



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)

Annual 2006 Report

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

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CORPORATE INFORMATION

DIRECTORS OF THE COMPANY

Executive Directors

Mr. Wang Cong (*Chairman*)
Mr. Wang Feng
Mr. Gao Peng
Mr. Yang Xiaohuai

Non-executive Director

Mr. Guo Bin
Ms Zheng Rongfang

Independent non-executive Directors

Mr. Li Gangjian
Mr. Chen Tao
Mr. Wei Daizhi

SUPERVISORS

Mr. Yan Buqiang
Ms. Jiang Lifen
Mr. Zhang Xiaoping
Mr. Duan Lin
Mr. Wang Gongxun

AUDIT COMMITTEE

Mr. Li Gangjian
Mr. Wei Daizhi
Mr. Chen Tao

QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

Mr. Chung Chi Kong

COMPLIANCE OFFICER

Mr. Wang Feng

AUTHORIZED REPRESENTATIVES

Mr. Wang Cong
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

Stock Code

8258

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

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

PRINCIPAL BANKERS

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

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

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

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

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

CHAIRMAN'S STATEMENT

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 2006.

Despite two of our shareholders went into serious economic dispute in 2005 and 2006, which resulted in the freezing of the Company's principal bank accounts, the Company endeavoured to raise funds for resumption of the Company's production. The Company also devoted more efforts to collect its trade receivables for the previous years. This had secured certain amount of funds for the production and operation of the Company.

OPERATING PERFORMANCE

During 2006, the Company recorded a turnover of approximately RMB62,303,000 representing an increase of 19,248.75% over the previous year, and a net profit of approximately RMB14,024,000, representing an increase of RMB71,351,000 over the previous year. Since the Company resumed its production in 2006, the Board did not recommend to pay any final dividend for the year ended 31 December 2006.

BUSINESS STRATEGY

Under the unanimous efforts of the staff and the largest shareholder of the Company, the business operation of the Company recovered well in 2006. The Company gained certain progress in other aspects of business. First, the Company put more efforts in collecting trade receivables. RMB20,989,800 due for previous years were recovered. In the meantime, the Company achieved a sales of RMB62,303,000 for the year. Despite the provision of funds still remained tight, under the sophisticated management and arrangement of the management, numerous effective measures were adopted so as to deploy limited amount of funds in a highly efficient manner. The operation activities of the Company were back to its normal course and achieved remarkable results.

PROSPECT

Following the judgment in favour of the largest shareholder in the legal proceedings against a substantial shareholder, the litigation end and the Supreme People's Court of Shaanxi Province discharged the order for freezing the bank accounts of the Company. The Company also revolved and renewed bank loans for an aggregate amount of RMB30 million. The Company was thus equipped with relatively more sufficient working capital. This laid a sound foundation to the business development of the Company in 2007.

CHAIRMAN'S STATEMENT

Energy is becoming an increasing critical factor to the development of the global economy. The continuous and rapid development of economy in the PRC posed greater demand for energy. On the existing base established in the industry, the Company will optimize allocation of existing resources. Further development will be pursued vertically in the energy sector. By capitalizing on the opportunity created by the State to establish Shaanxi Province as heavy energy and chemical industry base, the business of the Company will be developed in a promising manner focusing in the energy sector.

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

Xi'an, the PRC

26 March 2007

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The Company's turnover was approximately RMB62,303,000 for the financial year ended 31 December 2006, representing an increase of approximately 19,248.75% over the previous year.

The Company's gross profit was approximately RMB20,968,000 for the financial year ended 31 December 2006, as compared to a gross loss of RMB525,000 for last year. The gross profit margin of 2006 was 33.65% (2005: -163.04%).

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2006, the equity of shareholders of the Company was approximately RMB135,101,000 (2005: RMB121,077,000); cash at bank and in hand was RMB89,061,000 (2005: RMB87,072,000); current assets amounted to RMB111,823,000 (2005: RMB102,915,000); and current liabilities amounted to approximately RMB85,277,000 (2005: RMB94,570,000), mainly including a short term bank loan of RMB54,401,000 (2005: RMB54,401,000) repayable within one year.

The Company's liquidity ratio, defined as total current assets over total current liabilities, increased from 1.09 as at 31 December 2005 to 1.31 as at 31 December 2006.

SIGNIFICANT INVESTMENT HELD AND MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES

The Company neither held any significant investment nor made any significant acquisition and disposal of subsidiaries and associated companies for the year ended 31 December 2006 and for the same period last year.

PLEDGE OF ASSETS

As at 31 December 2006, the carrying values of property, plant and equipment of approximately RMB48,575,000 and intangible assets of approximately RMB13,379,000 were pledged to secure borrowings granted to the Company.

SIGNIFICANT FUTURE INVESTMENT PLANS AND EXPECTED FINANCIAL RESOURCES

As at 31 December 2006, there were no significant investment plans.

GEARING RATIO

Gearing ratio defined as total borrowings over net assets was 40.26% (same period of 2005: 44.93%).

CAPITAL COMMITMENT, FOREIGN EXCHANGE EXPOSURE AND CONTINGENT LIABILITIES

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Company had the following achievements for the financial year ended 31 December 2006:

Business development

In 2006, the Company mainly engaged in the resumption of production operation and the collection of trade receivables. As at 31 December 2006, the receivables recovered amounted to approximately RMB77,209,800 (including those incurred in 2006), accounting for 81.1% of the original plan.

Products and production

The Company's principal product was FA-90 unleaded gasoline additive ("FA-90"). Due to limited financial resources, the Company resumed the production of FA-90, and achieved a sales revenue of RMB62,303,000 during the year.

Sales and marketing

The Company's sales mainly relied on its existing sales and distribution network and expanded its sales channel appropriately. The focus of the Company was put on market development and sales of 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 component 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 2006, staff remuneration of the Company amounted to approximately RMB2,112,000 (2005: RMB1,292,000). The Company employed a total of 91 staff (2005: 135 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.

MANAGEMENT DISCUSSION AND ANALYSIS

PROSPECT

For the financial year ended 31 December 2006, the turnover of the Company amounted to approximately RMB62,303,000, representing an increase of 19,248.75% over the previous year. The remarkable recovery was mainly attributable to the endeavours of the Company in raising funds and the unanimous efforts of the staff for resumption of the Company's production in 2006.

In March 2007, a judgment was delivered in favour of the largest shareholder of the Company, Xi'an Northwest Industry (Group) Company Limited, in the legal proceedings against a substantial shareholder of the Company, Shaanxi Jing Dian Investment Company Limited. Following the delivery of the judgment, the order for freezing the bank accounts of the Company with an aggregate deposit of approximately RMB86,000,000 obtained by the Bank of Communications and the China Merchant Bank (the "Banks") was discharged on 22 March 2007. Besides, the Company had revolved and renewed bank loans for an aggregate amount of RMB30,000,000 with the Banks in March 2007. Therefore, the Company considers that it has sufficient fund for its business requirements and for expanding its production in 2007.

At present, the Company has unrestricted cash and bank balance of approximately RMB87,000,000. The Company intends to repay the overdue bank loans with a principal amount of RMB24,401,000 and interests of RMB9,356,700. On the other hand, with a view to capturing the increasing demand for oil additives arising from the repaid development of the economy in the PRC, the Company will focus on expanding the production and enhancing the sale of its principal product, FA-90, in 2007. The Company currently plans to resume the construction of the new production line of FA-90 core components. It is expected that the construction of such new production line can be completed substantially by the end of 2007. Besides, more resources will be allocated to expand the Company's sales network and strengthen marketing efforts. Leveraging on its edges in oil additive technology, the Company will endeavour to consolidate its position and actively pursue extension of its product variety by reinforcing research and development of new products.

With the overcoming of the difficulties faced by the Company in the previous year, the Directors optimistically believe that the Company will achieve a promising development in the foreseeable future.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Wang Cong (王聰), aged 50, 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. He is receiving education in the EMBA programme of China Europe International Business School. 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, Mr. Wang has served as the deputy general manager, general manager, president and chairman of the Company or its predecessor.

Wang Feng (王峰), aged 48, 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.

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.

Yang Xiaohuai (楊小懷), aged 43, is an executive Director and the financial controller of the Company. He is responsible for overseeing the operation of the accounting department and the financial matters of the Company. He graduated from Zhengzhou Aviation Industry Management Vocational School (鄭州航空工業管理專科學校) in 1984. Mr. Yang had served consecutively as the deputy head and head of the Division of Accounts, the Department of Finance, 173 Aviation Factory (航空工業173廠財務處). From May 1993 to May 2000, he served consecutively as the head of audit division, assistant to the head of the firm and deputy head of the firm of Shaanxi Yuehua Accountants Firm (陝西岳華會計師事務所). From May 2000 to September 2004, he served as deputy head of Shaanxi Kanghua Accountants Firm (陝西康華會計師事務所).

Non-executive Directors

Guo Bin (郭斌), aged 55, 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.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Zheng Rongfang (鄭榮芳), aged 60, 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. Ms. Zheng was retired in December 2004.

Independent non-executive Directors

Li Gangjian (李剛劍), aged 43, 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.

Chen Tao (陳濤), aged 36, has obtained a Master's degree in law and is the executive supervisor of Beijing Kangsheng Law Firm (北京康盛律師事務所). Mr. Chen has extensive practical legal experience in economic field. He had served as manager of legal department of China Scientific Equipment Import and Export Company (中國科學器材進出口總公司) and the deputy supervisor of management committee of New Agricultural Technology Industry Development Zone, Weifang City, Shandong Province (山東省濰紡市農業商新技術產業開發區管委會). He found Xteam Software (China) Co. Limited in 1998. In 2000, he joined Beijing Beida Jade Bird Group (北大青鳥集團) and subsequently served as deputy president of Weifang Beida Jade Bird Hwaguang Technology Co. Ltd. (濰坊北大青鳥華光科技股份有限公司). In 2003, he was engaged by Qianghua Ziguang Environmental Protection Group (青華紫光環保集團) and served as executive president of Ziguang Huaqin Environmental Protection Joint Stock Limited Company (紫光華勤環保股份有限公司). In 2004, he found Beijing Kangsheng Law Firm (北京康盛律師事務所) jointly.

Wei Daizhi (魏大志), aged 37, is a registered accountant and a valuer of PRC. From 1992 to 1997, Mr. Wei served as the division head of the division of finance of Sichuan Coal Infrastructure Company (四川煤炭基建公司). From 1997 to 2000, he served as deputy general manager of Wanhua Investment Group (萬華投資集團). He has served as general manager of Kelin Taike Energy Technology Company Limited (科林泰克能源技術有限公司) since 2000.

SUPERVISORS

Yan Buqiang (閻步強), aged 53, 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.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Jiang Lifan (姜禮芬), aged 47, has served as account officer of the finance department of the Company since January 2005. Ms. Jiang worked in Fangzhicheng Food Factory (紡織城食品廠) from October 1978 to October 1985, and served as its account officer from October 1985 to May 1996. From June 1996 to December 2004, she served as account officer of Northern Railway Sub-bureau Engineering Industry Limited (西鐵分局工程工業公司).

Zhang Xiaping (張小平), aged 34, is a supervisor of the Company. He has worked at the office of president of the Company since May 2004. From March 1990 to November 1996, Mr. Zhang has served at the Fire Prevention Detachment, Armed Police of Haixizhou, Qinghai Province (青海省海西州武警消防支隊). From January 1997 to June 1997, he worked at Jinhua Mountain Mine of Tongchuan Minerals Bureau (銅川礦物局金華山礦). From September 1997 to August 2003, he worked at Xi'an High and New Xinda Commercial Products Company Limited (西安市高新新建商品有限公司).

Duan Lin (段林), aged 44, obtained a Master's degree from Shaanxi Finance College in 1998. From 1983 to 1992, Mr. Duan worked at the People's Bank of China of Baoji City (寶雞市中國人民銀行). From 1992 to 2000, he worked at a financial institution in Hainan Province. He has served as deputy general manager of Qinghai Sanjiangyuan Securities Company Limited (青海三江源證券有限公司) since 2001.

Wang Gongxun (王公遜), aged 70, graduated from Xi'an Finance College with a major in Enterprise Accounting in 1956, and is a senior accountant, judicial accounting appraiser (司法會計鑒定人), registered accountant of the PRC, part-time professor of accounting of Xi'an Petroleum University (西安石油大學), and deputy chairman of Shaanxi Financial Costs Research Society (陝西財務成本研究會). From 1956 to 1982, Mr. Wang worked in the area of accounting and finance at the Construction Bank of Xi'an City, Management Bureau of Sanmenku District of Shaanxi Province (陝西省三門庫區管理局), Water and Electricity Bureau of Weinan District (渭南地區水電局) and Finance Bureau of Shaanxi Province (陝西省財政廳). He served as deputy principal of Shaanxi Finance Vocational School (陝西財政專科學院) from April 1982 to October 1988, as head of the accounts department of Shaanxi Finance Bureau (陝西省財政廳會計處), head of Shaanxi Accountants Firm (陝西會計師事務所) and deputy principal of Shaanxi Province Zhonghua Accounting Distance Learning School (陝西省中華會計函授學校) from November 1988 to August 1996, and as chief secretary of Society of Registered Accountants of Shaanxi Province (陝西省註冊會計師協會) from September 1996 to August 2002. He has served as consultant of Renhongxin Accountants Firm (鴻信會計師事務所) and Shaanxi Zhengyi Judicial Appraisal Centre (陝西正義司法鑒定中心) since August 2002. Mr. Wang served as committee member of Society of Registered Accountants of the PRC (中國註冊會計師協會) for 14 years, vice-chairman and chief secretary of Society of Accountancy of Shaanxi (陝西會計學會) for 8 years, vice-chairman of Society of Chief-accountants of Xi'an District (西安地區總會計師協會) for 6 years, deputy supervisor of middle level and committee member of high level accounting qualification examination committee of Shaanxi Province (陝西省會計職稱評審委員會). Mr. Wang has written a number of articles on accounting. His biographical details were published in Dictionary on Name of China Experts (中國專家名辭典) and Books on China Outstanding Persons of Leadership (中國優秀領導人才大典).

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

QUALIFIED ACCOUNTANTS AND COMPANY SECRETARY

Chung Chi Kong (鍾志綱), aged 36, is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. Mr. Chung has over nine-year experience of being auditor for international accounting firms, and was a finance controller of a listed company on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited from September 2002 to June 2004.

SENIOR MANAGEMENT

Li Xiaohu (李小虎), aged 47, is the executive 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 54, 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.

Yan Xi (嚴希), aged 40, is a chief engineer of the Company. He graduated from the Shanghai Fudan University with a bachelor's degree in applied chemistry. He worked for the Technology Department of Xian Paints Factory Sifen Factory (西安油漆總廠四分廠) from July 1990 to 1992. He served as a manager of Shenzhen Xiandaoxi Material Ltd Co., (深圳市先導新材料有限公司) from 1992 to 1997 and was responsible for the development of electronic consumables materials and nanometer materials. He invented a super small BaTiO₃ soft materials successfully and the product was utilized by Fuji (富士公司) and TDK of Japan. From 1997 to 2000, he worked at Shenzhen Zhongzhen Industry Limited (深圳中圳實業有限公司) as a chief engineer responsible for the development and the management of production technology of rare-earth electromagnetic materials. From 2000 to June 2002, he worked at the Nantonghongding International Chemistry Company (南通虹鼎國際化工公司) as a chief engineer. He joined the Company in June 2002.

Zhou Ming (周明), aged 38, is a deputy chief manager of Weinan branch of the Company. Mr. Zhou served in Shaanxi Lishan Bed Sheet Dyeing and Bleaching Factory (陝西省驪山床單漂染車間) as a production lines technician from July 1991 to March 1994. He served as a production lines supervisor, deputy head and head of technical division, head of production division, head of laboratory and deputy head of factory office of the factory from March 1994 to October 2000. He joined the Company in February 2001.

Xing Dunping (邢敦平), aged 52, is the director of President Office of the Company. 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.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Zheng Yuanyang (鄭遠洋), aged 67, 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 44, 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 43, 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 39, 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 34, 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 2006.

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.

RESULTS AND APPROPRIATIONS

The results of the Company for the year ended 31 December 2006 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 2006.

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 16 to the financial statements.

TRADE RECEIVABLES

The trade receivables in aggregate before allowance for bad and doubtful debts as at 31 December 2006 amounted to RMB36,784,000.

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.

The Supreme People's Court of Shaanxi Province issued an order on 22 March 2007 to unfreeze the funds of the Company in the bank accounts.

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' REPORT

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:

Mr. Wang Cong
Mr. Wang Feng
Mr. Gao Peng
Mr. Yang Xiaohuai

Non-executive Director:

Mr. Guo Bin
Ms. Zheng Rongfang

Independent non-executive Directors:

Mr. Li Gangjian
Mr. Chen Tao
Mr. Wei Daizhi

Supervisors:

Mr. Yan Buqiang
Ms. Jiang Lifen
Mr. Zhang Xiaoping

Independent Supervisors:

Mr. Duan Lin
Mr. Wang GongXun

Each of the Directors (including independent non-executive Directors) and Supervisors has entered into a service agreement with the Company for three years. 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.

DIRECTORS' REPORT

DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVES INTERESTS IN SHARES

As at 31 December 2006, the interests or short positions of the Directors, the Supervisors ("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 (<i>Note 1</i>)	Interest of controlled corporation	548,000,000	80.58%	60.22%
Wang Zheng (<i>Note 2</i>)	Beneficial owner	2,000,000	0.29%	0.22%
Guo Qiubao (<i>Note 2</i>)	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%
Zeng 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 (<i>Note 3</i>)	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%

DIRECTORS' REPORT

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. Wang Zheng and Guo Qiubao were removed as executive directors of the Company by resolutions of the shareholders of the Company at the annual general meeting held on 2 June 2006.
3. 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 2006, 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.

DIRECTORS' REPORT

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 of the Company dated 23 June 2003. As at 31 December 2006, no share option has been granted under the share option scheme.

DIRECTORS AND SUPERVISORS INTERESTS IN MATERIAL CONTRACTS

During the year ended 31 December 2006, 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 2006, 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.

MAJOR SUPPLIERS AND CUSTOMERS

During the year, the five largest suppliers of the Company accounted for approximately 100% of the Company's purchases. The largest supplier accounted for 84% of the purchase of the Company.

Aggregate sales attributable to the Group's five largest customers accounted for approximately 98% of the total turnover. The largest customer accounted for approximately 22% 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' issued share capital had any interest in the five largest suppliers or customers during the year ended 31 December 2006.

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.

DIRECTORS' REPORT

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 2006

	FA-90 <i>RMB'000</i>	FA-D <i>RMB'000</i>	2-ethylhexyl thioglycolate and others <i>RMB'000</i>	Total <i>RMB'000</i>
Turnover	62,303	–	–	62,303
Cost of sales	(41,335)	–	–	(41,335)
Gross profit	20,968	–	–	20,968

For the year ended 31 December 2005

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

LITIGATION

As at 31 December 2006, 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' listed securities during the year ended 31 December 2006.

PRE-EMPTIVE RIGHTS

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

CORPORATE GOVERNANCE REPORT

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the Board, the Company has complied with the code provisions in the Code on Corporate Governance Practice (the “Code”) as set out in Appendix 15 of the GEM Listing Rules throughout the financial year ended 31 December 2006 subject to the deviation disclosed hereof.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Under the code provision A.2.1, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Following the removal of Mr. Wang Zheng from the post of president of the Company in June 2006, Mr. Wang Cong held the offices of Chairman and president of the Company since then. The Board is in the process of identifying a suitable candidate to fill the role of president.

SECURITIES TRANSACTIONS CONDUCTED 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 during the year ended 31 December 2006.

BOARD COMPOSITION

The Board comprises nine Directors, with four executive Directors, namely Mr. Wang Cong (Chairman), Mr. Gao Peng, Mr. Wang Feng and Mr. Yang Xiaohuai, three independent non-executive Directors, namely Mr. Li Gangjian, Mr. Chen Tao and Mr. Wei Dazhi, and two Non-executive Directors, namely Mr. Guo Bin and Ms. Zheng Rongfang.

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.

CORPORATE GOVERNANCE REPORT

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 2006, the Board held four meetings. The attendance record of each Director is set out below:

Executive Directors:

Mr. Wang Cong (<i>Chairman</i>)	4/4
Mr. Wang Feng	4/4
Mr. Guo Qiubao	4/4
Mr. Yang Xiaohuai	4/4

Non-executive Directors:

Ms. Zheng Rongfang	4/4
Mr. Guo Bin	1/4

Independent non-executive Directors:

Mr. Li Gangjian	4/4
Mr. Wei Dazhi	1/4
Mr. Chen Tao	2/4

CORPORATE GOVERNANCE REPORT

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).

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 two independent non-executive Directors, namely Mr. Li Gangjian and Mr. Wei Dazhi and one non-executive Director, namely Ms. Zheng Rongfang. Mr. Li Gangjian 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 2006. During the year ended 31 December 2006, four audit committee meetings were held.

The attendance records of the members were as follows:

Member	Attendance (times)
Li Gangjian	4/4
Wei Dazhi	1/4
Zheng Rongfang	4/4

REMUNERATION COMMITTEE

The remuneration committee of the Company was established in June 2006. It is comprised of Mr. Li Gangjian (chairman), Ms. Zheng Rongfang and Mr. Chen Tao. The remuneration committee performs its responsibilities in accordance with the requirements set out in the Code. Its principal responsibilities are to assist the Board of Directors to manage the remuneration system of the Company, so as to ensure the implementation of effective policies and management upon the rewards for the Directors and senior executives.

CORPORATE GOVERNANCE REPORT

During 2006, the remuneration committee held two meetings. Such meetings firstly confirmed the responsibilities of the remuneration committee, further reviewed the performance appraisal system of the Company, and considered all matters in respect of the remuneration of the Directors and senior executives. Such meetings also enhanced the remuneration policies of the Directors and senior executives, the incentive mechanism and the overall remuneration system of the Company, and gave management advices to the Board. In the meantime, the service contracts of the Directors were examined and reviewed. The attendance records of the members of the remuneration committee were as follows:

Members	Attendance (times)
Li Gangjian	2/2
Zheng Rongfang	2/2
Chen Tao	1/2

NOMINATION COMMITTEE

The nomination committee of the Company was established in June 2006. It is comprised of Mr. Gao Peng (chairman), Mr. Chen Tao and Mr. Li Gangjian. The nomination committee performs its responsibilities in accordance with the requirements set out in the Code. Its principal responsibilities are to regularly review the structure, headcount and composition of the Board, including aspects such as skill, knowledge and experience, and advise the Board on any proposed changes. Advices for qualification of candidates for directors will be given to the Board. The committee also advises the Board on the appointment or re-appointment of Directors and all matters relating to the proposed appointment of Directors.

During 2006, the remuneration committee held one meeting. The meeting confirmed the responsibilities of the nomination committee, examined the composition of the Board and the qualifications of each Director, reviewed the independence of the Independent Non-executive Directors and qualifications of the Non-executive Directors. It also gave reasonable advise on matters regarding the appointment of Directors to the Board. The attendance records of the members of the nomination committee were as follows:

Members	Attendance (times)
Gao Peng	1/1
Chen Tao	1/1
Li Gangjian	1/1

AUDITORS

Deloitte Touche Tohmatsu resigned as the auditors on 26 July 2005. CCIF CPA Limited was appointed to fill the casual vacancy on 12 August 2005 and continued to be the auditors of the Company by the approval of the general meeting of the Company held on 23 December 2005. During 2006, the fees paid to CCIF CPA Limited for its audit services for the Company amounted to HK\$450,000.

CORPORATE GOVERNANCE REPORT

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

26 March 2007

REPORT OF SUPERVISORY COMMITTEE

To the Shareholders:

In 2006, the Supervisory Committee of the Company (the “Supervisory Committee”) duly performed its duties conferred by relevant laws and regulations and actively engaged in activities that were in line with their considerable accountability to all shareholders in accordance with the Company Law, Articles of Association and the Working Plan of the Supervisory Committee 2006. It monitored effectively the financial position as well as the performance of the Board of Directors (the “Board”), the member of the Board and other senior management staffs of the Company.

During the reporting period, the Supervisory Committee held four meetings, and the members of the Supervisory Committee attended every board meeting and general meeting.

1. THE MEETINGS HELD BY THE SUPERVISORY COMMITTEE OF THE COMPANY

1. The eighth meeting of the second Supervisory Committee was held on 31 March 2006, which considered and approved the audited annual results report of the Company for the year ended 31 December 2005. It also approved the resignation of Ms. Wei Jingling, Mr. Wang Anjun, Mr. Wu Xiaoling and Mr. Qianming as supervisors, and approved the appointment of Ms. Jiang Lifen, Mr. Zhang Xiaoping, Mr. Duanlin and Mr. Wang Gongxun as supervisors.
2. The ninth meeting of the second Supervisory Committee was held on 15 May 2006, which considered and approved the unaudited first quarterly results report of the Company for the three months ended 31 March 2006.
3. The tenth meeting of the second Supervisory Committee was held on 14 August 2006, which considered and approved the unaudited interim results report of the Company for the year ended 30 June 2006.
4. The eleventh meeting of the second Supervisory Committee was held on 13 November 2006, which considered and approved the unaudited third quarterly results report of the Company for the nine months ended 30 September 2006.

REPORT OF SUPERVISORY COMMITTEE

2. EXAMINATION OF THE COMPLIANCE OF THE COMPANY'S OPERATIONS WITH LEGAL REQUIREMENTS

In 2006, the Supervisory Committee devoted more efforts to supervise the management. The Supervisory Committee considered:

1. Due to the dispute among the substantial shareholders of the Company in 2005 brought material adverse impacts on various aspects of business of the Company, production operation was almost suspended and resulted in operating losses. Under such difficult circumstances, the Board and the management team of the Company adopted effective and practical measures. The production operation of the Company was basically resumed in 2006, which had achieved remarkable results.
2. In 2006, the Board of the Company practically executed the resolutions entirely in compliance with the requirements resolved in the general meetings. Every decision-making procedure was carried out entirely in compliance with the Company Law, Securities Law, Articles of Association, relevant laws and regulations of Hong Kong and other relevant requirements of the PRC.
3. During the reporting period, neither the Directors nor the chairman nor other senior executives were found in breach of the PRC laws regulations, articles of association and acting detrimental to the interests of the Company in their course of performing the duties of the Company.
4. The financial position of the Company in 2006 was basically normal. There was no breach of financial requirements found. The financial account was clear, the accounting file was complete, and the financial administration had complied with the requirements of financial system.

For and on behalf of the Supervisory Committee

Yan Buqiang

Chairman of the Supervisory Committee

Xi'an, the PRC
26 March, 2007

INDEPENDENT AUDITOR'S REPORT



CCIF

CCIF CPA LIMITED

20/F, Sunning Plaza

10 Hysan Avenue

Causeway Bay

Hong Kong

INDEPENDENT AUDITOR'S 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 of Shaanxi Northwest New Technology Industry Company Limited ("the Company") set out on pages 28 to 57, which comprise the balance sheet as at 31 December 2006, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made 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 the report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

INDEPENDENT AUDITOR'S REPORT

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company as at 31 December 2006 and of its profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

CCIF CPA Limited

Certified Public Accountants

Hong Kong, 26 March 2007

Chan Wai Dune, Charles

Practising Certificate Number P00712

INCOME STATEMENT

For the year ended 31 December 2006

	<i>Notes</i>	2006 RMB'000	2005 <i>RMB'000</i>
Turnover		62,303	322
Cost of sales		(41,335)	(847)
Gross profit/(loss)		20,968	(525)
Other revenue	8	11,953	41
Distribution costs		(1,284)	(547)
Administrative expenses		(5,564)	(8,901)
Other operating expenses		(8,561)	(43,241)
Profit/(loss) from operations	9	17,512	(53,173)
Finance costs	12	(3,488)	(3,111)
Profit/(loss) before taxation		14,024	(56,284)
Taxation	13	-	(1,043)
Profit/(loss) for the year		14,024	(57,327)
Dividend	14	-	-
Earnings/(loss) per share attributable to equity holders of the Company – basic	15	RMB0.015	RMB(0.063)

The notes on pages 32 to 57 form an integral part of these financial statements.

BALANCE SHEET

As at 31 December 2006

	Notes	2006 RMB'000	2005 RMB'000
Non-current assets			
Property, plant and equipment	16	86,973	90,636
Intangible assets	17	–	–
Land lease premium	18	21,582	22,096
		108,555	112,732
Current assets			
Inventories	19	4,434	3,153
Trade and other receivables	20	3,915	5,465
Land lease premium	18	514	514
Due from fellow subsidiaries		13,899	6,711
Bank balances-restricted	21	86,022	86,022
Cash and bank balances		3,039	1,050
		111,823	102,915
Current liabilities			
Trade and other payables	22	22,830	26,460
Taxation payable		4,948	8,380
Due to ultimate holding company		3,098	5,329
Bank loans	23	54,401	54,401
		85,277	94,570
Net current assets		26,546	8,345
Net assets		135,101	121,077
Capital and reserves			
Share capital	24	91,000	91,000
Reserves		44,101	30,077
		135,101	121,077

Approved and authorised for issue by the board of directors on 26 March 2007.

On behalf of the board

Wang Cong
Chairman

Gao Peng
Director

The notes on pages 32 to 57 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2006

	Share capital <i>RMB'000</i>	Share premium <i>RMB'000</i>	Statutory surplus reserve <i>RMB'000</i> <i>(Note a)</i>	Statutory welfare fund <i>RMB'000</i> <i>(Note b)</i>	Retained profits/ (accumulated loss) <i>RMB'000</i> <i>(Note c)</i>	Total <i>RMB'000</i>
At 1 January 2005	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
Profit for the year	—	—	—	—	14,024	14,024
Transfer	—	—	1,837	918	(2,755)	—
At 31 December 2006	<u>91,000</u>	<u>25,880</u>	<u>9,417</u>	<u>4,707</u>	<u>4,097</u>	<u>135,101</u>

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

According to the relevant PRC laws and regulations, the Company is not required to provide statutory welfare fund for profit appropriation effective from 1 January 2006. The appropriation to the fund during the year is at the discretion of the directors.

(c) Retained profits

Profit appropriation is subject to the approval of the board of directors. In accordance with the Articles of Association of the Company, the reserve available for distribution is the lower of the amount determined under the accounting principles generally accepted in the PRC and the amount determined under accounting principles generally accepted in Hong Kong. In the opinion of the directors, the amount of reserve available for distribution was approximately RMB4,097,000 at 31 December 2006 (2005: Nil).

The notes on pages 32 to 57 form an integral part of these financial statements.

CASH FLOW STATEMENT

For the year ended 31 December 2006

	2006 RMB'000	2005 RMB'000
OPERATING ACTIVITIES		
Profit/(loss) before taxation	14,024	(56,284)
Adjustments for:		
Impairment loss on bad and doubtful debts	-	42,051
Reversal of impairment loss on bad and doubtful debts	(8,412)	-
Amortisation of intangible assets	-	833
Amortisation of land lease premium	210	210
Depreciation of property, plant and equipment	4,074	4,607
Interest expenses	3,487	3,108
Interest income	(31)	(5)
Loss/(Gain) on disposal of property, plant and equipment	4,268	(36)
Write-down of inventories	-	1,121
Reversal of write-down of inventories	(1,326)	-
Trade and other payables written back	(1,669)	-
Operating profit/(loss) before working capital changes	14,625	(4,395)
Decrease in inventories	45	603
Decrease in trade and other receivables	9,962	9,396
(Decrease)/Increase in trade and other payables	(1,961)	909
Cash generated from operations	22,671	6,513
Interest paid	(3,487)	(3,108)
PRC enterprise income tax paid	(3,432)	-
NET CASH GENERATED FROM OPERATING ACTIVITIES	15,752	3,405
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(6,209)	(267)
Interest received	31	5
Proceeds from disposal of property, plant and equipment	1,834	135
Advance (to)/from ultimate holding company	(2,231)	4,012
Advance to a fellow subsidiary	(7,188)	(6,474)
Increase in restricted bank balances	-	(86,022)
NET CASH USED IN INVESTING ACTIVITIES	(13,763)	(88,611)
FINANCING ACTIVITIES		
Repayment of bank loans	-	(99)
NET CASH USED IN FINANCING ACTIVITIES	-	(99)
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	1,989	(85,305)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,050	86,355
CASH AND CASH EQUIVALENTS AT END OF YEAR		
Represented by cash and bank balances	3,039	1,050

The notes on pages 32 to 57 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

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. STATEMENT OF COMPLIANCE

(i) These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong, the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.

The HKICPA has issued certain new and revised HKFRSs that are first effective for current accounting period for the Company. The adoption of the new and revised HKFRSs had no material effect on how the results for the current of prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

(ii) The Company has no 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

2. STATEMENT OF COMPLIANCE (Continued)

HKAS 1 (Amendment)	Capital disclosure ¹
HKFRS 7	Financial Instruments disclosures ¹
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 financial reporting in hyperinflationary economies ²
HK(IFRIC) – INT 8	Scope of HKFRS 2 ³
HK(IFRIC) – INT 9	Reassessment of Embedded Derivatives ⁴
HK(IFRIC) – INT 10	Interim Financial Reporting and Impairment ⁵
HK(IFRIC) – INT 11	HKFRS 2 – Group and Treasury Share Transactions ⁶

- 1 Effective for annual periods beginning on or after 1 January 2007
- 2 Effective for annual periods beginning on or after 1 March 2006
- 3 Effective for annual periods beginning on or after 1 May 2006
- 4 Effective for annual periods beginning on or after 1 June 2006
- 5 Effective for annual periods beginning on or after 1 November 2006
- 6 Effective for annual periods beginning on or after 1 March 2007

3. BASIS OF PREPARATION

As disclosed in Note 21 to the financial statements, 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 RMB 86,022,000. As disclosed in Note 31 to the financial statements, the Supreme People's Court of Shaanxi Province of the PRC issued an order on 22 March 2007 to China Construction Bank of the PRC to unfreeze the bank accounts.

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 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

A summary of the significant accounting policies adopted by the Company is set out below.

(a) TURNOVER

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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

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 recongised in the income statement when the asset is derecongised.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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.

(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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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 charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

(i) 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 conveyed 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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 be 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) FINANCIAL INSTRUMENTS (Continued)

Financial assets

The Company's financial assets are classified into one of the four categories, including financial assets at fair value through profit or loss, loans and receivables, held-to-maturity 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 effective 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) FINANCIAL INSTRUMENTS (Continued)

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-for-sale 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-for-sale 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) FINANCIAL INSTRUMENTS (Continued)

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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 it is 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 non-occurrence 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, 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

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.

Interest rate risk

The interest rates and terms of repayment of bank loans of the Company are disclosed in Notes 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

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

	2006	2005
	RMB'000	RMB'000
Reversal of impairment loss on bad and doubtful debts	8,412	–
Bank interest income	31	5
Gain on disposal of property, plant and equipment	–	36
Sundry income (Note)	1,750	–
Trade and other payables written back	1,760	–
	11,953	41

Note: The Company entered into an agreement ("Termination Agreement") on 25 May 2006 with the Landlord and the Economic Trade Bureau of Gao Ling County in respect of termination of tenancy agreement of the Company's Jing He Branch. Pursuant to the Termination Agreement, the Landlord shall pay a sum of RMB1.75 million to the Company as compensation. Details of the Termination Agreement are set out in the Company's announcement dated 5 June 2006.

The Company's Jing He Branch was closed during the year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

9. PROFIT/(LOSS) FROM OPERATIONS

Profit/(loss) from operations has been arrived at after charging/(crediting):

	2006 RMB'000	2005 <i>RMB'000</i>
Directors' and supervisors' remuneration	745	705
Other staff costs	1,167	569
Other staff's retirement benefits scheme contributions	200	18
	2,112	1,292
Impairment loss on bad and doubtful debts	-	42,051
Reversal of write-down of inventories	(1,326)	-
Amortisation of intangible assets (included in administrative expenses)	-	833
Auditors' remuneration	450	400
Bad debts written off	641	-
Depreciation of property, plant and equipment	4,074	4,607
Loss on disposal of property, plant and equipment	4,268	-
Write-down of inventories (included in other operating expenses)	-	1,121
Amortisation of land lease premium	514	514
Capitalised in construction in progress	(304)	(304)
	210	210

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

10. DIRECTORS' AND SUPERVISORS' EMOLUMENTS

Name of director	Fees RMB'000	Other emoluments		Total RMB'000
		Salaries and other benefits RMB'000	Retirement benefit scheme contributions RMB'000	
<i>Executive directors</i>				
Wang Cong	–	120	8	128
Gao Peng	–	180	–	180
Yang Xiao Huai	–	60	8	68
Wang Feng	–	60	8	68
<i>Non-executive directors</i>				
Guo Bin	30	–	–	30
Zheng Rong Fang	30	–	–	30
<i>Independent non-executive directors</i>				
Li Gang Jian	30	–	–	30
Chen Tao	30	–	–	30
Wei Da Zhi	30	–	–	30
Total director's emoluments for 2006	150	420	24	594
<i>Name of supervisor</i>				
Yan Bu Qiang	–	60	8	68
Jiang Li Fen	–	18	5	23
Zhang Xiao Ping	–	15	5	20
<i>Independent Supervisors</i>				
Duan Lin	–	20	–	20
Wang Gong Xun	–	20	–	20
Total supervisors' emoluments for 2006	–	133	18	151
Total for 2006	150	553	42	745

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

10. DIRECTORS' AND SUPERVISORS' EMOLUMENTS (Continued)

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

During the years ended 31 December 2005 and 2006, 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 2005 and 2006.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

11. EMPLOYEES' EMOLUMENTS

The five highest paid individuals are all directors and supervisors, details of whose emoluments are included in Note 10.

12. FINANCE COSTS

	2006 <i>RMB'000</i>	2005 <i>RMB'000</i>
Interest on bank loans wholly repayable within five years	3,487	3,108
Bank charges	1	3
	3,488	3,111

13. TAXATION

	2006 <i>RMB'000</i>	2005 <i>RMB'000</i>
PRC enterprise income tax: – underprovision in previous years	–	1,043

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 Jing 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

13. TAXATION (Continued)

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

	2006 RMB'000	2005 <i>RMB'000</i>
Profit/(loss) before taxation	14,024	(56,284)
Tax at domestic income tax rate of 15% (2005:15%)	2,104	(8,443)
Tax effect of expenses not deductible for tax purpose	2,977	5,612
Tax effect of income not taxable for tax purpose	(2,326)	(122)
Tax effect of tax losses utilised	(2,755)	-
Tax effect of additional tax losses not recognised	-	2,953
Underprovision in previous years	-	1,043
Taxation for the year	-	1,043

At 31 December 2006, the Company has unused tax losses of approximately RMB198,000 (2005: RMB5,767,000) 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 3 years under current tax legislation.

14. DIVIDEND

No final dividend for the year ended 31 December 2006 has been proposed by the directors (2005:Nil).

15. EARNINGS/(LOSS) PER SHARE

The calculation of the basic earnings/(loss) per share is based on the profit for the year of RMB14,024,000 (2005: loss of RMB57,327,000) and the weighted average number of 910,000,000 (2005: 910,000,000) shares in issue during the year.

Diluted earnings/(loss) per share is not presented as there were no potential dilutive ordinary shares in issue during the year (2005: Nil).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

16. PROPERTY, PLANT AND EQUIPMENT

	Land and 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 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)
Transfer	-	-	-	-	-	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 value							
At 31 December 2005	16,042	963	14,025	393	414	58,799	90,636
Cost							
At 1 January 2006	18,287	3,883	22,556	1,530	2,404	58,799	107,459
Additions	-	-	-	-	-	6,209	6,209
Disposal	(2,374)	-	(7,526)	(770)	(251)	-	(10,921)
Transfers	3,465	-	8,524	-	-	(11,685)	304
At 31 December 2006	19,378	3,883	23,554	760	2,153	53,323	103,051
Depreciation							
At 1 January 2006	2,245	2,920	8,531	1,137	1,990	-	16,823
Charge for the year	549	350	2,800	195	180	-	4,074
Written back on disposal	(308)	-	(3,584)	(685)	(242)	-	(4,819)
At 31 December 2006	2,486	3,270	7,747	647	1,928	-	16,078
Net book value							
At 31 December 2006	16,892	613	15,807	113	225	53,323	86,973

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

Amount of construction in progress included the amortisation of land lease premium RMB1,825,000 (2005: RMB1,521,000) which is transferred from land lease premium. (See Note 18)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

17. INTANGIBLE ASSETS

	Technical know how <i>RMB'000</i> <i>(Note)</i>
Cost	
At 1 January 2005 and at 31 December 2005	20,000
Amortisation	
At 1 January 2005	19,167
– Amortisation during the year	833
At 31 December 2005	20,000
Net book value at 31 December 2005	–
	Technical know how <i>RMB'000</i>
Cost	
At 1 January 2006 and at 31 December 2006	20,000
Amortisation	
At 1 January 2006	20,000
– Amortisation during the year	–
At 31 December 2006	20,000
Net book value at 31 December 2006	–

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

18. LAND LEASE PREMIUM

	2006 <i>RMB'000</i>	2005 <i>RMB'000</i>
Net book value at 1 January – after adopting HKAS 17	22,610	23,124
Amortisation during the year	(514)	(514)
Net book value at 31 December	22,096	22,610
Non-current portion	(21,582)	(22,096)
Current portion classified as current assets	514	514

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 RMB 25,443,000 (2005: approximately of RMB25,443,000).

19. INVENTORIES

	2006 <i>RMB'000</i>	2005 <i>RMB'000</i>
Raw materials	4,333	1,837
Work in progress	–	274
Finished goods	101	1,042
	4,434	3,153

During the year, the Company has sold raw materials that were written down in previous years. As a result, a reversal of write-down of inventories of RMB1,326,000 (2005: Nil) has been recognised and included in cost of sales in the current year.

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:

	2006 <i>RMB'000</i>	2005 <i>RMB'000</i>
Within 90 days	6,325	6
91-180 days	302	180
181-365 days	–	177
Over 365 days	30,157	42,136
	36,784	42,499
Less: Impairment loss on bad and doubtful debts	(33,674)	(41,793)
	3,110	706
Other receivables	855	5,102
Less: Impairment loss on bad and doubtful debts	(50)	(343)
	805	4,759
	3,915	5,465

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

21. BANK BALANCES

In 2005, there were legal proceedings between Shaanxi Jing Dian Investment Company Limited (“Jing Dian”), 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.

On 19 December 2006, judgment is delivered in favour of Northwest Group from the Supreme People’s Court of Shaanxi Province. The bank accounts were unfrozen subsequent to 31 December 2006, details of which are set out in Note 31.

22. TRADE AND OTHER PAYABLES

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

	2006 RMB’000	2005 <i>RMB’000</i>
Within 90 days	–	212
91-180 days	–	–
181-365 days	–	90
Over 365 days	508	955
	<hr/>	<hr/>
Other payables	508	1,257
	22,322	25,203
	<hr/>	<hr/>
	22,830	26,460
	<hr/> <hr/>	<hr/> <hr/>

Including in other payables is an amount of RMB2,490,000 (2005: RMB2,490,000) that is a dividend payable to Northwest Group.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

23. BANK LOANS

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

	2006 <i>RMB'000</i>	2005 <i>RMB'000</i>
Fixed rate borrowings		
Secured		
Bank loan bearing interest at 0.4425% per month	19,901	19,901
Bank loans bearing interest at 5.841% per annum	30,000	30,000
	49,901	49,901
Unsecured		
Bank loan bearing interest at 0.531% per month	4,500	4,500
	54,401	54,401

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

	2006 <i>RMB'000</i>	2005 <i>RMB'000</i>
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 <i>'000</i>	Value <i>RMB'000</i>
Share capital of RMB0.10 each		
Registered, issued and fully paid:		
As at 31 December 2005	910,000	91,000
As at 31 December 2006	910,000	91,000

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

25. RELATED PARTY TRANSACTIONS

During the year, the Company purchased goods from a fellow subsidiary amounting to 36,823,000 (2005: Nil). The transactions were carried out on terms similar to those applicable to transactions with unrelated parties.

The Company had the following balances with related party at 31 December 2006:

	2006	2005
	RMB'000	RMB'000
Due from fellow subsidiaries	13,899	6,711
Due to ultimate holding company	3,098	5,329

Remuneration for key management personnel is disclosed in Note 10.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

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 China Securities Regulatory Commission 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

	2006 RMB'000	2005 <i>RMB'000</i>
Minimum lease payments paid under operating lease during the year	<u>130</u>	<u>310</u>

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

	2006 RMB'000	2005 <i>RMB'000</i>
Within one year	-	310
More than one year but within five years	-	1,550
Over five years	-	-
	<u>-</u>	<u>1,860</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

27. OPERATING LEASE COMMITMENTS (Continued)

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

	2006 <i>RMB'000</i>	2005 <i>RMB'000</i>
Capital expenditure in respect of acquisition of property, plant and equipment:		
– contracted for but not provided in the financial statements	<u>12,598</u>	<u>12,571</u>

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:

	2006 <i>RMB'000</i>	2005 <i>RMB'000</i>
Property, plant and equipment	48,575	48,271
Land lease premium	13,379	13,683
	<u>61,954</u>	<u>61,954</u>

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 RMB243,071 (2005: RMB49,785) represents contributions payable to the scheme by the Company during the year.

31. POST BALANCE SHEET EVENT

Following the delivery of the judgement in favour of Northwest Group in the legal proceedings against Jing Dian, the order for freezing the bank accounts of the Company at China Construction Bank with an aggregate deposit of approximately RMB86,022,000 obtained by the Bankers was discharged on 22 March 2007. Besides, the Company had revolved and renewed bank loans for an aggregate amount of RMB30,000,000 with the Bankers on 21 March 2007.

FINANCIAL SUMMARY

RESULTS

	For the year ended 31 December				
	2006	2005	2004	2003	2002
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
TURNOVER	62,303	322	85,446	85,754	85,353
PROFIT/(LOSS) BEFORE TAXATION	14,024	(56,284)	22,870	23,468	20,773
TAXATION	-	(1,043)	(2,525)	(4,676)	(3,977)
NET PROFIT/(LOSS) FOR THE YEAR	14,024	(57,327)	20,345	18,792	16,796

ASSETS AND LIABILITIES

	At 31 December				
	2006	2005	2004	2003	2002
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
TOTAL ASSETS	220,378	215,647	267,498	242,639	200,454
TOTAL LIABILITIES	(85,277)	(94,570)	(89,094)	(82,305)	(102,055)
SHAREHOLDERS' FUNDS	135,101	121,077	178,404	160,334	98,399

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