



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 2007 Report

**CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”)  
OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)**

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

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

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

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

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# CORPORATE INFORMATION

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## 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 Lifan  
Mr. Zhang Xiaoping

## INDEPENDENT SUPERVISORS

Mr. Duan Lin  
Mr. Wang Gongxun

## AUDIT COMMITTEE

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

## 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

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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 2007.

2007 is a year of full recovery and development in the business of the Company. Our trading condition is much improved and the Hong Kong Stock Exchange also approved our shares to resume trading on 7 June 2007. These developments are very favourable for the market and investors to regain and improve their confidence in the Company.

## **OPERATING PERFORMANCE**

During 2007, the Company recorded a turnover of approximately RMB74,436,000 and a net profit of approximately RMB14,446,000, representing an increase of 19.5% and 3% over the previous year respectively. Since the operating capital of the Company is relatively tight currently, the Board does not recommend paying any final dividend for the year ended 31 December 2007.

## **BUSINESS STRATEGY**

Under the unanimous efforts of the staff of the Company, the business operation of the Company achieved remarkable progress in 2007. Firstly, as we have resumed production since 2006, we continued putting great effort in collecting trade receivables to mitigate our tight position in operating capital. Since the litigation between our two major shareholders finally come to an end, with the Northwest Group (our largest shareholder) winning the suit, the Company's assets previously frozen by our bankers were released, and we also renewed a RMB30,000,000 loan with our bank. Thus the Company obtained the vital operating capital to support its operation, and achieved a further growth in production in 2007 on the top of 2006. The cost of raw materials increased across the board in 2007 and the management adopted a series of measures to mitigate its impact and pressure, which includes making internal improvement to reduce production cost, and adjusting its sales strategy by raising its product price on the basis of adequate communication with the users and providing better and more service to them. During 2007, besides securing funding for normal production, the management also arranged capital to improve the existing production line. As a result, our production capacity for existing product has increased and we also expanded our product range, which will be a strong foundation for our achieving an even better result for the coming year.

# CHAIRMAN'S STATEMENT

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## PROSPECT

With the full recovery and growth in our business and improvement in trading condition, a solid basis has been laid for the Company's further development in the future. The directors believe that, in addition to ensuring a sustainable development in our existing business, the Company will continue to expand into the energy sector which will be a new drive for significant business and profit growth, so as to reward shareholders with excellent results.

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 2008



# MANAGEMENT DISCUSSION AND ANALYSIS

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## FINANCIAL REVIEW

The Company's turnover was approximately RMB74,436,000 for the financial year ended 31 December 2007, representing an increase of approximately 19.5% over the previous year.

The Company's gross profit was approximately RMB23,756,000 for the financial year ended 31 December 2007, as compared to RMB20,968,000 for last year. The gross profit margin of 2007 was 31.9% (2006: 33.65%).

## LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2007, the equity of shareholders of the Company was approximately RMB149,547,000 (2006: RMB135,101,000); cash at bank and in hand was RMB57,734,000 (2006: RMB89,061,000); current assets amounted to RMB92,384,000 (2006: RMB111,823,000); and current liabilities amounted to approximately RMB52,762,000 (2006: RMB85,277,000), mainly including a short term bank loan of RMB30,000,000 (2006: RMB54,401,000) repayable within one year.

The Company's liquidity ratio, defined as total current assets over total current liabilities, increased from 1.31 as at 31 December 2006 to 1.75 as at 31 December 2007.

## 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 associates for the year ended 31 December 2007 and for the same period last year.

## PLEDGE OF ASSETS

As at 31 December 2007, the carrying values of property, plant and equipment of approximately RMB48,879,000 and intangible assets of approximately RMB13,075,000 were pledged to secure borrowings granted to the Company.

## SIGNIFICANT FUTURE INVESTMENT PLANS AND EXPECTED FINANCIAL RESOURCES

As at 31 December 2007, there were no significant investment plans.

## GEARING RATIO

Gearing ratio defined as total borrowings over net assets was 20.06% (same period of 2006: 40.26%).

## 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

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## BUSINESS REVIEW

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

### 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 RMB74,436,000 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.

## EMPLOYEES AND REMUNERATION POLICY

For the year ended 31 December 2007, staff remuneration of the Company amounted to approximately RMB2,204,000 (2006: RMB2,112,000). The Company employed a total of 86 staff (2006: 91 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 recognise 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

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## PROSPECT

For the financial year ended 31 December 2007, the Revenue of the Company amounted to approximately RMB74,436,000, representing an increase of 19.5% over the previous year. The growth was mainly attributable to the effort of all staff, under which the Company achieved an extensive development in its business and a remarkable growth in sales. The internal management of the Company is also improved, and we expect further development and improvement in 2008.

## REVIEW OF BUSINESS OBJECTIVES

### 1. Comparison of business plan with actual progress

As at 31 December 2007	Actual progress
Construction of new production facilities for FA-90 Core Components	The project is suspended.
The Technology Building	The project is suspended.
The technology centre	The project is suspended.
Production facilities for 2-Ethylhexyl Thioglycolate and oil-processing assistants at the Wei Nan Branch	Completed
Expansion of sales & distribution network	The project is suspended.

# DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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## 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 to the present, 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 44, 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 56, 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

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**Zheng Rongfang** (鄭榮芳), aged 61, 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 44, 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 37, 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 38, 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 54, 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

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**Jiang Lifan** (姜禮芬), aged 48, 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 (西城分局工程工業公司).

**Zhang Xiaping** (張小平), aged 35, 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).

### Independent Supervisors

**Duan Lin** (段林), aged 45, 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 71, 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).

### QUALIFIED ACCOUNTANTS AND COMPANY SECRETARY

**Chung Chi Kong** (鍾志綱), aged 37, 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.

# DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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## 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 55, 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.

**Yang Xiaohuai** (楊小懷), aged 44, 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).

**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.

**Wang Feng** (王峰), aged 49, is 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.

**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 BaTiO<sub>3</sub> 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.

## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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**Zhou Ming** (周明), aged 39, 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 53, 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.

**Zheng Yuanyang** (鄭遠洋), aged 68, 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 45, 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 44, 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 40, 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 35, 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

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The Directors present their report and the audited financial statements of the Company for the year ended 31 December 2007.

## **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 2007 are set out on page 27 of the annual report. The Directors do not recommend the payment of a final dividend in respect of the year ended 31 December 2007.

## **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 Note 17 to the financial statements.

## **TRADE RECEIVABLES**

The trade receivables net of impairment loss as at 31 December 2007 amounted to RMB14,200,000 (2006: RMB3,110,000).

## **SHARE CAPITAL**

The details of the movements in the share capital of the Company during the year are set out in Note 26 to the financial statements.



# DIRECTORS' REPORT

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## DIRECTORS AND SUPERVISORS

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

### Executive Directors:

Wang Cong  
Wang Feng  
Gao Peng  
Yang Xiaohuai

### Non-executive Director:

Mr. Guo Bin  
Ms. Zheng Rongfang

### Independent non-executive Directors:

Li Gangjian  
Chen Tao  
Wei Daizhi

### Supervisors:

Yan Buqiang  
Jiang Lifen  
Zhang Xiaoping

### Independent Supervisors:

Mr. Duan Lin  
Mr. Wang Gongxun

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

Pursuant to the provisions of the Articles of Association of the Company, the Directors and Supervisors are elected at the general meeting of the Company and appointed as directors and supervisors for a term of three years and may be re-elected and re-appointed for a second term. In view of actual status of the existing Directors and Supervisors of the Company, the board will propose changing some Directors and Supervisors in the coming annual general meeting. The list of Directors and Supervisors to be re-elected as well as new candidates will be announced separately.

# DIRECTORS' REPORT

## DIRECTORS, CHIEF EXECUTIVES AND SUPERVISORS INTERESTS IN SHARES

As at 31 December 2007, the interests or short positions of the Directors, the Supervisors and chief executives of the Company in shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of listed issuer as referred to in Rule 5.46 of the GEM Listing Rules are as follows:

### Interests in domestic shares of the Company

Name	Company/name of associated corporation	Nature	Number of securities and category	Percentage in similar securities
Wang Cong ( <i>Note</i> )	Company	Interest of controlled corporation	548,000,000 shares of domestic shares	60.22%
Wang Feng	Company	Beneficial owner	2,000,000 domestic shares	0.22%
Zeng Yinglin	Company	Beneficial owner	2,000,000 domestic shares	0.22%
Yan Buqiang	Company	Beneficial owner	2,000,000 domestic shares	0.22%
Zheng Rongfang	Company	Beneficial owner	2,000,000 domestic shares	0.22%
Wang Zheng	Company	Beneficial owner	2,000,000 domestic shares	0.22%
Guo Qiubao	Company	Beneficial owner	2,000,000 domestic shares	0.22%

*Notes:* The 548,000,000 domestic shares were held by 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.

### Interests in domestic shares of the Company (long positions)

Name	Capacity	Number of domestic shares	Approximate shareholding percentage
Northwest Group	Beneficial owner	548,000,000	60.22%
Shaanxi Jing Dian Investment Company Limited (陝西精典投資有限公司) ("Jing Dian Investment")	Beneficial owner	120,000,000	13.19%
Ding Xianguang ( <i>Note</i> )	Interest of controlled corporation	120,000,000	13.19%
Zhang Jianming ( <i>Note</i> )	Interest of controlled corporation	120,000,000	13.19%

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

# DIRECTORS' REPORT

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

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

## SHARE OPTION SCHEME

The Company has conditionally adopted a share option scheme. The major terms and conditions of the share option scheme are set out in the section headed "share option scheme" in Appendix VI to the prospectus. As at 31 December 2007, no share option has been granted under the share option scheme.

## DIRECTORS AND SUPERVISORS INTERESTS IN MATERIAL CONTRACTS

During the year ended 31 December 2007, none of the Directors or Supervisors had a material interest, directly or indirectly, on any other contract of significance to the business of the Company to which the Company was a party.

## COMPETING INTERESTS

During the year ended 31 December 2007, none of the Directors and 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

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 2007.

# DIRECTORS' REPORT

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## 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 2007

	<b>FA-90</b> <i>RMB'000</i>
Turnover	<b>74,436</b>
Cost of sales	<b>(50,680)</b>
	<hr/>
Gross profit	<b><u>23,756</u></b>

### For the year ended 31 December 2006

	FA-90 <i>RMB'000</i>
Turnover	62,303
Cost of sales	(41,335)
	<hr/>
Gross loss	<b><u>20,968</u></b>

## LITIGATION

As at 31 December 2007, the Company has no significant pending litigation.

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

The Company had not purchase, sell or redeem any of the Company's listed securities during the year ended 31 December 2007.

# CORPORATE GOVERNANCE REPORT

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## CORPORATE GOVERNANCE PRACTICES

The Company is committed to establishing a corporate governance system in compliance with the Company Code and regard such effort as a safeguard for the healthy and sustainable development of the Company.

The code of corporate governance established by the Company includes the procedures, duties and responsibilities and authorities for the entire operation of the Company, which serves as a guide for the Company's affairs at various levels. The code of corporate governance formulated by the Company has fully incorporated the principles, code provisions and recommended best practice in the Code on Corporate Governance as set out in Appendix 15 of the GEM Listing Rules effective 1 January 2005.

Throughout the year ended 31 December 2007, the Company has complied with board practices and procedures as set out in Rule 5.45 of the GEM Listing Rules.

## 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.

## 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, of which Mr. Guo Bin has professional qualification and legal expertise.

## 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

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## 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 2007, 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. Gao Peng	4/4
Mr. Yang Xiaohuai	4/4

### Non-executive Directors:

Ms. Zheng Rongfang	4/4
Mr. Guo Bin	2/4

### Independent non-executive Directors:

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

# CORPORATE GOVERNANCE REPORT

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

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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 resignation from the post of chief executive and removal of directorship from the Company of Mr. Wang Zheng in June 2006, Mr. Wang Cong held the offices of Chairman and president of the Company since then. The Board has been in the process of identifying a suitable candidate to fill the role of president.

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 pursuant to the requirement of Rule 5.28 to 5.31 of the GEM Listing Rules. The committee has definite responsibilities and scope of duties. The principal duties of the audit committee are to review the annual reports and accounts, interim reports and quarterly reports of the Company and to provide relevant recommendations and advice to the Board and supervise the financial reporting process and internal control system of the Company. The audit committee comprises 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 2007. During the year ended 31 December 2007, four audit committee meetings were held. The attendance records of the members were as follows:

<b>Member</b>	<b>Attendance (times)</b>
Li Gangjian	4/4
Wei Dazhi	3/4
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 GEM 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

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During 2007, 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 and the terms of appointment for independent non-executive directors were examined and reviewed. The attendance records of the members of the remuneration committee were as follows:

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

## **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 GEM 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 2007, 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:

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

## **AUDITOR**

Deloitte Touche Tohmatsu was the Company's auditor for the year ended 31 December 2003, and it 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 2007, the fees paid to CCIF CPA Limited for its audit services for the Company amounted to HK\$520,000 and travelling expenses.

# CORPORATE GOVERNANCE REPORT

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## RESPONSIBILITIES OF DIRECTORS AND AUDITORS FOR THE ACCOUNTS

A statement of directors' responsibilities for preparing the financial statements and the reporting responsibilities of the auditor engaged are set out in the Independent Auditor's 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 2008

# REPORT OF SUPERVISORY COMMITTEE

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To the Shareholders:

In 2007, 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 twelfth meeting of the second Supervisory Committee was held on 26 March 2007, which considered and approved the audited annual results report of the Company for the year ended 31 December 2006 and reviewed the 2006 annual report.
2. The thirteenth meeting of the second Supervisory Committee was held on 10 May 2007, which considered and approved the unaudited first quarterly results report of the Company for the three months ended 31 March 2007.
3. The fourteenth meeting of the second Supervisory Committee was held on 10 August 2007, which considered and approved the unaudited interim results report of the Company for the six months ended 30 June 2007.
4. The fifteenth meeting of the second Supervisory Committee was held on 9 November 2007, which considered and approved the unaudited third quarterly results report of the Company for the nine months ended 30 September 2007.

# REPORT OF SUPERVISORY COMMITTEE

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

In 2007, the Supervisory Committee devoted more efforts to supervise the management. The Supervisory Committee considered:

1. In 2007, 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.
2. 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.
3. The financial position of the Company in 2007 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 2008

# INDEPENDENT AUDITOR'S REPORT

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**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 27 to 59, which comprise the balance sheet as at 31 December 2007, and the income statement, the statement of changes in equity and the 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 of the Company 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 the 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 and to report our opinion solely to you, as a body and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. 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

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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 2007 and of the 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 2008

Chan Wai Dune, Charles

Practising Certificate Number P00712

# INCOME STATEMENT

For the year ended 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
Turnover	8	74,436	62,303
Cost of sales		<u>(50,680)</u>	<u>(41,335)</u>
Gross profit		23,756	20,968
Other revenue	9	4,578	11,953
Distribution costs		(1,882)	(1,284)
Administrative expenses		(5,251)	(5,564)
Other operating expenses		<u>(1,911)</u>	<u>(8,561)</u>
Profit from operations	10	19,290	17,512
Finance costs	13	<u>(2,617)</u>	<u>(3,488)</u>
Profit before taxation		16,673	14,024
Income tax expenses	14	<u>(2,227)</u>	<u>–</u>
Profit for the year		<u>14,446</u>	<u>14,024</u>
Dividend	15	<u>–</u>	<u>–</u>
Earnings per share attributable to equity holders of the Company – basic	16	<u>RMB0.016</u>	<u>RMB0.015</u>

The notes on pages 31 to 59 form part of these financial statements.



# BALANCE SHEET

As at 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
<b>Non-current assets</b>			
Property, plant and equipment	17	88,857	86,973
Intangible assets	18	–	–
Land lease premium	19	21,068	21,582
		<b>109,925</b>	108,555
<b>Current assets</b>			
Inventories	20	4,531	4,434
Trade and other receivables	21	16,524	3,915
Land lease premium	19	514	514
Due from fellow subsidiaries		13,081	13,899
Bank balances-restricted	22	–	86,022
Cash and bank balances		57,734	3,039
		<b>92,384</b>	111,823
<b>Current liabilities</b>			
Trade and other payables	23	15,437	22,830
Taxation payable	24	7,175	4,948
Due to ultimate holding company		150	3,098
Bank loans	25	30,000	54,401
		<b>52,762</b>	85,277
<b>Net current assets</b>		<b>39,622</b>	26,546
<b>Net assets</b>		<b>149,547</b>	135,101
<b>Capital and reserves</b>			
Share capital	26	91,000	91,000
Reserves		58,547	44,101
		<b>149,547</b>	135,101

Approved and authorised for issue by the board of directors on 26 March 2008.

On behalf of the board

Director

Director

The notes on pages 31 to 59 form part of these financial statements.

# STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2007

	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 2006	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 and 1 January 2007	91,000	25,880	9,417	4,707	4,097	135,101
Profit for the year	–	–	–	–	14,446	14,446
Transfer	–	–	1,099	550	(1,649)	–
At 31 December 2007	<u>91,000</u>	<u>25,880</u>	<u>10,516</u>	<u>5,257</u>	<u>16,894</u>	<u>149,547</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). 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 RMB16,894,000 at 31 December 2007 (2006: RMB4,097,000).

The notes on pages 31 to 59 form part of these financial statements.

# CASH FLOW STATEMENT

For the year ended 31 December 2007

	2007 RMB'000	2006 RMB'000
<b>OPERATING ACTIVITIES</b>		
Profit before taxation	16,673	14,024
Adjustments for:		
Impairment loss on bad and doubtful debts	550	–
Reversal of impairment loss on bad and doubtful debts	(4,400)	(8,412)
Amortisation of land lease premium	210	210
Depreciation of property, plant and equipment	4,075	4,074
Interest expenses	2,616	3,487
Interest income	(122)	(31)
Loss on disposal of property, plant and equipment	665	4,268
Reversal of write-down of inventories	–	(1,326)
Trade and other payables written back	–	(1,760)
<b>Operating profit before working capital changes</b>	<b>20,267</b>	<b>14,534</b>
(Increase)/decrease in inventories	(97)	45
(Increase)/decrease in trade and other receivables	(8,759)	9,962
Decrease in trade and other payables	(7,393)	(1,870)
<b>Cash generated from operations</b>	<b>4,018</b>	<b>22,671</b>
PRC enterprise income tax paid	–	(3,432)
<b>NET CASH GENERATED FROM OPERATING ACTIVITIES</b>	<b>4,018</b>	<b>19,239</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(6,320)	(6,209)
Interest received	122	31
Proceeds from disposal of property, plant and equipment	–	1,834
Repayment to ultimate holding company	(2,948)	(2,231)
Repayment from/(advance to) a fellow subsidiary	818	(7,188)
Decrease in restricted bank balances	86,022	–
<b>NET CASH GENERATED FROM/(USED IN) INVESTING ACTIVITIES</b>	<b>77,694</b>	<b>(13,763)</b>
<b>FINANCING ACTIVITIES</b>		
Repayment of bank loans	(54,401)	–
New bank loans raised	30,000	–
Interest paid	(2,616)	(3,487)
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<b>(27,017)</b>	<b>(3,487)</b>
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>54,695</b>	<b>1,989</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>3,039</b>	<b>1,050</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		
Represented by cash and bank balances	<b>57,734</b>	<b>3,039</b>

The notes on pages 31 to 59 form part of these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

## 1. GENERAL

The Company was incorporated in 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 financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company.

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

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")/CHANGES IN ACCOUNTING POLICIES

In the current year, the Company has applied, for the first time, the following new standard, amendment and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Company's financial year beginning on 1 January 2007.

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC) – Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC) – Int 8	Scope of HKFRS 2
HK(IFRIC) – Int 9	Reassessment of Embedded Derivatives
HK(IFRIC) – Int10	Interim Financial Reporting and Impairment

The adoption of the new HKFRSs has had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)/CHANGES IN ACCOUNTING POLICIES (Continued)

The Company has not early applied the following new and revised standards or interpretations that have been issued but are not yet effective.

HKAS 1 (Revised)	Presentation of Financial Statements <sup>1</sup>
HKAS 23 (Revised)	Borrowing Costs <sup>1</sup>
HKFRS 8	Operating Segments <sup>1</sup>
HK(IFRIC) – Int 11	HKFRS 2: Group and Treasury Share Transactions <sup>2</sup>
HK(IFRIC) – Int 12	Service Concession Arrangements <sup>3</sup>
HK(IFRIC) – Int 13	Customer Loyalty Programmes <sup>4</sup>
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction <sup>3</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2009

<sup>2</sup> Effective for annual periods beginning on or after 1 March 2007

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2008

<sup>4</sup> Effective for annual periods beginning on or after 1 July 2008

The directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the results and the financial position of the Company.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared on the historical cost basis, except for certain financial instruments which are measured at fair value.

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the GEM of the Stock Exchange and the Hong Kong Companies Ordinance.

### a) Revenue recognition

Revenue is measured at fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

- i) Revenue from sales of goods is recognised when the goods are delivered and title has passed.
- ii) Interest income is accrued on a time basis by reference to the principal outstanding and at the interest rate applicable.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### b) Property, plant and equipment

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

Buildings are depreciated over the shorter of the term of the lease of land on which the buildings are erected, or 50 years.

Depreciation are provided to write off the cost of items of property, plant and equipment other than construction in progress, over their estimated useful lives and after taking into account of 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	Over 8 years
Plant and machinery	Over 7 years
Motor vehicles	Over 7 years
Furniture and office equipment	Over 5 years

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

### c) Intangible assets

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. Alternatively, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment on assets below).

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

# NOTES TO THE FINANCIAL STATEMENTS

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For the year ended 31 December 2007

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### d) Leasing

Leases are classified as finance leases whenever the term of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

#### *Leasehold land and building*

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as a finance lease and accounted for as property, plant and equipment. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases.

### e) Impairment of assets

#### *i) Impairment of receivables*

Current and non-current receivables that are stated at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, any impairment loss is determined and recognised as follows:

- For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### e) Impairment of assets (Continued)

#### ii) *Impairment of other assets*

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- prepaid interests in leasehold land classified as being held under an operating lease; and
- intangible assets.

If any such indication exists, the asset's recoverable amount is estimated.

- Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

- Recognition of impairment losses

An impairment loss is recognised in income statement whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount.

- Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to income statement in the year in which the reversals are recognised.



# NOTES TO THE FINANCIAL STATEMENTS

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For the year ended 31 December 2007

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 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) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts (see Note 3(e)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts.

### h) Trade and other payables

Trade and other payables are initially recognised at fair value. Trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

### i) 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 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 items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### i) Taxation (Continued)

Deferred tax is recognised 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 taxation 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 the temporary difference will not reverse in the foreseeable future.

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.

### 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 borrowing costs are recognised as and included in finance costs in the income statement in the period in which they are incurred.

### k) Foreign currencies

In preparing the financial statements, transactions in currencies other than the functional currency of that the Company (foreign currencies) are recorded at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date which the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

# NOTES TO THE FINANCIAL STATEMENTS

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For the year ended 31 December 2007

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### l) Employee benefits

*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) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

### n) Provisions and contingent liabilities

#### i) *Financial guarantees issued*

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

When the Company issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within trade and other trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Company's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with Note 3(n)(ii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Company under the guarantee, and (ii) the amount of that claim on the Company is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### n) Provisions and contingent liabilities (continued)

#### ii) *Other 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.

### o) Related parties

For the purposes of these financial statements, parties considered to be related to the Company if:

- i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Company or exercise significant influence over the Company in making financial and operating policy decisions, or has joint control over the Company;
- ii) the Company and the party are subject to common control;
- iii) the party is an associate of the Company or a joint venture in which the Company is a venturer;
- iv) the party is a member of key management personnel of the Company or the Company's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals; or
- v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or
- vi) the party is a post-employment benefit plan which is for the benefit of employees of the Company or of any entity that is a related party of the Company.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

# NOTES TO THE FINANCIAL STATEMENTS

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For the year ended 31 December 2007

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### p) Segment reporting

A segment is a distinguishable component of the Company that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Company's internal financial reporting system, the Company has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include trade receivables and property, plant and equipment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, tax balances, corporate and financing expenses.

### q) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

## 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company's accounting policies which are described in Note 3 to the financial statements, management has made the following judgements that have significant effect on the amount recognised in the financial statements. The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are also discussed below.

### Useful lives of property, plant and equipment

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

### Net realisable value of inventories

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

### Allowances for bad and doubtful debts

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

## 5. CAPITAL MANAGEMENT

The Company's objective when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide return for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

The Company monitors capital on the basis of the net debt to equity ratio. For this purpose the Company defines net debt as total debt (including short term bank loans, trade and other payables, tax payables and amount due to holding company) less cash and cash equivalents and restricted bank balance. Total capital is calculated as equity, as shown in the balance sheet.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

## 5. CAPITAL MANAGEMENT (Continued)

The net debt to equity at the year end was as follows:

	<b>2007</b> <b>RMB'000</b>	2006 <i>RMB'000</i>
Debt – total current liabilities	<b>52,762</b>	85,277
Bank balances – restricted	–	(86,022)
Cash and bank balances	<b>(57,734)</b>	(3,039)
Net debt	<b>(4,972)</b>	(3,784)
Equity	<b>149,547</b>	135,101
Net debt to equity ratio	<b>-3%</b>	-3%

The Company is not subject to externally imposed capital requirements.

## 6. FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Company's business.

These risks are managed by the Company's financial management policies and practices described below.

### i) Credit risk

The Company's credit risk is primarily attributable to trade receivables and amounts due from fellow subsidiaries. The Company manages this risk as follows:

In respect of trade receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. Trade receivables are normally due within 60 days of the billing date. Normally, the Company does not obtain collateral from customers.

Amounts receivable from fellow subsidiaries are regularly reviewed and settled unless the amounts are specifically intended to be long-term in nature.

At the balance sheet date, the Company has a concentration of credit risk as 85% (2006: 100%) of total receivables was due from the largest 5 customers.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet after deducting any impairment allowance.

Further quantitative disclosures in respect of the Company's exposure to credit risk arising from trade receivables are set out in Note 21.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

## 6. FINANCIAL INSTRUMENTS (Continued)

### ii) Liquidity risk

The Company's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, including the terms of borrowings from other related entities, to ensure that it maintains sufficient reserves of cash, readily realisable marketable securities or committed lines of funding from major financial institutions or other related entities to satisfy its contractual and reasonably foreseeable obligations as they fall due.

The following table presents the earliest contractual settlement dates of the Company's financial liabilities at the balance sheet date.

	2007				
	Carrying amount RMB'000	Within 3 months or an demand RMB'000	More than 3 months but less than 6 months RMB'000	More than 6 months but less than one year RMB'000	More than one year RMB'000
Trade and other payables	15,437	15,437	-	-	-
Taxation payable	7,175	7,175	-	-	-
Due to ultimate holding company	150	150	-	-	-
Bank loans	30,000	30,000	-	-	-
	<b>52,762</b>	<b>52,762</b>	-	-	-
	2006				
	Carrying amount RMB'000	Within 3 months or an demand RMB'000	More than 3 months but less than 6 months RMB'000	More than 6 months but less than one year RMB'000	More than one year RMB'000
Trade and other payables	22,830	22,830	-	-	-
Taxation payable	4,948	4,948	-	-	-
Due to ultimate holding company	3,098	3,098	-	-	-
Bank loans	54,401	54,401	-	-	-
	<b>85,277</b>	<b>85,277</b>	-	-	-

In order to manage the above liquidity demands, at 31 December 2007 RMB57,734,000 (2006: RMB89,061,000) of the Company's assets were held as cash that is readily realisable.



# NOTES TO THE FINANCIAL STATEMENTS

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For the year ended 31 December 2007

## 6. FINANCIAL INSTRUMENTS (Continued)

### iii) Interest rate risk

The Company is exposed to interest rate risk only to the extent that it earns bank interest on cash and deposits. Bank loans carried at fixed rates expose the Company to fair value interest rate risk only.

At 31 December 2007, it is estimated that a general increase/decrease of 20 basis points in interest rates, with all other variables held constant, would increase/decrease the Company's profit after tax and retained profits by approximately RMB115,000 (2006: RMB5,000). Other components of equity would not be affected (2006: RMBNil) by the changes in interest rates.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for financial instruments in existence at that date. The 20 basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date. The analysis is performed on the same basis for 2006.

### iv) Foreign currency risk

Most of the Company's monetary assets and liabilities are denominated in Renminbi and the Company conducted its business transactions principally in Renminbi. The Company currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure if necessary.

### v) Fair value

The fair value of financial assets and financial liabilities are determined as follow:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices; and
- the fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.

Except as indicated in the financial information, the directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial information approximate to their fair values.

## 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.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

## 8. TURNOVER

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

## 9. OTHER REVENUE

	<b>2007</b>	2006
	<b>RMB'000</b>	RMB'000
Reversal of impairment loss on bad and doubtful debts	<b>4,400</b>	8,412
Bank interest income	<b>122</b>	31
Sundry income	<b>56</b>	1,750
Trade and other payables written back	<b>–</b>	1,760
	<b>4,578</b>	11,953

## 10. PROFIT FROM OPERATIONS

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

	<b>2007</b>	2006
	<b>RMB'000</b>	RMB'000
Directors' and supervisors' remuneration	<b>764</b>	745
Other staff costs	<b>1,255</b>	1,167
Other staff's retirement benefits scheme contributions	<b>185</b>	200
	<b>2,204</b>	2,112
Auditor's remuneration	<b>514</b>	450
Bad debts written off	<b>–</b>	1,337
Cost of inventories ( <i>Note</i> )	<b>50,680</b>	41,335
Depreciation of property, plant and equipment	<b>4,075</b>	4,074
Impairment loss on bad and doubtful debts	<b>550</b>	–
Loss on disposal of property, plant and equipment	<b>665</b>	4,268
Minimum lease payment paid under operating lease	<b>–</b>	130
Reversal of write-down of inventories	<b>–</b>	(1,326)
Amortisation of land lease premium	<b>514</b>	514
Capitalised in construction in progress	<b>(304)</b>	(304)
	<b>210</b>	210

*Note:* Cost of inventories includes RMB3,388,000 (2006: RMB3,361,000) relating to staff costs, depreciation and amortisation expenses and operating lease charges, which amount is also included in the respective total amounts disclosed separately above for each of these type expenses.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

## 11. DIRECTORS' AND SUPERVISORS' EMOLUMENTS

2007

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	–	185	–	185
Yang Xiao Huai	–	65	8	73
Wang Feng	–	65	8	73
<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 2007	150	435	24	609
<i>Name of supervisor</i>				
Yan Bu Qiang	–	65	8	73
Jiang Li Fen	–	18	5	23
Zhang Xiao Ping	–	14	5	19
Duan Lin	–	20	–	20
Wang Gong Xun	–	20	–	20
Total supervisors' emoluments for 2007	–	137	18	155
Total for 2007	150	572	42	764

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

## 11. DIRECTORS' AND SUPERVISORS' EMOLUMENTS (Continued)

2006

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
Duan Lin	–	20	–	20
Wang Gong Xun	–	20	–	20
Total supervisors' emoluments for 2006	–	133	18	151
Total for 2006	150	553	42	745

During the years ended 31 December 2006 and 2007, 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 2006 and 2007.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

## 12. EMPLOYEES' EMOLUMENTS

The five highest paid individuals are all directors and supervisors, details of whose emoluments are included in Note 11 to the financial statements.

## 13. FINANCE COSTS

	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
Interest on bank loans wholly repayable within five years	2,616	3,487
Bank charges	1	1
	<u>2,617</u>	<u>3,488</u>

## 14. INCOME TAX IN THE INCOME STATEMENT

	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
PRC enterprise income tax: – provision for the year	<u>2,227</u>	<u>–</u>

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

### i) The Company, other than its branches – referred to as the “Head Office”

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

### ii) The Company's branches in Wei Nan

The Wei Nan Branch is 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.

By a legislation passed by the National People's Congress in 2007, a uniform enterprise income tax of 25% will become generally applicable to all domestic and foreign investment enterprises established in the PRC, subject to certain exceptions or exemptions with effect from 1 January 2008.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

## 14. INCOME TAX IN THE INCOME STATEMENT (Continued)

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

	<b>2007</b> <b>RMB'000</b>	2006 <i>RMB'000</i>
Profit before taxation	<b>16,673</b>	14,024
Tax at domestic income tax rate of 15% (2006:15%)	<b>2,501</b>	2,104
Tax effect of expenses not deductible for tax purpose	<b>200</b>	2,977
Tax effect of income not taxable for tax purpose	<b>(718)</b>	(2,326)
Tax effect of tax losses utilised	<b>-</b>	(2,755)
Tax effect of tax losses not recognised	<b>244</b>	-
Taxation for the year	<b>2,227</b>	-

## 15. DIVIDEND

No final dividend for the year ended 31 December 2007 has been proposed by the directors (2006: Nil).

## 16. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit for the year of RMB14,446,000 (2006: RMB14,024,000) and the weighted average number of 910,000,000 (2006: 910,000,000) shares in issue during the year.

Diluted earnings per share is not presented as there were no potential dilutive ordinary shares in issue during the year (2006: Nil).

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

## 17. 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
<b>Cost</b>							
At 1 January 2006	18,287	3,883	22,556	1,530	2,404	58,799	107,459
Additions	-	-	-	-	-	6,513	6,513
Disposal	(2,374)	-	(7,526)	(770)	(251)	-	(10,921)
Transfers	3,465	-	8,524	-	-	(11,989)	-
At 31 December 2006	19,378	3,883	23,554	760	2,153	53,323	103,051
<b>Depreciation</b>							
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
<b>Net book values</b>							
At 31 December 2006	16,892	613	15,807	113	225	53,323	86,973
<b>Cost</b>							
At 1 January 2007	19,378	3,883	23,554	760	2,153	53,323	103,051
Additions	-	-	-	-	-	6,624	6,624
Disposal	-	-	(1,034)	-	-	-	(1,034)
Transfers	-	-	7,343	-	-	(7,343)	-
At 31 December 2007	19,378	3,883	29,863	760	2,153	52,604	108,641
<b>Depreciation</b>							
At 1 January 2007	2,486	3,270	7,747	647	1,928	-	16,078
Charge for the year	588	350	2,992	47	98	-	4,075
Written back on disposal	-	-	(369)	-	-	-	(369)
At 31 December 2007	3,074	3,620	10,370	694	2,026	-	19,784
<b>Net book values</b>							
At 31 December 2007	16,304	263	19,493	66	127	52,604	88,857

Amount of buildings and construction in progress included the land elements which are now disclosed as land lease premium in Note 19 to the financial statements.

Amount of construction in progress included accumulated amortisation of land lease premium of RMB2,129,000 (2006: RMB1,825,000) which is transferred from land lease premium.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

## 18. INTANGIBLE ASSETS

	<b>Technical know how</b> <i>RMB'000</i>
<b>Cost</b>	
At 1 January 2006 and at 31 December 2006	20,000
<b>Amortisation</b>	
At 1 January 2006 and at 31 December 2006	20,000
<b>Net book value at 31 December 2006</b>	<u>–</u>
<b>Cost</b>	
At 1 January 2007 and at 31 December 2007	20,000
<b>Amortisation</b>	
At 1 January 2007 and at 31 December 2007	20,000
<b>Net book value at 31 December 2007</b>	<u>–</u>

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

## 19. LAND LEASE PREMIUM

	<b>2007</b> <i>RMB'000</i>	2006 <i>RMB'000</i>
Net book value at 1 January – after adopting HKAS 17	<b>22,096</b>	22,610
Amortisation during the year	<b>(514)</b>	(514)
Net book value at 31 December	<b>21,582</b>	22,096
Non-current portion	<b>(21,068)</b>	(21,582)
Current portion classified as current assets	<b>514</b>	514

The land lease premium is for land situated in the PRC under medium term. The cost of the leasehold interest in land held for own use was approximately of RMB25,443,000 (2006: approximately of 25,443,000)



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

## 20. INVENTORIES

	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
Raw materials	1,555	4,333
Finished goods	2,976	101
	<u>4,531</u>	<u>4,434</u>

The analysis of the amount of inventories recognised as an expenses is as follows:

	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
Carrying amount of inventories sold	50,680	42,661
Reversal of write-down of inventories	-	(1,326)
	<u>50,680</u>	<u>41,335</u>

## 21. 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:

	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
Within 90 days	8,149	6,325
91 – 180 days	7,689	302
181 – 365 days	7,707	-
Over 365 days	19,929	30,157
	<u>43,474</u>	<u>36,784</u>
Less: Impairment loss on bad and doubtful debts	(29,274)	(33,674)
	<u>14,200</u>	<u>3,110</u>
Other receivables	2,924	855
Less: Impairment loss on bad and doubtful debts	(600)	(50)
	<u>2,324</u>	<u>805</u>
	<u>16,524</u>	<u>3,915</u>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

## 21. TRADE AND OTHER RECEIVABLES (Continued)

Impairment losses in respect of trade and other receivables are recorded using an allowance account unless the Company is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade and other receivable directly (see Note 3(e)).

The movement in the impairment on bad and doubtful debts during the year is as follows:

	<b>Trade receivables</b>		<b>Other receivables</b>	
	<b>2007</b>	2006	<b>2007</b>	2006
	<b>RMB'000</b>	RMB'000	<b>RMB'000</b>	RMB'000
At 1 January	<b>33,674</b>	41,793	<b>50</b>	343
Impairment loss recognised	-	-	<b>550</b>	-
Reversal of impairment loss	<b>(4,400)</b>	(8,119)	-	(293)
At 31 December	<b>29,274</b>	33,674	<b>600</b>	50

As at 31 December 2006 and 2007, no receivables that were past due but not impaired.

## 22. BANK BALANCES

In 2005, there were legal proceedings between Shaanxi Jing Dian Investment Company Limited, a substantial shareholder of the Company, and Northwest Industry 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 2007, judgment is received in favour of the Northwest Industry Group from the Supreme People's Court of Shaanxi Province. The bank accounts were unfrozen on 22 March 2007.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

## 23. TRADE AND OTHER PAYABLES

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

	<b>2007</b> <b>RMB'000</b>	2006 <i>RMB'000</i>
Within 90 days	-	-
91-180 days	-	-
181-365 days	-	-
Over 365 days	<b>508</b>	508
	<hr/> <b>508</b>	<hr/> 508
Other payables	<b>14,929</b>	22,322
	<hr/> <b>15,437</b>	<hr/> 22,830
	<hr/> <hr/> <b>15,437</b>	<hr/> <hr/> 22,830

Including in other payables is an amount of RMB2,490,000 (2006: RMB2,490,000) that is a dividend payable to Northwest Industry Group, ultimate holding company of the Company.

## 24. INCOME TAX IN THE BALANCE SHEET

	<b>2007</b> <b>RMB'000</b>	2006 <i>RMB'000</i>
Provision for PRC enterprise income tax for the year	<b>2,227</b>	-
PRC enterprise income tax paid	-	(3,432)
	<hr/> <b>2,227</b>	<hr/> (3,432)
Balance of PRC enterprise income tax provision relating to prior years	<b>4,948</b>	8,380
	<hr/> <b>7,175</b>	<hr/> 4,948
	<hr/> <hr/> <b>7,175</b>	<hr/> <hr/> 4,948

At 31 December 2007, the Company has unused tax losses of approximately RMB442,000 (2006: RMB198,000) 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.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

## 25. BANK LOANS

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

	<b>2007</b> <b>RMB'000</b>	2006 <i>RMB'000</i>
<b>Fixed rate borrowings:</b>		
Secured		
Bank loan bearing interest at 7.668% per annum	<b>15,000</b>	–
Bank loan bearing interest at 7.349% per annum	<b>15,000</b>	–
Bank loan bearing interest at 0.4425% per month	–	19,901
Bank loans bearing interest at 5.841% per annum	–	30,000
	<b>30,000</b>	49,901
Unsecured		
Bank loan bearing interest at 0.531% per month	–	4,500
	<b>30,000</b>	54,401

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

	<b>2007</b> <b>RMB'000</b>	2006 <i>RMB'000</i>
西安翠寶首飾集團公司 Xi'an Cuibao Jewelry Group Company	–	4,500

## 26. SHARE CAPITAL

	<b>Number of shares</b> <i>'000</i>	<b>Share capital</b> <i>RMB'000</i>
<b>Share capital of RMB0.10 each</b>		
Registered, issued and fully paid:		
As at 31 December 2007	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 2007

## 27. RELATED PARTY TRANSACTIONS

- a) The Company purchased goods from a fellow subsidiary amounting to RMB 36,431,000 (2006: RMB36,823,000).
- b) As at the respective balance sheet dates, the Company had the following balances with related parties:

	<b>2007</b>	2006
	<b>RMB'000</b>	RMB'000
Due from fellow subsidiaries	<b>13,081</b>	13,899
Due to ultimate holding company	<b>150</b>	3,098
Dividend payable to ultimate holding company (Note 23)	<b>2,490</b>	2,490
	<b><u>          </u></b>	<b><u>          </u></b>

The amounts outstanding are unsecured, interest-free and repayable on demand.

- c) Key management personnel remuneration

Remuneration for key management personnel of the Company, including amounts paid to the Company's directors is disclosed in Note 11.

## 28. 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").

### a) 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").

### b) Payment on acceptance of option offer

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

### c) 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 2007

## 28. SHARE OPTION SCHEME (Continued)

### d) Maximum number of 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:

- i) 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;
- ii) 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;
- iii) 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;
- iv) 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
- v) 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 2007

## 28. SHARE OPTION SCHEME (Continued)

### e) 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.

### f) 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.

## 29. CAPITAL COMMITMENTS

	<b>2007</b>	2006
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Capital expenditure in respect of acquisition of property, plant and equipment:		
– contracted for but not provided in the financial statements	<b>12,187</b>	12,598

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

## 30. 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:

	<b>2007</b>	2006
	<b>RMB'000</b>	<i>RMB'000</i>
Property, plant and equipment	<b>48,879</b>	48,575
Land lease premium	<b>13,075</b>	13,379
	<hr/>	<hr/>
	<b>61,954</b>	61,954
	<hr/> <hr/>	<hr/> <hr/>

## 31. 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 RMB227,000 (2006: RMB242,000) represents contributions payable to the scheme by the Company during the year.



# FINANCIAL SUMMARY

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## RESULTS

	For the year ended 31 December				
	2007	2006	2005	2004	2003
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
TURNOVER	<b>74,436</b>	62,303	322	85,446	85,754
PROFIT/(LOSS) BEFORE TAXATION	<b>16,673</b>	14,024	(56,284)	22,870	23,468
TAXATION	<b>(2,227)</b>	–	(1,043)	(2,525)	(4,676)
NET PROFIT/(LOSS) FOR THE YEAR	<b>14,446</b>	14,024	(57,327)	20,345	18,792

## ASSETS AND LIABILITIES

	At 31 December				
	2007	2006	2005	2004	2003
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
TOTAL ASSETS	<b>202,309</b>	220,378	215,647	267,498	242,639
TOTAL LIABILITIES	<b>(52,762)</b>	(85,277)	(94,570)	(89,094)	(82,305)
SHAREHOLDERS' FUNDS	<b>149,547</b>	135,101	121,077	178,404	160,334