT FUTURE INVESTMENT PLANS AND EXPECTED FINANCIAL RESOURCES

Details of the significant future investment or capital expenditure plans and the expected sources of funds are set out in the section headed "Statement of Business Objective" in the prospectus of the Company dated 23 June 2003. Saved as disclosed above, as at 31 December 2005, there were no other significant investment plans.

GEARING RATIO

Gearing ratio defined as total borrowings over net assets was 44.93% (same period of 2004: 30.55%).

MANAGEMENT DISCUSSION AND ANALYSIS

CAPITAL COMMITMENT, FOREIGN EXCHANGE EXPOSURE AND CONTINGENT LIABILITIES

For the year in review, the Company's financial status has not been affected by the fluctuation of interest rate and any hedging.

BUSINESS REVIEW

The Company had the following achievements for the financial year ended 31 December 2005.

BUSINESS DEVELOPMENT

In 2005, the Company made substantial effort in the recovery of receivables. As at 31 December 2005, the receivables recovered amounted to approximately RMB9,441,000.

PRODUCTS AND PRODUCTION

The Company's principal products were FA-90, "Aigile" automobile maintenance products (FA-D) and 2-ethylhexyl thioglycolate. Due to the difficulty in financial resources, production almost suspended. The sales revenue of the products amounted to RMB322,000.

SALES AND MARKETING

The Company's sales mainly relied on its existing sales and distribution network. The focus of the Company was put on market development and sales of its FA-90.

RESEARCH AND DEVELOPMENT

The Company made good preparations for the upgrade of its existing products and research and development of new products, striving to improve the environmental friendliness of FA-90 and to develop upgraded products. Further research was made on the application scope of the core components of oil-processing assistants, 2-ethylhexyl thioglycolate, and its downstream products, for which essential progress was achieved.

The Company continued to conduct research and development on FA-Q gasoline cleaner and FA-D (for diesel), the results achieved will be formulated into unique technologies.

EMPLOYEES AND REMUNERATION POLICY

For the year ended 31 December 2005, staff remuneration of the Company amounted to approximately RMB1,292,000 (2004: RMB2,679,000). The Company employed a total of 135 staff (2004: 281 staff). Remuneration was determined by reference to the position and duties of the staff and individual performance, qualification and experience. Discretionary bonus may be rewarded to the employees by reference to their performance to recognize their contribution. Other benefits included housing allowances and the unemployment, medical and pension schemes stipulated by the social security system of the PRC government.

PROSPECT

The year of 2005 was a year the Company faced most difficulties. The production and operation of the Company almost suspended in 2005 due to the material adverse effects resulting from a dispute between Shareholders and the related prolonged litigation. In 2006, the Company will carry out all kinds of effective measures to cope with the situation. For example, the Company will make greater effort to recover its trade receivables, actively negotiate with the banks for extending and revolving its overdue loans, seek consent from the court to release its bank deposit as soon as possible so that the Company can resume its production and operation and strive to reduce the adverse effects resulting from the aforesaid unfavorable factors. At the same time, the Company will continue to maintain its market and business relations with clients and keep up the effort of new product development. Once the difficulty in financial resources is resolved, the Company will speed up the progress of establishing its FA-90 production facilities. The Company will also strengthen its internal control system and enhance its corporate governance. With the above efforts, the Company aims to secure its future ongoing operation.

REVIEW OF BUSINESS OBJECTIVES

(I) COMPARISON OF BUSINESS PLANS AND ACTUAL BUSINESS PROGRESS

Project	Planned progress (1 July to 31 December 2005)	Actual business progress
Construction of new production facilities for FA-90 core components	Purchase of production equipment	The project is suspended
The Technology Building	Construction of fundamental facilities	The project is suspended
The technology centre	Fitting-out of the technology centre Interior fitting-out Installation of instruments for research and testing Completion of the technology center project	The project is suspended
Production facilities for 2-ethylhexyl thioglycolate and oil-processing assistants at the Wei Nan Branch	Improvement of the formula of oil-processing assistants Trial production of oil-processing assistants	Completed
Expansion of sales and distribution network	Purchase of transportation vehicles and warehousing facilities Purchase of more facilities for sales outlets	The project is suspended

(II) 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 proceeds on upgrading the production capacity of FA-90 core components.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Wang Cong (王聰), aged 49, 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 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 present, Mr. Wang has served as the deputy general manager, general manager, president and chairman of the Company or its predecessor.

Wang Zheng(王政), aged 45, 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 and 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 Xián 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 56, is an executive Director, vice-president and chief engineer of the Company. He is responsible for overseeing the operation of the research and development department of the Company and the technology center. 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 center. 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 59, is an executive Director and financial controller of the Company. She is responsible for overseeing the operations of the accounting department and the financial natters 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 accountant clerk of Xi'an Regong Monitors Factory (西安市熱工儀錶廠) 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 (西安市更新制藥廠) 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 47, is an executive Director and the general manager of the sales center 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 Director

Guo Bin（郭斌）, aged 54, is a non-executive Director. Mr. Guo is a practicing 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 practiced 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 46, 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 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 42, 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 53, 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. Su 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. Su has been an assistant professor of the Cadre College of Economic Management of Shaanxi Province（陝西省經濟管理幹部學院）and a tutor of the MBA Centre of Northwest University（西北大學MBA中心）of the PRC since January 1999. Mr. Su was appointed as a non-executive Director in August 2002.

SUPERVISORS

Yan Buqiang (閻步強), aged 52, 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) majoring 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 50, 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 44, 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 53, 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 Xian 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(騫明), aged 50, 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 of 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(西安鐘錶材料廠). 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.

SENIOR MANAGEMENT

Li Xiaohu（李小虎）, aged 45, 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 52, 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（西安紡織工學院）majoring 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 43, is the chief financial officer of the Company. Mr. Wang graduated from university and 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 34, 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. Since 24 July 2004, he has been the secretary to the board of Directors.

Xing Dunping（邢敦平）, aged 51, 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 66, is the deputy chief engineer of the Company and is in charge of the Company's technology center. Mr. Zheng graduated from the Science and Technology University of China（中國科學技術大學）majoring 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.

Wang Min（王敏）, aged 43, 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 42, is the manager of the Company's audit department. Mr. Wu graduated from Northwest University of the PRC（西北大學）majoring 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 38, 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）majoring 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 International Business 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 Songbai Enterprise（深圳橫崗松柏企業）. She joined the Company in September 2000.

Feng Jun（馮君）, aged 33, 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）majoring 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 their report and the audited financial statements of the Company for the year ended 31 December 2005.

PRINCIPAL BUSINESS

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

ARTICLES OF ASSOCIATION

Pursuant to a special resolution passed at an extraordinary general meeting held on 6 June 2003, the Company adopted the new Articles of Association. Pursuant to a special resolution passed at the annual general meeting held on 13 May 2004, the Company amended its Articles of Association.

RESULTS AND APPROPRIATIONS

The results of the Company for the year ended 31 December 2005 are set out in the income statement on page 28 of the annual report. The directors do not recommend the payment of a final dividend in respect of the year ended 31 December 2005.

PROPERTY, PLANT AND EQUIPMENT

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

TRADE RECEIVABLES

The trade receivables in aggregate before allowance for bad and doubtful debts as at 31 December 2005 amounted to RMB42,499,000.

FREEZING OF 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 the bank accounts of the Company with an aggregate deposit of approximately RMB86,022,000. Please refer to the Company's announcement dated 13 May 2005 for details.

SHARE CAPITAL

The details of the movements in the share capital of the Company during the year are set out in Note 24 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 Director:

Guo Bin

Independent non-executive Directors:

Hu Yangxiong
Li Gangjian
Su Yuanquan

Supervisors:

Yan Buqiang
Wei Jingling
Wang Anjun

Independent Supervisors:

Wu Xiaoling
Qianming

Each of the Directors and Supervisors (including 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.

Pursuant to the provisions of the Articles of Association of the Company, the Directors and Supervisors are elected at the general meeting of the Company and appointed as directors and supervisors for a term of three years and may be re-elected and re-appointed for a second term. The Board will propose the re-election of part of the Directors and Supervisors at the forthcoming annual general meeting. The list of the Directors and Supervisors to resign and the nomination of new Directors and Supervisors will be announced as and when appropriate.

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

As at 31 December 2005, the interests or short positions of the Directors, the 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 total issued domestic shares	Approximate shareholding percentage in the entire issued share capital of the Company
Wang Cong *(Note 1)*	Interest of controlled corporation	548,000,000	80.58%	60.22%
Wang Zheng	Beneficial owner	2,000,000	0.29%	0.22%
Guo Qiubao	Beneficial owner	2,000,000	0.29%	0.22%
Zheng Rongfang	Beneficial owner	2,000,000	0.29%	0.22%
Wang Feng	Beneficial owner	2,000,000	0.29%	0.22%
Zheng Yinglin	Beneficial owner	2,000,000	0.29%	0.22%
Yan Buqiang	Beneficial owner	2,000,000	0.29%	0.22%

Interests in associated corporations (long positions)

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

Notes:

1. The 548,000,000 domestic shares were held by Xi'an 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 these 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' AND OTHER SHAREHOLDERS' INTERESTS

As at 31 December 2005, the persons (other than a director, supervisor or chief executive of the Company) who have an interest or short position in any share or underlying share of the Company as recorded in the register required to be kept under section 336 of the SFO were as follows:

Interests in domestic shares of the Company (long positions)

Name	Capacity	Number of domestic shares	Approximate shareholding percentage in the total issued domestic shares	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 was 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.

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

Name	Capacity	Number of H shares	Approximate shareholding percentage in the total issued H shares	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 2005, no share option has been granted under the share option scheme.

DIRECTORS AND SUPERVISORS' INTERESTS IN MATERIAL CONTRACTS

During the year ended 31 December 2005, 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 2005, 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 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 2005.

Pursuant to the sponsor agreement dated 23 June 2003 entered into between CPY Capital and the Company (the "Sponsor Agreement"), CPY Capital received fees for acting as the Company's compliance adviser for the period from 3 July 2003 up to 31 December 2005. As a result, the Sponsor Agreement has terminated on 31 December 2005.

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 2005.

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.

ANALYSIS OF THE OPERATION OF THE COMPANY

The operation of the Company, analyzed by its products, are as follows:

For the year ended 31 December 2005

	FA-90	**FA-D**	**2-ethylhexyl thioglycolate and others**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Turnover	**322**	**–**	**–**	**322**
Cost of sales	**847**	**–**	**–**	**847**
Gross loss	**(525)**	**–**	**–**	**(525)**

For the year ended 31 December 2004

	FA-90	FA-D	2-ethylhexyl thioglycolate and others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
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

LITIGATION

As at 31 December 2005, 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 2005.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE

In the opinion of the Board, the Company has complied with the code provisions in the Code on Corporate Governance Practice as set out in Appendix 15 of the GEM Listing Rules in the financial year ended 31 December 2005 subject to the deviations disclosed below.

Under the code provision B1.1, a listed issuer should establish a remuneration committee with specific written terms of reference which deal clearly with its authority and duties. The Company has not established a remuneration committee in the year 2005. Having considered that there is a proposal to restructure the Board by appointing new members to the Board to replace existing Directors, the Company intends to establish the remuneration committee comprising Directors of the restructured Board following such proposal is finalized and implemented. The Company considered that it would advantage the stability and continuity of the work of the committee.

CODE ON CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

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

BOARD COMPOSITION

The Board comprises nine Directors, with five executive Directors, namely Mr. Wang Cong (Chairman), Mr. Wang Zheng, Mr. Wang Feng, Mr. Guo Qiubao and Ms. Zheng Rongfang, three independent non-executive Directors, namely Mr. Hu Yangxiong, Mr. Li Gangjian and Mr. Su Yuanquan, of which Mr. Su Yuanquan have accounting and financial management expertise, and one Non-executive Director, namely Mr. Guo Bin, who has legal expertise.

Mr. Wang Cong, the Chairman and an executive Director, is the elder brother of Mr. Wang Feng, an executive Director.

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.

The main responsibilities of the Board includes:

- to implement resolutions of the general meetings;
- to formulate the Company's business plans and investment plans;
- to formulate the Company's annual budgets and financial policies;
- to report its work in general meetings, to submit reports to regulatory authorities, and to disclose information in accordance with statutory requirements;

- the daily operation and management of the Company are performed by executive Directors and the senior management. The Board formulates the Company's overall policies and plans, and regularly monitors and supervises their implementation by executive Directors and the senior management;

- there are clearly defined authorities and duties for the management, including periodic report to the Board, and specified matters require prior approval by the Board before their implementation, including matters such as the establishment of internal management structure and the appointment and re-designation of senior managements, while the management is entrusted with appropriate delegation to ensure normal functioning of the Company; and

- to formulate the Company's internal control system and its effective implementation.

The Board shall convene meetings at least four times every year (basically once every quarter). Extraordinary Board meetings shall be convened under special circumstances or to decide on important issues. In case Directors are not able to attend a meeting to be held at the designated place, the meeting may be held by means of a telephone conference, and thereby facilitates and enhances the attendance of Directors at the Board meeting. If an independent non-executive Director is not able to attend a meeting for some reason, the Company will seek their opinion on the issues to be discussed in the meeting.

During the year ended 31 December 2005, the Board held four meetings. The attendance record of each Director is set out below:

Executive Directors:	
Mr. Wang Cong *(Chairman)*	4/4
Mr. Wang Feng	4/4
Mr. Wang Zheng	0/4
Mr. Guo Qiubao	0/4
Ms. Zheng Rongfang	4/4
Non-executive Director:	
Mr. Guo Bin	1/4
Independent non-executive Directors:	
Mr. Hu Yangxiong	4/4
Mr. Li Gangjian	2/4
Mr. Su Yuanquan	2/4

The appointment of Directors is for a term of three years, and they are eligible for re-election. The appointments can be terminated prior to their expiry by Shareholders in general meetings (in accordance to the Articles of Association of the Company).

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The office of Chairman and President of the Company are taken up by different persons, namely Mr. Wang Cong and Mr. Wang Zheng respectively, and the Chairman and the Chief Executive Officer is not related. Their roles have been clearly stipulated in the prospectus issued by the Company in June, 2003.

ELECTION OF DIRECTORS

The Board is responsible for considering and recommending suitable nominees to act as Director, and proposal will be made to approve such nominees by ordinary resolutions of general meetings. When there is a need to change members of the Board or to increase or decrease the number of the Directors, the Chairman of the Board shall recommend nominees to the Board after taking into consideration of the requirements of corporate governance and human resources and seeking advice from relevant professionals and opinions of other Directors. The Board shall then propose such nominee for approval in general meeting.

AUDIT COMMITTEE

The Company established an audit committee on 6 July 2002 with written terms of reference. The committee has definite responsibilities and scope of duties. The principal duties of the audit committee are to review the annual reports and accounts, interim reports and quarterly reports of the Company and to provide relevant recommendations and advice to the Board and supervise the financial reporting process and internal control system of the Company. The audit committee comprises three independent non-executive Directors, namely Mr. Li Gangjian, Mr. Hu 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 2005. During the year ended 31 December 2005, four audit committee meetings were held.

Member	**Attendance (times)**
Hu Yangxiong	4/4
Li Gangjian	2/4
Su Yuanquan	2/4

AUDITORS

Deloitte Touche Tohmatsu was 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 and reappointed as auditors of the Company by the shareholders at the annual general meeting held on 23 December 2005.

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

During 2005, the fees paid to external auditors for audit services amounted to HK$400,000.

Due to the limitation of audit scope and unavailability of sufficient evidence concerning the validity, existence and ownership of restricted bank balances of approximately RMB86,022,000 and bank loans in aggregate amount of approximately RMB54,401,000, CCIF CPA Limited issued qualified opinion in respect of the Company's financial statements.

RESPONSIBILITIES OF DIRECTORS AND AUDITORS FOR THE ACCOUNTS

A statement of directors' responsibilities for preparing the financial statements and the reporting responsibilities of the auditors engaged are set out in the Auditors' Report of this Annual Report.

INTERNAL CONTROL

The Directors have regularly reviewed and satisfied with the effectiveness of the Company's internal control procedures and system, including functions such as financial and operational control.

By order of the Board

Shaanxi Northwest New Technology Industry Company Limited*
Wang Cong
Chairman

Xi'an, the PRC, 31 March 2006

* *for identification purpose only*

REPORT OF SUPERVISORY COMMITTEE

To the shareholders:

In 2005, the 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 2005 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 members and other senior management of the Company.

During the reporting period, the Supervisory Committee has convened four meetings and the supervisors of the Company have attended each of the Board meetings and general meeting.

I. MEETINGS CONVENED BY THE SUPERVISORY COMMITTEE OF THE COMPANY

1. The fifth meeting of the second session of the Supervisory Committee was convened on 13 May 2005, in which the unaudited first quarterly report of the Company for the three months ended 31 March 2005 was considered and approved.

2. The fifth meeting of the second session of the Supervisory Committee was convened on 12 August 2005, in which the unaudited interim report of the Company for the six months ended 30 June 2005 was considered and approved.

3. The sixth meeting of the second session of the Supervisory Committee was convened on 28 October 2005, in which the audited annual results of the Company for the year ended 31 December 2004 was considered and approved.

4. The seventh meeting of the second session of the Supervisory Committee was convened on 14 November 2005, in which the unaudited third quarterly report of the Company for the nine months ended 30 September 2005 was considered and approved.

II. MONITOR THE OPERATIONS OF THE COMPANY IN COMPLIANCE WITH LAWS AND REGULATIONS

In 2005, the Supervisory Committee enhanced the level of monitoring. The Supervisory Committee considered that:

1. In 2005, the disputes among our substantial shareholders adversely affected the business of the Company, causing the suspension of production and operation as well as incurring operating loss. In these difficult circumstances, the Board and the senior management of the Company adopted effective measures, primarily fulfilled the designated plan and resumed the production and operation of the Company.

2. In 2005, the Board thoroughly implemented the resolutions of the general meeting and the procedure of its decision-making was fully in compliance with the Company Law of the PRC, the Securities Law of the PRC, the Articles of Association of the Company and the relevant laws and regulations of Hong Kong and other relevant regulations of the PRC.

3. During 2005, we were 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 manager and other senior management.

4. In 2005, the results of the Company were affected by the shareholders disputes. Nevertheless, the financial conditions of the Company remained normal and there was no sign of 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 order of the Supervisory Committee

Yan Bu Qiang
Chairman of Supervisory Committee

Xian, the PRC
31 March 2006

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
(Established in the People's Republic of China with limited liability)

We have audited the financial statements on pages 28 to 59 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 Hong Kong Standards on Auditing 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 as explained in Note 21 to the financial statements, the lenders of bank loans obtained a court order to freeze the bank accounts of the Company with an aggregate deposit of approximately RMB86,022,000. We have been unable to obtain confirmations directly from banks in the Peoples' Republic of China to satisfy ourselves the validity, existence and ownership of restricted bank balances of approximately RMB86,022,000 and bank loans in aggregate amount of approximately RMB54,401,000 as at 31 December 2005. There were no satisfactory alternative audit procedures that we could adopt to satisfy ourselves that the validity, existence, ownership accuracy and disclosure of these amounts are appropriate and fairly stated.

Any adjustments to these figures may have a consequential effect on the financial positions of the Company as at 31 December 2005 and the loss of the Company for the year then ended and related disclosures in the financial statements.

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.

FUNDAMENTAL UNCERTAINTY RELATING TO THE GOING CONCERN BASIS

In forming our opinion, we have considered the adequacy of the disclosures made in note 3 to the financial statements concerning the basis of their preparation by the directors. As explained in note 3 to the financial statements, the Bank of Communications and the China Merchants Bank of the People's Republic of China ("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 RMB86,022,000.

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 necessary had we been able to obtain sufficient evidence concerning the restricted bank balances and bank loans, in our opinion the financial statements give a true and fair view of the state of the Company's affairs as at 31 December 2005 and of its loss 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 matter set out in the basis of opinion section of this report. 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

Kwok Cheuk Yuen
Practising Certificate Number P02412

Hong Kong, 31 March 2006

INCOME STATEMENT

Year ended 31 December 2005

	Note	2005 RMB'000	2004 RMB'000
Turnover		**322**	85,446
Cost of sales		**(847)**	(46,174)
Gross (loss)/profit	8	**(525)**	39,272
Other revenue		**41**	464
Distribution costs		**(547)**	(2,686)
Administrative expenses		**(8,901)**	(9,908)
Other operating expenses		**(43,241)**	(1,055)
(Loss)/profit from operations	9	**(53,173)**	26,087
Finance costs	12	**(3,111)**	(3,217)
(Loss)/profit before taxation		**(56,284)**	22,870
Taxation	13	**(1,043)**	(2,525)
(Loss)/profit for the year		**(57,327)**	20,345
Dividend	14	**–**	–
(Loss)/earnings per share attributable to equity holders of the Company – basic	15	**RMB(0.063)**	RMB0.022

The notes on pages 32 to 59 form an integral part of these financial statements.

BALANCE SHEET

31 December 2005

	Note	2005 RMB'000	(As restated) 2004 RMB'000
Non-current assets			
Property, plant and equipment	*16*	**90,636**	94,771
Intangible assets	*17*	**–**	833
Land lease premium	*18*	**22,096**	22,610
		112,732	118,214
Current assets			
Inventories	*19*	**3,153**	4,878
Trade and other receivables	*20*	**5,465**	56,912
Land lease premium	*18*	**514**	513
Due from a fellow subsidiary		**6,711**	626
Bank balances – restricted	*21*	**86,022**	–
Cash and bank balances		**1,050**	86,355
		102,915	149,284
Current liabilities			
Trade and other payables	*22*	**26,460**	25,551
Taxation payable		**8,380**	7,337
Due to a fellow subsidiary		**–**	389
Due to ultimate holding company		**5,329**	1,317
Bank loans	*23*	**54,401**	54,500
		94,570	89,094
Net current assets		**8,345**	60,190
Net assets		**121,077**	178,404
Capital and reserves			
Share capital	*24*	**91,000**	91,000
Reserves		**30,077**	87,404
		121,077	178,404

Approved and authorised for issue by the board of directors on 31 March 2006.

On behalf of the board

Wang Zheng	**Zheng Rong Fang**
Director	*Director*

The notes on pages 32 to 59 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2005

	Share capital RMB'000	Share premium RMB'000	Statutory surplus reserve RMB'000 (Note a)	Statutory welfare fund RMB'000 (Note b)	Retained profits/ (accumulated loss) RMB'000 (Note c)	Total RMB'000
At 1 January 2004	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
Loss for the year	–	–	–	–	(57,327)	(57,327)
At 31 December 2005	91,000	25,880	7,580	3,789	(7,172)	121,077

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, there was no reserve available for distribution at 31 December 2005 (2004: RMB29,948,000).

The notes on pages 32 to 59 form an integral part of these financial statements.

CASH FLOW STATEMENT

Year ended 31 December 2005

	2005 *RMB'000*	(As restated) 2004 *RMB'000*
OPERATING ACTIVITIES		
(Loss)/profit before taxation	**(56,284)**	22,870
Adjustments for:		
Allowance for bad and doubtful debts	**42,051**	–
Amortisation of intangible assets	**833**	3,334
Amortistation of land lease premium	**210**	210
Depreciation of property, plant and equipment	**4,607**	4,267
Interest expenses	**3,108**	3,188
Interest income	**(5)**	(431)
(Gain)/loss on disposal of property, plant and equipment	**(36)**	377
Allowance for inventories	**1,121**	–
Operating (loss)/profit before working capital changes	**(4,395)**	33,815
Decrease in inventories	**603**	2,483
Decrease/(increase) in trade and other receivables	**9,396**	(39,821)
Decrease in bills receivables	**–**	640
Increase in trade and other payables	**909**	3,142
Cash generated from operations	**6,513**	259
Interest paid	**(3,108)**	(3,188)
PRC enterprise income tax paid	**–**	(584)
Dividend paid	**–**	(2,275)
NET CASH GENERATED FROM/(USED IN) OPERATING ACTIVITIES	**3,405**	(5,788)
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(267)**	(17,674)
Interest received	**5**	431
Proceeds from disposal of property, plant and equipment	**135**	3,430
Advance from a fellow subsidiary	**–**	389
Advance from ultimate holding company	**4,012**	1,317
Advance to a fellow subsidiary	**(6,474)**	(626)
Increase in restricted bank balances	**(86,022)**	–
NET CASH USED IN INVESTING ACTIVITIES	**(88,611)**	(12,733)
FINANCING ACTIVITIES		
Repayment of bank loans	**(99)**	–
NET CASH USED IN FINANCING ACTIVITIES	**(99)**	–
DECREASE IN CASH AND CASH EQUIVALENTS	**(85,305)**	(18,521)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**86,355**	104,876
CASH AND CASH EQUIVALENTS AT END OF YEAR		
Represented by cash and bank balances	**1,050**	86,355

The notes on pages 32 to 59 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2005

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 Shaanxi Northwest Industry (Group) Limited, a company established in the PRC.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES

In the current year, the Company has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the income statement, balance sheet and statement of changes in equity. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Company's accounting policies in the following areas that have an effect on how the results for the current and prior accounting years are prepared and presented:

(a) Owner-occupied leasehold interest in land

In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In the current year, the Company has applied HKAS 17 Leases. Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES (Continued)

(b) Summary of the effects of the changes in accounting policies

i) The cumulative effects of the application of the new HKFRSs under HKAS17 on 31 December 2004 and 1 January 2005 are summarised below:

	As at 31 December 2004 (originally stated)	**Retrospective adjustments**	**As at 31 December 2004 and 1 January 2005 (restated)**
	RMB'000	*RMB'000*	*RMB'000*
Balance sheet items			
Property, plant and equipment	93,554	1,217	94,771
Land lease premium (current and non-current portion)	–	23,123	23,123
Intangible assets	25,173	(24,340)	833
Other assets	148,771	–	148,771
Other liabilities	(89,094)	–	(89,094)
Total effect on assets and liabilities	178,404	–	178,404
Share capital	91,000	–	91,000
Retained profits	50,155	–	50,155
Other reserves	37,249	–	37,249
Total effect on equity	178,404	–	178,404

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES (Continued)

(b) Summary of the effects of the changes in accounting policies (Continued)

ii) The Company has not early applied the following new standards and interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards or interpretations will have no or any material impact on the financial statements of the Company.

HKAS 1 (Amendment)	Capital disclosure
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures
HKAS 21 (Amendment)	The effects of change in foreign exchange rates – net investment in a foreign operation
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions
HKAS 39 (Amendment)	The fair value option
HKAS 39 and HKFRS 4 (Amendment)	Financial guarantee contracts
HKFRS 6	Exploration for and evaluation of mineral resources
HKFRS 7	Financial instruments disclosures
HK(IFRIC) – INT 4	Determining whether an arrangement contains a lease
HK(IFRIC) – INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds
HK(IFRIC) – INT 6	Liabilities arising from participating in a specific market – waste electrical and electronic equipment
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 financial reporting in hyperinflationary economies

3. BASIS OF PREPARATION

As disclosed in Note 21 to the financial statements, during the year, the Bank of Communications and the China Merchants 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 RMB86,022,000.

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 unfrozen 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.

4. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with HKFRSs. The financial statements have been prepared under the historical cost convention, except for financial instruments which are measured at fair value.

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.

(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, net of value added tax where applicable, are recognised when goods are delivered and title has passed.

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

(c) Property, plant and equipment

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

Construction in progress are stated at cost less any identified impairment loss. The cost of acquiring land held under operating lease is amortised on a straight line basis over the lease term. If the property is in the course of development or re-development the amortisation charge is included as part of costs of the property under development. In all other case, amortisation charge for the period is recognised in profit or loss immediately. The cost of construction in progress will not be amortised until they are put into use and are transferred to a specific category of property, plant and equipment when the construction is completed.

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Property, plant and equipment (Continued)

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

Technical know-how is measured initially at cost and amortised on a straight-line basis over its estimated useful life. On initial recognition, intangible assets acquired separately and are recognised at cost.

Gains or losses arising from derecognition of an intangible assets are measured at the difference between the sale proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

(e) Impairment of assets

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

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

(f) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is 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.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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.

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 charges 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) Assets held under leases

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets converned to the Company. Assets held under finance leases are capitalised at their fair values at the date of acquisition. The corresponding liability to the lessor, net of interest charges, is included in the balance sheet as a finance lease obligation. Finance costs, which represents the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the period of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Assets held under leases (Continued)

All other leases are classified as operating leases and the annual rentals are charged to the income statement on a straight-line basis over the relevant lease term.

(j) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised as an expense in the period in which they are incurred

(k) 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.

(l) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans arising from the PRC municipal government retirement scheme and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would by material, these amounts are stated at their present values and charged as an expense as they fall due.

(m) Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a Company entity becomes a party to the contractual of the instruments. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Financial instruments (Continued)

Financial assets

The Company financial assets are classified into one of the four categories, including financial assets at fair value through profit or loss, loans and receivables, held-tomaturity investments and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss has two subcategories, including financial assets held for trading and those designated at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and bills receivables, prepayments, deposits and other receivables) are carried at amortised cost using the effect interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the assets' recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the assets at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as any of the other categories (set out above). At each balance sheet date subsequent to initial recognition, available-forsale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss. Any impairment losses on available-forsale financial assets are recognised in profit or loss. Impairment losses on available-for-sale equity investments will not reverse in subsequent periods. For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Financial instruments (Continued)

Available-for-sale financial assets (Continued)

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent periods.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a Company entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities. The Company's financial liabilities are generally classified into financial liabilities at fair value through profit or loss and other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Other financial liabilities

Other financial liabilities including trade and bills payables, other payables and accruals, bank borrowings and obligations under finance leases are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the company has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Financial instruments (Continued)

Derecognition (Continued)

For financial liabilities, they are removed from the Company's balance sheet (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expired). The difference between the carrying amount of the financial liability derecognised and the consideration received or receivable is recognised in profit or loss.

Equity settled share-based payment transactions
Share options granted to directors and employees of the Company

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period with a corresponding increase in equity (share options reserve).

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited or are still not exercised at the expiry date, the amount previously recognised in share options reserve will continue to be held in share options reserve.

(n) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where is it not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or nonoccurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the entity's accounting policies which are described in note 4 to the financial statements, management has made the following judgements that have significant effect on the amount recognised in the financial statements. The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are also discussed below.

Useful lives of property, plant and equipment

The Company's management determines the estimated useful lives for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions.

Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expense. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of changes in customers taste and competitor actions in response to severe industry cycles. Management will reassess the estimates by the balance sheet date.

Allowances for bad and doubtful debts

The policy for allowance of bad and doubtful debts of the Company's is based on the evaluation of collectability and ageing analysis of accounts and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Company were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's major financial instruments include trade and other receivables, trade and other payables and borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Foreign exchange risk

The Company did not have material foreign exchange risk. It did not have material transactions in foreign currency, nor did it enter into any foreign exchange forward contracts.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Interest rate risk

The interest rates and terms of repayment of bank loans of the Company are disclosed in note 23. The Company does not have substantial interest-bearing assets.

The Company has not used any interest rate swaps to hedge its exposure in interest rate risk.

The Company's income and operating cash flows are substantially independent of changes in market interest rates.

Credit risk

The Company has no significant concentrations of credit risk. The carrying amount of bank and cash balances and, trade and other receivables, represent the Company's maximum exposure to credit risk in relation to financial assets. The Company has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

Liquidity risk

The Company's policy is to maintain sufficient cash and cash equivalents to meet its commitments over the next year in accordance with its strategic plan.

7. 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.

8. OTHER REVENUE

	2005	2004
	RMB'000	*RMB'000*
Bank interest income	**5**	431
Government grants *(Note)*	**–**	9
Sundry income	**–**	24
Gain on disposal of property, plant and equipment	**36**	–
	41	464

Note: 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.

9. (LOSS)/PROFIT FROM OPERATIONS

(Loss)/profit from operations has been arrived at after charging:

	2005 RMB'000	(As restated) 2004 RMB'000
Directors' and supervisors' remuneration	**705**	705
Other staff costs	**569**	1,740
Other staff's retirement benefits scheme contributions	**18**	234
	1,292	2,679
Allowance for bad and doubtful debts	**42,051**	–
Amortisation of intangible assets (included in administrative expenses)	**833**	3,334
Auditors' remuneration	**400**	400
Depreciation of property, plant and equipment	**4,607**	4,267
Loss on disposal of property, plant and equipment	**–**	377
Allowance for inventories (included in other operating expenses)	**1,121**	–
Amortisation of land lease premium	**514**	514
Capitalised in construction in progress	**(304)**	(304)
	210	210

10. DIRECTORS' AND SUPERVISORS' EMOLUMENTS

		Other emoluments		
	Fees	Salaries and other benefits	Retirement benefit scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Name of director				
Executive directors				
Wang Cong	–	120	4	124
Wang Zheng	–	116	4	120
Guo Qiubao	–	60	4	64
Zheng Rongfang	–	60	4	64
Wang Feng	–	56	4	60
Non-executive director				
Guo Bin	30	–	–	30
Independent non-executive directors				
Hu Yangxiong	30	–	–	30
Li Guangjian	30	–	–	30
Su Yuanquan	30	–	–	30
Total directors' emoluments for 2005	120	412	20	552
Name of supervisor				
Yan Buqiang	–	60	4	64
Wei Jingling	–	30	4	34
Wang Anjun	–	11	4	15
Independent Supervisors				
Wu Xiaoling	20	–	–	20
Qian Ming	20	–	–	20
Total supervisors' emoluments for 2005	40	101	12	153
Total for 2005	160	513	32	705

10. DIRECTORS' AND SUPERVISORS' EMOLUMENTS (Continued)

	Fees	Other emoluments: Salaries and other benefits	Other emoluments: Retirement benefit scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Name of director				
Executive directors				
Wang Cong	–	122	2	124
Wang Zheng	–	118	2	120
Guo Qiubao	–	62	2	64
Zheng Rongfang	–	62	2	64
Wang Feng	–	58	2	60
Non-executive director				
Guo Bin	30	–	–	30
Independent non-executive directors				
Hu Yangxiong	30	–	–	30
Li Guangjian	30	–	–	30
Su Yuanquan	30	–	–	30
Total directors' emoluments for 2004	120	422	10	552
Name of supervisor				
Yan Buqiang	–	60	4	64
Wei Jingling	–	30	4	34
Wang Anjun	–	12	3	15
Independent Supervisors				
Wu Xiaoling	20	–	–	20
Qian Ming	20	–	–	20
Total supervisors' emoluments for 2004	40	102	11	153
Total for 2004	160	524	21	705

During the years ended 31 December 2004 and 2005, no emoluments were paid by the Company to any directors and supervisors as an inducement to join or upon joining the Company or as compensation for loss of office. None of the director and supervisor have waived any emoluments during the years ended 31 December 2004 and 2005.

11. EMPLOYEES' EMOLUMENTS

The five highest paid individuals are all directors and supervisors, details of whose emoluments are included in note 10 to the financial statements.

12. FINANCE COSTS

	2005 RMB'000	2004 RMB'000
Interest on bank loans wholly repayable within five years	**3,108**	3,188
Bank charges	**3**	29
	3,111	3,217

13. TAXATION

	2005 RMB'000	2004 RMB'000
PRC enterprise income tax:		
– provision for current year	**–**	2,525
– underprovision in previous years	**1,043**	–
	1,043	2,525

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

(i) The Company, other than its branches – referred to as the "Head Office"

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

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

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

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

13. TAXATION (Continued)

Taxation charge for the year can be reconciled to the (loss)/profit for the year per the income statement as follows:

	2005		2004	
	RMB'000	***%***	*RMB'000*	*%*
(Loss)/profit before taxation	**(56,284)**		22,870	
Tax at domestic income tax rate of 15% (2004:15%)	**(8,443)**	**(15.0)**	3,430	15.0
Tax effect of expenses not deductible for tax purpose	**5,612**	**10.0**	2,906	12.7
Tax effect of income not taxable for tax purpose	**(122)**	**(0.2)**	(3,811)	(16.7)
Tax effect of additional tax losses not recognised	**2,953**	**5.2**	–	–
Underprovision in previous years	**1,043**	**1.9**	–	–
Taxation and effective tax rate for the year	**1,043**	**1.9**	2,525	11.0

At 31 December 2005, the Company has unused tax losses of approximately RMB5,767,000 (2004: Nil) available for offsetting profits. No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams. The tax losses will expire after 5 years under current tax legislation.

14. DIVIDEND

No final dividend for the year ended 31 December 2005 has been proposed by the directors (2004: Nil).

15. (LOSS)/EARNINGS PER SHARE

The calculation of the basic (loss)/earnings per share is based on the loss for the year of RMB57,327,000 (2004: profit of RMB20,345,000) and the weighted average number of 910,000,000 (2004: 910,000,000) shares in issue during the year.

Diluted (loss)/earnings per share is not presented as there were no potential dilutive ordinary shares in issued during the year (2004: Nil).

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Leasehold improvements	Plant and machinery	Motor vehicles	Furniture, and office equipment	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost							
At 1 January 2004							
– as previously reported	17,341	3,883	18,756	7,483	2,221	45,426	95,110
– effect of adopting HKAS17	–	–	–	–	–	913	913
	17,341	3,883	18,756	7,483	2,221	46,339	96,023
Additions	–	–	5,509	150	16	12,303	17,978
Disposal	–	–	(747)	(5,942)	–	(208)	(6,897)
Transfer	946	–	(962)	–	150	(134)	–
At 31 December 2004 (As restated)	18,287	3,883	22,556	1,691	2,387	58,300	107,104
Depreciation							
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 value							
At 31 December 2004 (As restated)	16,595	1,313	17,100	663	800	58,300	94,771

16. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Buildings *RMB'000*	Leasehold improvements *RMB'000*	Plant and machinery *RMB'000*	Motor vehicles *RMB'000*	Furniture, and office equipment *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
Cost							
At 1 January 2005	18,287	3,883	22,556	1,691	2,387	57,083	105,887
– effect of adopting HKAS17	–	–	–	–	–	1,217	1,217
	18,287	3,883	22,556	1,691	2,387	58,300	107,104
Additions	–	–	–	55	17	195	267
Disposal	–	–	–	(216)	–	–	(216)
Transfers	–	–	–	–	–	304	304
At 31 December 2005	18,287	3,883	22,556	1,530	2,404	58,799	107,459
Depreciation							
At 1 January 2005							
– as previously reported	1,692	2,570	5,456	1,028	1,587	–	12,333
Charge for the year	553	350	3,075	226	403	–	4,607
Written back on disposal	–	–	–	(117)	–	–	(117)
At 31 December 2005	2,245	2,920	8,531	1,137	1,990	–	16,823
Net book values							
At 31 December 2005	16,042	963	14,025	393	414	58,799	90,636

Amount of buildings and construction in progress included the land elements which are now disclosed as land lease premium in note 18 to the financial statements.

Amount of construction in progress included the amorisation of land lease premium RMB1,521,000 (2004: RMB1,217,000) which is transferred from land lease premium.

17. INTANGIBLE ASSETS

	Technical know how *RMB'000* *(Note)*	Land lease premium *RMB'000*	Total *RMB'000*
Cost			
At 1 January 2004			
– as previously reported	20,000	25,443	45,443
– effect of adopting HKAS 17	–	(25,443)	(25,443)
At 1 January 2004 (As restated)	20,000	–	20,000
Amortisation			
At 1 January 2004			
– as previously reported	15,833	893	16,726
– effect of adopting HKAS 17	–	(893)	(893)
	15,833	–	15,833
– Amortisation during the year	3,334	–	3,334
At 31 December 2004	19,167	–	19,167
Net book value at 31 December 2004			
(As restated)	833	–	833

17. INTANGIBLE ASSETS (Continued)

	Technical know how RMB'000	Land lease premium RMB'000	Total RMB'000
Cost			
At 1 January 2005			
– as previously reported	20,000	–	20,000
– effect of adopting HKAS 17	–	–	–
At 1 January 2005	20,000	–	20,000
Amortisation			
At 1 January 2005			
– as previously reported	19,167	–	19,167
– effect of adopting HKAS 17	–	–	–
	19,167	–	19,167
– Amortisation during the year	833	–	833
At 31 December 2005	20,000	–	20,000
Net book value at 31 December 2005	–	–	–

Note: Technical know-how is amortised over a period of six year.

18. LAND LEASE PREMIUM

	2005 ***RMB'000***	2004 *RMB'000*
Net book value at 1 January – effect of adopting HKAS 17	**23,124**	23,637
Amortisation during the year	**(514)**	(514)
Net book value at 31 December	**22,610**	23,123
Non-current portion	**(22,096)**	(22,610)
Current portion classified as current assets	**514**	513

The land lease premium were held under medium term and situated in the PRC. The cost of the leasehold interest in land held for own use was approximately of RMB25,443,000 (2004: approximately of 25,443,000).

19. INVENTORIES

	2005	2004
	RMB'000	*RMB'000*
Raw materials	**1,837**	1,830
Work in progress	**274**	274
Finished goods	**1,042**	2,774
	3,153	4,878

20. 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:

	2005	2004
	RMB'000	*RMB'000*
Within 90 days	**6**	42,939
91 – 180 days	**180**	4,544
181 – 365 days	**177**	1,656
Over 365 days	**42,136**	1,809
	42,499	50,948
Less: Allowance for bad and doubtful debts	**(41,793)**	(85)
	706	50,863
Others receivables	**5,102**	6,049
Less: Allowance for bad and doubtful debts	**(343)**	(–)
	4,759	6,049
	5,465	56,912

21. BANK BALANCES – RESTRICTED

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 Merchants 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 RMB86,022,000.

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.

22. TRADE AND OTHER PAYABLES

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

	2005	2004
	RMB'000	*RMB'000*
Within 90 days	**212**	518
91 – 180 days	**–**	408
181 – 365 days	**90**	217
Over 365 days	**955**	565
	1,257	1,708
Other payables	**25,203**	23,843
	26,460	25,551

Including in other payables is an amount of RMB2,490,000 (2004: RMB2,490,000) that is a dividend payable to Xian Northwest Industry (Group) Company Limited, ultimate holding company of the Company.

23. BANK LOANS

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

	2005 RMB'000	2004 RMB'000
Fixed-rate borrowings		
Secured	**49,901**	50,000
Unsecured	**4,500**	4,500
	54,401	54,500

(i) For the year ended 31 December 2005, all the bank loans bore interest at rates ranging from 0.4425% to 0.5310% (2004: 0.4425% to 0.5310%) per month and 5.841% (2004: 5.841%) per annum.

(ii) The unsecured bank loan is guaranteed by an independent third party as follows:

	2005 RMB'000	2004 RMB'000
西安翠寶首飾集團公司 Xi'an Cuibao Jewelry Group Company	**4,500**	4,500

24. SHARE CAPITAL

	Number of shares '000	Value RMB'000
Registered, issued and fully paid:		
As at 31 December 2004	**910,000**	91,000
As at 31 December 2005	**910,000**	91,000

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

25. RELATED PARTY TRANSACTIONS

The Company had no related party transactions during the year. In 2004, the Company had the following related party transactions.

(a) The Company purchased goods from a fellow subsidiary amounting to RMB8,964,000. The transactions were carried out on terms similar to those applicable to transactions with unrelated parties.

(b) The Company disposed of certain of its motor vehicles at their net book value of RMB3,235,000 to its ultimate holding company.

The Company had the following balances with related party at 31 December 2005:

	2005	2004
	RMB'000	*RMB'000*
Due from a fellow subsidiary	**6,711**	626
Due to a fellow subsidiary	**–**	389
Due to ultimate holding company	**5,329**	1,317

26. SHARE OPTION SCHEME

The Company's Share Option Scheme was approved by a resolution of the Shareholders of the Company dated 6 June 2004 (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.

26. 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.

26. SHARE OPTION SCHEME (Continued)

(5) Time of exercise of option

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

(6) Period of the Share Option Scheme

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

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

27. OPERATING LEASE COMMITMENTS

	2005	2004
	RMB'000	*RMB'000*
Minimum lease payments paid under operating lease during the year	**310**	310

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:

	2005	2004
	RMB'000	*RMB'000*
Within one year	**310**	310
More than one year but within five years	**1,550**	1,550
Over five years	**–**	310
	1,860	2,170

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.

28. CAPITAL COMMITMENTS

	2005	2004
	RMB'000	*RMB'000*
Capital expenditure in respect of acquisition of property, plant and equipment:		
– contracted for but not provided in the financial statements	**12,571**	12,571

29. 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:

	2005	2004
	RMB'000	*RMB'000*
Property, plant and equipment	**48,271**	46,702
Land lease premium	**13,683**	15,203
	61,954	61,905

30. 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 RMB49,785 (2004: RMB31,174) represents contributions payable to the scheme by the Company during the year.

31. COMPARATIVE FIGURES

Certain comparative figures have been adjusted or re-classified as a result of the changes in accounting policies.

FINANCIAL SUMMARY

RESULTS

	For the year ended 31 December				
	2005	2004	2003	2002	2001
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Turnover	**322**	85,446	85,754	85,353	78,450
(Loss)/profit before taxation	**(56,284)**	22,870	23,468	20,773	21,225
Taxation	**(1,043)**	(2,525)	(4,676)	(3,977)	(78)
Net (loss)/profit for the year	**(57,327)**	20,345	18,792	16,796	21,147

ASSETS AND LIABILITIES

	At 31 December				
	2005	2004	2003	2002	2001
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total assets	**215,647**	267,498	242,639	200,454	189,427
Total liabilities	**(94,570)**	(89,094)	(82,305)	(102,055)	(67,300)
Shareholders' funds	**121,077**	178,404	160,334	98,399	122,127

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.