



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 Report
2009

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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 the Shaanxi Northwest New Technology Industry Company Limited. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this report is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this report misleading; and (iii) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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CORPORATE INFORMATION

DIRECTORS OF THE COMPANY

Executive Directors

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

Non-executive Directors

Mr. Guo Bin
Ms Zheng Rongfang

Independent non-executive Directors

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

SUPERVISORS

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

INDEPENDENT SUPERVISORS

Mr. Duan Lin
Mr. Wang Gongxun

AUDIT COMMITTEE

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

COMPLIANCE OFFICER

Mr. Wang Feng

AUTHORIZED REPRESENTATIVES

Mr. Wang Cong
Mr. Gao Peng

AUDITOR

CCIF CPA Limited
Certified Public Accountants

LEGAL ADVISORS

As to Hong Kong law
K&L Gates

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

14B, Wing Cheong Commercial Building
19-25 Jervois Street
Sheung Wan
Hong Kong

Stock Code

8258

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

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

PRINCIPAL BANKERS

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

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

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

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

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

CHAIRMAN'S STATEMENT

Dear Shareholders:

On behalf of the board (the "Board") of directors 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 2009.

OPERATING PERFORMANCE

During 2009, the Company recorded a turnover of approximately RMB32,983,000 and a loss of approximately RMB22,983,000, representing a decrease of 32.2% and an increase of 66.9% from the previous year respectively. The Board does not recommend paying any final dividend for the year ended 31 December 2009.

BUSINESS STRATEGY

In 2009, the Company's operations and businesses were dampened as the major customers of the Company experienced difficulties with their cash flow compounded by declined profitability, which in turn led to a marked impact on the Company's operations, in particular, a substantial increase in account receivables. In light of the above situation, the management adopted a series of measures to maintain a stable profit margin in term of product sales, which includes making internal improvement to reduce production cost, and adopting various means to reduce material purchasing prices through comprehensive consultation with material suppliers. Meanwhile, the management continued to reinforce the management over the medium-scale trial production of rare-earth luminescent material products by summarizing problems emerged during the previous ones. In order to relieve its working capital strain, in December 2009, the Company disposed the land and the construction in progress in tech-park which had been idled for years to reap a precious cash income, which serves to provide sufficient working capital for the Company's future development as well as capital reserve for implementation of its scheduled business plans.

CHAIRMAN'S STATEMENT

PROSPECT

The Directors believe that with the relieved and improved capital situation, reduced liabilities and increased cash flow, the Company will have a better liquidity to mainly enlarge the production scale of existing products and to further reinforce and improve its construction of marketing network, striving with effort a remarkable growth in the operating results in future. Meanwhile, the Company will also remodel and optimize the existing production lines, intensify the investment in development of new products, and focus on nurturing new projects that would contribute to profit growth and play an active role in enhancement and sustainable development of the Company's operating result in future. In addition to ensuring a sustainable development in our existing business, the Company will continue to expand into new business sectors 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!

Professor Wang Cong

Chairman

Xi'an, the PRC
29 March 2010

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The Company's turnover was approximately RMB32,983,000 for the financial year ended 31 December 2009, representing a decrease of 32.2% over the previous year.

The Company's loss was approximately RMB22,983,000 for the financial year ended 31 December 2009, as compared to RMB13,903,000 for last year. The gross profit margin of 2009 was 19.1% (2008: 28.6%).

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2009, the equity of owners of the Company was approximately RMB112,792,000 (2008: RMB135,775,000); cash and bank balances were RMB978,000 (2008: RMB9,524,000); current assets amounted to RMB93,294,000 (2008: RMB76,879,000); and current liabilities amounted to approximately RMB17,574,000 (2008: RMB45,778,000), which mainly included a short term bank loan of RMB Nil (2008: RMB30,000,000) repayable within one year.

The Company's liquidity ratio, defined as total current assets over total current liabilities, increased from 1.68 as at 31 December 2008 to 5.31 as at 31 December 2009.

Major Disposal

On 28 December 2009, the Company signed a contract with CCCC First Highway Consultants Co., LTD (FHCC) to sell a parcel of land with an area of 36,110.1m², which is located at Road No.6 of Xi'an High and New Technology Development Zone, together with the buildings erected thereon with an floor area of 12,000 m² to FHCC at a contract sum of RMB50,000,000. This transaction was fully completed in February 2010.

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 2009 and for the same period last year.

PLEDGE OF ASSETS

As at 31 December 2009, the company was no pledge of assets.

SIGNIFICANT FUTURE INVESTMENT PLANS AND EXPECTED FINANCIAL RESOURCES

As at 31 December 2009, except for a refundable deposit of RMB13,000,000 paid for a proposed investment in a private enterprise established in the PRC which terms are subject to negotiations and the due diligence results, there were no significant investment plans.

GEARING RATIO

Gearing ratio defined as total borrowings over net assets was undetermined (same period of 2008: 22.1%).

MANAGEMENT DISCUSSION AND ANALYSIS

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.

BUSINESS REVIEW

The Company achieved the following results for the financial year ended 31 December 2009:

Products and production

The Company's principal product was FA-90 unleaded gasoline additive ("FA-90"). The Company realised a sales income of RMB32,983,000 for the year.

For the financial year ended 31 December 2009, the turnover of the Company amounted to approximately RMB32,983,000, representing a decrease of 32.2% from the previous year,

Sales and marketing

The Company's sales mainly relied on its existing sales and distribution network and expanded its sales channel appropriately. Sales of products recorded a substantial fall due to the decrease in domestic demand and an increase in its trade receivables.

MANAGEMENT DISCUSSION AND ANALYSIS

EMPLOYEES AND REMUNERATION POLICY

For the year ended 31 December 2009, staff remuneration of the Company amounted to approximately RMB1,940,000 (2008: RMB1,995,000). The Company employed a total of 71 staff (2008: 78 staff). Remuneration was determined by reference to the position and duties of the staff and individual performance, qualification and experience. Discretionary bonus may be rewarded to the employees by reference to their performance to recognize their contribution. Other benefits included housing allowances and the unemployment, medical and pension schemes stipulated by the social security system of the PRC government.

PROSPECT

The Directors believe that with the relieved and improved capital situation, reduced liabilities and increased cash flow, the Company will have a better liquidity to mainly enlarge the production scale of existing products and to further reinforce and improve its construction of marketing network, striving with effort a remarkable growth in the operating results in future. Meanwhile, the Company will also remodel and optimize the existing production lines, intensify the investment in development of new products, and focus on nurturing new projects that would contribute to profit growth and play an active role in enhancement and sustainable development of the Company's operating result in future. In addition to ensuring a sustainable development in our existing business, the Company will continue to expand into new business sectors which will be a new drive for significant business and profit growth, so as to reward shareholders with excellent results.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Wang Cong (王聰), aged 52, 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 50, 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 36, 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 46, 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 58, 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 Subbureau (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 nonexecutive Director in August 2002.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Zheng Rongfang (鄭榮芳), aged 63, 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 46, 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 nonexecutive Director in January 2000.

Chen Tao (陳濤), aged 39, 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 40, 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 56, is a Supervisor and the chairman of the supervisory committee of the Company and is responsible for the implementation of the Company's development plans. Mr. Yan graduated from Northwest Textile Technical Institute (西北紡織工學院) majoring in textile studies in July 1982. From July 1982 to July 1995, he served as the secretary to the delegation division (團總支書記), deputy head of equipment office, deputy head of general office and head of property office of Northwest Textile Technical Institute (西北紡織工學院). Mr. Yan joined the predecessor of the Company, Northwest Industry Corporation, in August 1995.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Jiang Lifan (姜禮芬), aged 50, 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 37, 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 47, 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 73, 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, vicechairman 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 39, 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

SENIOR MANAGEMENT

Li Xiaohu (李小虎), aged 49, 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 57, 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 46, 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 36, 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 50, 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 42, is a chief engineer of the Company. He graduated from the Shanghai Fudan University with a bachelor's degree in applied chemistry. He worked for the Technology Department of Xian Paints Factory Sifen Factory (西安油漆總廠四分廠) from July 1990 to 1992. He served as a manager of Shenzhen Xiandaoxi Material Ltd Co., (深圳市先導新材料有限公司) from 1992 to 1997 and was responsible for the development of electronic consumables materials and nanometer materials. He invented a super small BaTiO₃ soft materials successfully and the product was utilized by Fuji (富士公司) and TDK of Japan. From 1997 to 2000, he worked at Shenzhen Zhongzhen Industry Limited (深圳中圳實業有限公司) as a chief engineer responsible for the development and the management of production technology of rare-earth electromagnetic materials. From 2000 to June 2002, he worked at the Nantonghongding International Chemistry Company (南通虹鼎國際化工公司) as a chief engineer. He joined the Company in June 2002.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Zhou Ming (周明), aged 41, 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 54, 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 70, 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 46, 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 46, 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 42, 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 37, is the manager of the human resources department and administration department of the Company. Ms. Feng graduated from Shaanxi Commerce College (陝西商業專科學院) majoring in international tourism and business in July 1994. From July 1995 to October 1999, she served consecutively as the office secretary in Xi'an Jinguishou Pharmacy Group Company (西安市金龜壽藥業集團公司), the head of the dealing department of Shaanxi Hualong Futures Dealers Limited Liability Company (陝西華隆期貨經紀有限責任公司) and the manager of the dealing department of Weinan New Century Information Consultancy Limited Liability Company (渭南新世紀信息諮詢有限責任公司). She joined the Company in November 1999.

DIRECTORS' REPORT

The Directors present their report and the audited financial statements of the Company for the year ended 31 December 2009.

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 2009 are set out on page 28 of the annual report. The Directors do not recommend the payment of a final dividend in respect of the year ended 31 December 2009.

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 14 to the financial statements.

TRADE RECEIVABLES

The trade receivables net of impairment loss as at 31 December 2009 amounted to RMB10,065,000 (2008: RMB8,810,000).

SHARE CAPITAL

The details of the movements in the share capital of the Company during the year are set out in Note 25 to the financial statements.

DIRECTORS' REPORT

DIRECTORS AND SUPERVISORS

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

Executive Directors:

Wang Cong
Wang Feng
Gao Peng
Yang Xiaohuai

Non-executive Directors:

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 2009, the interests or short positions of the Directors, the Supervisors ("Supervisors") and chief executives of the Company in shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO") (Chapter 571 of the Laws of Hong Kong) 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 were as follows:

Interests in domestic shares of the Company (long positions)

Name	Capacity	Number of domestic shares	Approximate shareholding percentage in the total issued domestic shares	Approximate shareholding percentage in the entire issued share capital of the Company
Wang Cong (<i>Note 1</i>)	Interest of controlled corporation	609,500,000	89.63%	66.98%
Zheng Rongfang	Beneficial owner	2,000,000	0.29%	0.22%
Wang Feng	Beneficial owner	2,000,000	0.29%	0.22%
Zeng Yinglin	Beneficial owner	2,000,000	0.29%	0.22%
Yan Buqiang	Beneficial owner	2,000,000	0.29%	0.22%
Wang Zheng	Beneficial owner	2,000,000	0.29%	0.22%
Guo Quibao	Beneficial owner	2,000,000	0.29%	0.22%

Notes:

1. The 609,500,000 domestic shares were held by Xi'an Northwest Industry (Group) Company Limited ("Northwest Group"), which is beneficially owned as to 98% by Wang Cong. Wang Cong is deemed to be interested in these 60,950,000 domestic shares.

DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDERS AND OTHER SHAREHOLDERS INTERESTS

As at 31 December 2009, the persons (other than a director, supervisor or chief executive of the Company) who have an interest or short position in any share or underlying share of the Company as recorded in the register required to be kept under section 336 of the SFO were as follows:

Interests in domestic shares of the Company (long positions)

Name	Capacity	Number of domestic shares	Approximate shareholding percentage in the total issued domestic shares	Approximate shareholding percentage in the entire issued share capital of the Company
Northwest Group	Beneficial owner	609,500,000	89.63%	66.98%
Shaanxi Jing Dian Investment Company Limited (陝西精典投資有限公司)	Beneficial owner	5,850,000	8.60%	6.43%
Ding Xianguang (Note) corporation	Interest of controlled	5,850,000	8.60%	6.43%
Zhang Jianming (Note) corporation	Interest of controlled	5,850,000	8.60%	6.43%

Note: Each of Ding Xianguang and Zhang Jianming was beneficially interested in 40% of the equity interest in Shaanxi Jing Dian Investment Company Limited (陝西精典投資有限公司), and is deemed to be interested in 5,850,000 domestic shares under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Interests in H shares of the Company (long positions)

Name	Capacity	Number of H shares	Approximate shareholding percentage in the total issued H shares	Approximate shareholding percentage in the entire issued share capital of the Company
唐偉超	Beneficial owner	12,960,000	5.63%	1.42%

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 2009, no share option has been granted under the share option scheme.

DIRECTORS AND SUPERVISORS INTERESTS IN MATERIAL CONTRACTS

During the year ended 31 December 2009, 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 2009, 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

During the year, the second largest suppliers of the Company accounted for approximately 95% of the Company's purchases. The largest supplier accounted for 60% of the purchase of the Company.

Aggregate sales attributable to the Group's five largest customers accounted for approximately 98% of the total turnover. The largest customer accounted for approximately 42% of the total turnover of the Company.

None of the Directors, the Supervisors, their associates or any shareholders which, to the knowledge of the Directors, own more than 5% of the Company' issued share capital had any interest in the five largest suppliers or customers during the year ended 31 December 2009.

DIRECTORS' REPORT

ANALYSIS OF THE OPERATION OF THE COMPANY

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

FOR THE YEAR ENDED 31 DECEMBER 2009

	FA-90 <i>RMB'000</i>
Turnover	32,983
Cost of sales	(26,698)
	<hr/>
Gross profit	6,285
	<hr/> <hr/>

For the year ended 31 December 2008

	FA-90 <i>RMB'000</i>
Turnover	48,666
Cost of sales	(34,763)
	<hr/>
Gross loss	13,903
	<hr/> <hr/>

LITIGATION

As at 31 December 2009, 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 2009.

PRE-EMPTIVE RIGHTS

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

CORPORATE GOVERNANCE REPORT

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 2009, 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

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 redesignation 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 2009, the Board held five meetings. The attendance record of each Director is set out below:

Executive Directors:

Mr. Wang Cong (<i>Chairman</i>)	5/5
Mr. Wang Feng	5/5
Mr. Gao Peng	5/5
Mr. Yang Xiaohuai	5/5

Non-executive Directors:

Ms. Zheng Rongfang	3/5
Mr. Guo Bin	0/5

Independent non-executive Directors:

Mr. Li Gangjian	5/5
Mr. Wei Dazhi	0/5
Mr. Chen Tao	2/5

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).

CORPORATE GOVERNANCE REPORT

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 2009. During the year ended 31 December 2009, four audit committee meetings were held. The attendance records of the members were as follows:

Members	Attendance (times)
Li Gangjian	4/4
Wei Dazhi	0/4
Zheng Rongfang	3/4

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

During 2009, 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:

Members	Attendance (times)
Li Gangjian	2/2
Zheng Rongfang	2/2
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 reappointment of Directors and all matters relating to the proposed appointment of Directors.

During 2009, 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 Nonexecutive Directors. It also gave reasonable advise on matters regarding the appointment of Directors to the Board. The attendance records of the members of the nomination committee were as follows:

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

AUDITOR

CCIF CPA Limited continued to be the auditor of the Company by the approval of the general meeting of the Company held on 30 December 2009. During 2009, the fees paid to CCIF CPA Limited for its audit services for the Company amounted to approximately RMB530,000.

CORPORATE GOVERNANCE REPORT

RESPONSIBILITIES OF DIRECTORS AND AUDITOR 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
29 March 2010

REPORT OF SUPERVISORY COMMITTEE

To the Shareholders:

In 2009, 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 2009. 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 seventeenth meeting of the second Supervisory Committee was held on 30 March 2009, which considered and approved the audited annual results report of the Company for the year ended 31 December 2008 and reviewed the 2008 annual report.
2. The eighteenth meeting of the second Supervisory Committee was held on 15 May 2009, which considered and approved the unaudited first quarterly results report of the Company for the three months ended 31 March 2009.
3. The nineteenth meeting of the second Supervisory Committee was held on 6 August 2009, which considered and approved the unaudited interim results report of the Company for the six months ended 30 June 2009.
4. The twentieth meeting of the second Supervisory Committee was held on 11 November 2009, which considered and approved the unaudited third quarterly results report of the Company for the nine months ended 30 September 2009.

REPORT OF SUPERVISORY COMMITTEE

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

In 2009, the Supervisory Committee devoted more efforts to supervise the management. The Supervisory Committee considered:

1. In 2009, 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 2009 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
29 March 2010

INDEPENDENT AUDITOR'S REPORT



CCIF

CCIF CPA LIMITED

34/F The Lee Gardens
33 Hysan Avenue
Causeway Bay Hong Kong

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF **SHAANXI NORTHWEST NEW TECHNOLOGY INDUSTRY COMPANY LIMITED**

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

We have audited the financial statements of Shaanxi Northwest New Technology Industry Company Limited (the "Company") set out on pages 28 to 69, which comprise the statement of financial position as at 31 December 2009, and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows 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. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of 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

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 2009 and of the Company's loss 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, 29 March 2010

Ho Chun Shing

Practising Certificate Number P04396

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
Turnover	5	32,983	48,666
Cost of sales		(26,698)	(34,763)
Gross profit		6,285	13,903
Other revenue and other net income	6	4,302	181
Distribution and selling expenses		(1,345)	(1,490)
Administrative expenses		(9,566)	(5,558)
Finance costs	7	(1,294)	(2,253)
Impairment loss on property, plant and equipment	14	(13,154)	–
Other operating expenses		(7,961)	(17,705)
Loss before taxation	8	(22,733)	(12,922)
Income tax expense	11	(250)	(850)
Loss for the year		(22,983)	(13,772)
Other comprehensive income for the year		–	–
Total comprehensive income for the year		(22,983)	(13,772)
Loss for the year			
– attributable to owners of the Company		(22,983)	(13,772)
Total comprehensive income for the year			
– attributable to owners of the Company		(22,983)	(13,772)
Loss per share	13		
– Basic and diluted		RMB(0.025)	RMB(0.015)

The notes on pages 32 to 69 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

As at 31 December 2009

	<i>Note</i>	2009 RMB'000	2008 <i>RMB'000</i>
Non-current assets			
Property, plant and equipment	14	29,194	84,120
Intangible assets	15	-	-
Land lease premium	16	7,878	20,554
		37,072	104,674
Current assets			
Inventories	17	6,209	2,708
Trade receivables	18	10,065	8,810
Prepayments, deposits and other receivables	19	25,832	43,845
Land lease premium	16	210	514
Due from fellow subsidiaries		-	11,478
Cash and bank balances		978	9,524
		43,294	76,879
Assets classified as held for sale	20	50,000	-
		93,294	76,879
Current liabilities			
Trade payables	21	508	508
Accruals and other payables	22	11,246	9,802
Bank loans	23	-	30,000
Current taxation	24	5,568	5,318
Due to ultimate holding company		252	150
		17,574	45,778
Net current assets		75,720	31,101
Net assets		112,792	135,775
Capital and reserves			
Share capital	25	91,000	91,000
Reserves		21,792	44,775
Total equity		112,792	135,775

Approved and authorised for issue by the board of directors on 29 March 2010

On behalf of the board

Wang Cong
Director

Gao Peng
Director

The notes on pages 32 to 69 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2009

	Share capital <i>RMB'000</i>	Share premium <i>RMB'000</i> <i>(Note a)</i>	Statutory surplus reserve <i>RMB'000</i> <i>(Note b)</i>	Statutory welfare fund <i>RMB'000</i> <i>(Note c)</i>	Retained profits/ (accumulated loss) <i>RMB'000</i> <i>(Note d)</i>	Total equity <i>RMB'000</i>
At 1 January 2008	91,000	25,880	10,516	5,257	16,894	149,547
Total comprehensive income for the year	-	-	-	-	(13,772)	(13,772)
Transfer	-	-	471	236	(707)	-
At 31 December 2008 and 1 January 2009	91,000	25,880	10,987	5,493	2,415	135,775
Total comprehensive income for the year	-	-	-	-	(22,983)	(22,983)
At 31 December 2009	<u>91,000</u>	<u>25,880</u>	<u>10,987</u>	<u>5,493</u>	<u>(20,568)</u>	<u>112,792</u>

Notes:

a) Share premium

The share premium represents the difference between the nominal amount of share capital and amounts received on issue of shares.

b) 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 of its statutory financial statements 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.

c) 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.

d) Retained profits/(accumulated loss)

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 RMB Nil at 31 December 2009 (2008:RMB2,415,000).

The notes on pages 32 to 69 form part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended 31 December 2009

	2009 RMB'000	2008 RMB'000
OPERATING ACTIVITIES		
Loss before taxation	(22,733)	(12,922)
Adjustments for:		
Impairment loss on bad and doubtful debts	–	17,119
Reversal of impairment loss on bad and doubtful debts	(4,244)	–
Impairment loss on other receivables	626	–
Amortisation of land lease premium	210	210
Depreciation of property, plant and equipment	4,340	4,805
Interest expenses	1,294	2,253
Interest income	(58)	(181)
Loss on disposal of property, plant and equipment	82	9
Impairment loss on property, plant and equipment	13,154	–
Operating (loss)/profit before changes in working capital	(7,329)	11,293
(Increase)/decrease in inventories	(3,501)	1,823
Decrease/(increase) in trade receivables	2,989	(11,729)
Decrease/(increase) in prepayments, deposits and other receivables	17,387	(41,521)
Increase/(Decrease) in accruals and other payables	1,444	(5,127)
Cash generated from/(used in) operations	10,990	(45,261)
PRC enterprise income tax paid	–	(2,707)
NET CASH GENERATED FROM/(USED IN) OPERATING ACTIVITIES	10,990	(47,968)
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(2,000)	(173)
Interest received	58	181
Refund from constructor	2,000	400
Proceeds from disposal of property, plant and equipment	120	–
Decrease in due from fellow subsidiaries	11,478	1,603
Increase in due to ultimate holding company	102	–
NET CASH GENERATED FROM INVESTING ACTIVITIES	11,758	2,011
FINANCING ACTIVITIES		
Repayment of bank loans	(30,000)	(30,000)
Interest on bank loans	(1,294)	(2,253)
New bank loans raised	–	30,000
NET CASH USED IN FINANCING ACTIVITIES	(31,294)	(2,253)
DECREASE IN CASH AND CASH EQUIVALENTS	(8,546)	(48,210)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	9,524	57,734
CASH AND CASH EQUIVALENTS AT END OF YEAR		
Cash and bank balances	978	9,524

The notes on pages 32 to 69 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

1. GENERAL

The Company was incorporated in the People's Republic of China (the "PRC") on 9 April 1999 as a limited liability company. On 18 January 2000, pursuant to the approval from the relevant PRC authorities, the Company was converted into a joint stock limited company and renamed as 陝西西北新技術實業股份有限公司 Shaanxi Northwest New Technology Industry Company Limited in preparing for the listing of the Company's H Shares on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The H shares of the Company were listed on the GEM on 3 July 2003.

The Company is principally engaged in the research and development, production and sale of innovative environmental protection energy material and products and fuel oil additives.

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

2. ADOPTION OF NEW AND AMENDED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The Hong Kong Institute of Certified Public Accountants ("HKICPA") has issued a number of Hong Kong Accounting Standards ("HKASs"), HKFRSs, amendments and interpretations ("HK(IFRIC) – Int") (hereinafter collectively referred to as the "New HKFRSs") which are effective for the Company's financial year beginning on 1 January 2009. For the purposes of preparing and presenting the financial statements for the year ended 31 December 2009, the Company has adopted all of the New HKFRSs that are mandatory for the first time for the financial period beginning on 1 January 2009. The application of the new HKFRSs 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 year adjustment is required.

Up to the date of issue of these financial statements, the HKICPA has issued the following standards, amendments and interpretations that are not yet effective for the year ended 31 December 2009.

The Company has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

HKFRSs (Amendments)	Amendments to HKFRSs 5 as part of Improvements to HKFRSs issued in 2008 ¹
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 ²
HKAS 1 (Revised)	Presentation of Financial Statements ²
HKAS 24 (Revised)	Related Party Disclosures ⁶
HKAS 27 (Revised)	Consolidated and Separate Financial Statements ¹
HKAS 32 (Amendments)	Classification of Rights Issues ⁴
HKAS 39 (Amendments)	Eligible Hedged Items ¹

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

2. ADOPTION OF NEW AND AMENDED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

HKFRS 1 (Amendments)	Additional Exemptions for First-time Adopters ³
HKFRS 2 (Amendments)	Group Cash-settled Share-based Payment Transactions ³
HKFRS 3 (Revised)	Business Combination ¹
HKFRS 9	Financial Instruments ⁷
HK(IFRIC) – Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement ⁶
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners ¹
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments ⁵

¹ Effective for annual periods beginning on or after 1 July 2009.

² Effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate.

³ Effective for annual periods beginning on or after 1 January 2010.

⁴ Effective for annual periods beginning on or after 1 February 2010.

⁵ Effective for annual periods beginning on or after 1 July 2010.

⁶ Effective for annual periods beginning on or after 1 January 2011.

⁷ Effective for annual periods beginning on or after 1 January 2013.

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

3. SIGNIFICANT ACCOUNTING POLICIES

a) Statement of compliance

The financial statements have been prepared in accordance with all applicable HKFRSs, which collective terms include all applicable individual HKFRSs, HKASs and Interpretations issued by the HKICPA, accounting principles generally accepted in Hong Kong and the disclosure requirement of the Hong Kong Companies Ordinance. These financial statements also include applicable disclosures required by the Rules Governing the Listing of Security on the GEM of the Stock Exchange. A summary of the significant accounting policies adopted by the Company is set out below.

b) Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements is the historical cost basis except for certain financial instruments which are measured at fair value.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

b) Basis of preparation of the financial statements (Continued)

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 31.

c) Property, plant and equipment

Property, plant and equipment including land and buildings held for use in the production or supply of goods or services or for administrative purpose, other than construction in progress, are stated in the statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

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

Gain or loss arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds on disposal and the carrying amount of the item and are recognised in the statement of comprehensive income in the period on the date of retirement or disposal.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

c) Property, plant and equipment (Continued)

Depreciation is calculated to write off the cost of property, plant and equipment less their estimated residual value, if any, using the straight line method as follows:

Leasehold improvements	8 years
Plant and machinery	7 years
Motor vehicles	7 years
Furniture and office equipment	5 years

d) Intangible assets

Intangible assets acquired separately

Intangible assets that are acquired by the Company are stated in the statement of financial position at cost less accumulated amortisation (where the estimated useful life is finite) and accumulated impairment losses, if any.

Amortisation of intangible assets with finite useful lives is charged to statement of comprehensive income 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.

Gain and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in statement of comprehensive income when the asset is derecognised.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Company has sufficient resources and the intention to complete development. The expenditure capitalised includes the costs of materials, direct labour, and an appropriate proportion of overheads and borrowing costs, where applicable (see note 3(q)). Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see note 3(f)). Other development expenditure is recognised as an expense in the period in which it is incurred.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

d) Intangible assets (Continued)

Research and development expenditure (Continued)

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in statement of comprehensive income in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets that are acquired separately.

e) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Company determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

Payments for obtaining rights for using land use rights are accounted as prepaid lease payments and charge to the statement of comprehensive income on a straight-line basis over the lease terms. Rights for using land use rights which are to be charged to the statement of comprehensive income in the next twelve months or less are classified as current assets.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

e) Leased assets (Continued)

i) *Classification of assets leased to the Company*

Assets held by Company under leases which transfer to the Company substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Company are classified as operating leases, except for the land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Company, or taken over from the previous lessee.

ii) *Operating lease charges*

Where the Company has the use of assets under operating leases, payments made under the leases are charged to statement of comprehensive income in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in statement of comprehensive income as an integral part of the aggregate net lease payments made. Contingent rentals are written off as an expense of the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property.

f) Impairment of assets

i) *Impairment of receivables*

Current and non-current receivables that are stated at cost or amortised cost are reviewed at the end of each reporting period 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

f) Impairment of assets (Continued)

i) Impairment of receivables (Continued)

- 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 statement of comprehensive income. 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.

ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period 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; and
- land lease premium classified as being held under an operating lease.

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 statement of comprehensive income whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

f) Impairment of assets (Continued)

ii) *Impairment of other assets (Continued)*

- 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 statement of comprehensive income in the year in which the reversals are recognised.

g) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weight-average method. Net realisable value is the estimated selling price in the ordinary course of business, less further costs expected to be incurred for completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

h) 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(f)), 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.

i) 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 statement of comprehensive income over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

j) 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

k) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in 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 statement of cash flows.

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) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in statement of comprehensive income except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

m) Income tax (Continued)

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary difference, provided that those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

m) Income tax (Continued)

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against tax liabilities, if the Company has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either;
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

n) Provision 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

o) 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.

p) Foreign currencies

In preparing the financial statements of the Company, transactions in currencies other than the functional currency of the Company (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the Company operates) at the exchange rates prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the end of reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when 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 statement of comprehensive income 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 statement of comprehensive income, in which cases, the exchange differences are recognised directly in statement of comprehensive income.

q) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as being directly attributable to the acquisition, construction or production of assets which takes a period of time to get ready for its intended use or sale.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

r) 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;
- 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.

s) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Company's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Company's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

4. SEGMENT INFORMATION

In a manner consistent with the way in which information is reported internally to the Company's most senior executive management for the purposes of resource allocation and performance assessment, the Company has presented one reportable segment only.

Business information

The senior executive management considers the Company's revenue and contribution to profit from operating activities for the years ended 31 December 2008 and 2009 were derived from development, manufacture and sales of chemical products. No operating segments have been aggregated to form the reportable segment. Accordingly, no business segment analysis is required.

Geographical information

All the Company's operations and assets are located in the PRC and the Company sells all its products to the PRC market.

Information about major customers

Revenue from one major customer of the Company represent approximately RMB7,302,000 (2008: RMB10,619,000) of the Company's total revenues.

Revenue from major product

The Company's major product was FA-90 unleaded gasoline additive ("FA-90"). The revenue from sales of FA-90 for the year approximately RMB32,983,000 (2008: RMB48,666,000)

5. TURNOVER

The principal activities of the company are research and development, production and sale of innovative environmental protection energy material and products and fuel oil additives.

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

6. OTHER REVENUE AND OTHER NET INCOME

	2009	2008
	RMB'000	RMB'000
Other revenue		
Interest income on financial assets not at fair value through profit or loss	58	181
Other net income		
Reversal of impairment loss on bad and doubtful debts	4,244	–
	4,302	181

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

7. FINANCE COSTS

	2009 <i>RMB'000</i>	2008 <i>RMB'000</i>
Interest on bank loans wholly repayable within five years	<u>1,294</u>	<u>2,253</u>
Total interest expenses on financial liabilities not at fair value through profit or loss	<u><u>1,294</u></u>	<u><u>2,253</u></u>

8. LOSS BEFORE TAXATION

Loss before taxation has been arrived at after charging/(crediting):

	2009 <i>RMB'000</i>	2008 <i>RMB'000</i>
Amortisation of land lease premium	210	514
Capitalised in construction in progress	-	(304)
	<u>210</u>	<u>210</u>
Auditors' remuneration		
– audit services	530	504
– other services	44	26
Cost of inventories (<i>note</i>)	26,698	34,763
Depreciation of property, plant and equipment	4,340	4,805
Impairment loss on bad and doubtful debts	626	17,119
Net foreign exchange loss	53	-
Loss on disposal of property, plant and equipment	82	9
Research and development costs	4,986	543
Staff costs (including directors' and supervisors' remuneration)		
– Salaries, wages and other benefits	1,758	1,698
– Contributions to retirement benefits scheme	182	297
	<u><u>1,940</u></u>	<u><u>1,995</u></u>

Note: Cost of inventories includes RMB4,075,000 (2008: RMB4,185,000) relating to staff costs, depreciation, and amortisation expenses, 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 2009

9. DIRECTORS' AND SUPERVISORS' REMUNERATIONS

The remuneration of each of the directors and supervisors are as follows:

Name of director	Year ended 31 December 2009			Total RMB'000
	Fees 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 remuneration for 2009	150	420	24	594
Name of supervisor				
Yan Bu Qiang	–	60	8	68
Jiang Li Fen	–	18	5	23
Zhang Xiao Ping	–	14	5	19
Duan Lin	–	20	–	20
Wang Gong Xun	–	20	–	20
Total supervisors' remuneration for 2009	–	132	18	150
Total	150	552	42	744

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

9. DIRECTORS' AND SUPERVISORS' REMUNERATIONS (Continued)

	Year ended 31 December 2008			
	Fees <i>RMB'000</i>	Salaries and other benefits <i>RMB'000</i>	Retirement benefit scheme contributions <i>RMB'000</i>	Total <i>RMB'000</i>
Name of director				
<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 remuneration for 2008	150	420	24	594
Name of supervisor				
Yan Bu Qiang	–	60	8	68
Jiang Li Fen	–	18	5	23
Zhang Xiao Ping	–	14	5	19
Duan Lin	–	20	–	20
Wang Gong Xun	–	20	–	20
Total supervisors' remuneration for 2008	–	132	18	150
Total	150	552	42	744

During the years ended 31 December 2008 and 2009, no remunerations 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 has waived any remunerations during the years ended 31 December 2008 and 2009.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

10. INDIVIDUALS WITH HIGHEST REMUNERATIONS

The five highest paid individuals are all directors and supervisors, details of whose remunerations are included in note 9 to the financial statements.

11. INCOME TAX EXPENSE

Taxation in the statement of comprehensive income represents:

	2009	2008
	RMB'000	RMB'000
PRC enterprise income tax:		
– provision for the years	250	850

An uniform enterprise income tax of 25% became 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

11. INCOME TAX EXPENSE (Continued)

Taxation charge for the year can be reconciled to the loss for the year per the statement of comprehensive income as follows:

	2009 RMB'000	2008 <i>RMB'000</i>
Loss before taxation	(22,733)	(12,922)
Tax at domestic income tax rate of 15% (2008:15%)	(3,410)	(1,938)
Tax effect of expenses not deductible	5,700	2,798
Tax effect of income not taxable	(2,479)	(153)
Tax effect of tax losses not recognised	439	143
Income tax expense	250	850

12. DIVIDEND

No final dividend for the year ended 31 December 2009 has been proposed by the directors (2008: Nil).

13. LOSS PER SHARE

The calculation of the basic loss per share is based on the loss for the year of RMB22,983,000 (2008: loss of RMB13,772,000) and the weighted average number of 910,000,000 (2008: 910,000,000) shares in issue during the year.

Diluted loss per share is equal to basic loss per share as there were no dilutive potential ordinary shares.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

14. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Furniture, and office equipment RMB'000	Construction in progress RMB'000	Total RMB'000
Cost							
At 1 January 2008	19,378	3,883	29,863	760	2,153	52,604	108,641
Additions	-	-	173	-	-	304	477
Disposal	(8)	-	(91)	-	-	-	(99)
Cost variation	-	-	-	-	-	(400)	(400)
Transfer	6	-	(130)	-	124	-	-
At 31 December 2008							
and at 1 January 2009	19,376	3,883	29,815	760	2,277	52,508	108,619
Additions	-	-	2,000	-	-	-	2,000
Disposal	-	-	(813)	-	-	-	(813)
Reclassified as held for sales	-	-	-	-	-	(49,184)	(49,184)
Cost variation	-	-	-	-	-	(2,000)	(2,000)
At 31 December 2009	19,376	3,883	31,002	760	2,277	1,324	58,622
Accumulated depreciation and impairment losses							
At 1 January 2008	3,074	3,620	10,370	694	2,026	-	19,784
Charge for the year	588	263	3,873	27	54	-	4,805
Written back on disposal	(2)	-	(88)	-	-	-	(90)
At 31 December 2008							
and at 1 January 2009	3,660	3,883	14,155	721	2,080	-	24,499
Charge for the year	588	-	3,744	7	1	-	4,340
Written back on disposal	-	-	(611)	-	-	-	(611)
Impairment loss	-	-	-	-	-	13,154	13,154
Reclassified as held for sales	-	-	-	-	-	(11,954)	(11,954)
At 31 December 2009	4,248	3,883	17,288	728	2,081	1,200	29,428
Carrying amounts							
At 31 December 2009	15,128	-	13,714	32	196	124	29,194
At 31 December 2008	15,716	-	15,660	39	197	52,508	84,120

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

On 28 December 2009, a sales and purchase agreement was signed between the Company and an independent third party in relation to disposal of a parcel of land and construction in progress with the book value of approximately RMB15,203,000 and RMB46,751,000 respectively in return of consideration of RMB50,000,000 in cash. The Company assessed the recoverable amounts of the land and construction in progress and as a result an impairment of approximately RMB11,954,000 was recognised in respect of the construction in progress. The estimates of recoverable amounts were based on the fair values of land and construction in progress less costs to sell, determined by reference to the recent observable market prices for similar assets within the same location. The above transaction was completed subsequent to the end of reporting period in the year 2010.

During the year 2009, the management considered that a construction in progress with the book value of approximately RMB3,200,000 was suspended. After negotiated with the constructors, an amount of RMB2,000,000 was refunded from the constructors and the management considered the remaining balance of RMB1,200,000 to be impaired.

Amount of buildings and construction in progress included the land elements which are now disclosed as land lease premium in note 16 to the financial statements.

Amount of construction in progress included accumulated amortisation of land lease premium of RMB Nil (2008: RMB2,433,000) which is transferred from land lease premium.

No property, plant and equipment is pledged as security for the Company's bank borrowings at the end of reporting period (2008: RMB61,954,000).

15. INTANGIBLE ASSETS

	Technical know how <i>RMB'000</i>
Cost	
At 1 January 2008, 1 January 2009 and 31 December 2009	20,000
Accumulated amortisation	
At 1 January 2008, 1 January 2009 and 31 December 2009	20,000
Net book value at 31 December 2008 and 2009	—

Note:

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

16. LAND LEASE PREMIUM

	2009 <i>RMB'000</i>	2008 <i>RMB'000</i>
Net book value at 1 January	21,068	21,582
Amortised during the year	(210)	(514)
Reclassified as held for sales	(12,770)	–
	<hr/>	<hr/>
Net book value at 31 December	8,088	21,068
Non-current portion	(7,878)	(20,554)
	<hr/>	<hr/>
Current portion classified as current assets	210	514
	<hr/> <hr/>	<hr/> <hr/>

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 RMB10,240,000 (2008: approximately of RMB25,443,000)

The amortisation charge for the year is included in 'administrative expenses' in the statement of comprehensive income.

17. INVENTORIES

	2009 <i>RMB'000</i>	2008 <i>RMB'000</i>
Raw materials	3,185	1,346
Finished goods	3,024	1,362
	<hr/>	<hr/>
	6,209	2,708
	<hr/> <hr/>	<hr/> <hr/>

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

	2009 <i>RMB'000</i>	2008 <i>RMB'000</i>
Carrying amount of inventories sold	26,698	34,763
	<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

18. TRADE RECEIVABLES

	2009 <i>RMB'000</i>	2008 <i>RMB'000</i>
Trade receivable	10,065	8,810

The above trade receivables are expected to be recovered within one year.

Included in trade receivables with the following aging analysis of the end of reporting period.

	2009 <i>RMB'000</i>	2008 <i>RMB'000</i>
Within 90 days	15,000	10,573
91 – 180 days	9,447	18,803
181 – 365 days	11,560	13,638
Over 365 days	16,207	12,189
	52,214	55,203
Less: Impairment loss on bad and doubtful debts	(42,149)	(46,393)
	10,065	8,810

Trade receivables are due within 90 days from the date of billing. Further details on the Company's credit policy are set out in note 28(b)(i).

Impairment losses in respect of trade 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 receivables directly.

Movements in the impairment on bad and doubtful debts are as follows:

	Trade receivables	
	2009 <i>RMB'000</i>	2008 <i>RMB'000</i>
At 1 January	46,393	29,274
Impairment loss recognised	–	17,119
Reversal of impairment loss	(4,244)	–
At 31 December	42,149	46,393

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

18. TRADE RECEIVABLES (Continued)

As at 31 December 2009, no trade receivables were individually determined to be impaired (2008: approximately RMB17,119,000 were individually determined to be impaired and allowance for doubtful debts had been made). Trade receivables that individually impaired receivables were outstanding for over 90 days as at the end of reporting period or were due from companies with financial difficulties. The Company does not hold any collateral over these balances.

The factors which the Company considered in determining whether these trade receivables were individually impaired included the following:

- significant financial difficulty of the debtor;
- receivables that have been outstanding over its credit period;
- the granting to the receivables, for economic or legal reasons relating to the debtor's financial difficulty, a concession that the Company would not otherwise consider;
- it is becoming probable that the receivables will enter into bankruptcy or other financial reorganisation;
- observable data indicating that there is a measurable decrease in the estimated future cash flows from the debtor since their initial recognition, although the decrease cannot yet be identified including:
 - adverse changes in the payment status of receivables in the Company;
 - economic conditions that correlate with defaults on the trade receivables in the Company.

As at 31 December 2009 and 2008, no receivable that was past due but not impaired. Receivables that were neither past due nor impaired relate to a wide range of customers for whom here was no recent history of default.

19. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2009 <i>RMB'000</i>	2008 <i>RMB'000</i>
Other receivables	1,311	2,405
Less: Impairment loss on bad and doubtful debt (<i>Note (i)</i>)	<u>(1,226)</u>	<u>(600)</u>
	85	1,805
Prepayments and deposits (<i>Note (ii) and (iii)</i>)	<u>25,747</u>	<u>42,040</u>
	<u>25,832</u>	<u>43,845</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

19. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (Continued)

- (i) Movements in the impairment on bad and doubtful debts are as follows:

	2009 <i>RMB'000</i>	2008 <i>RMB'000</i>
At 1 January	600	600
Additions	626	–
At 31 December	<u>1,226</u>	<u>600</u>

- (ii) In the year 2008, included in prepayments and deposits was an amount of RMB37,000,000 paid to 陝西維真生物技術有限公司 (the “venturer”). The Company entered into a joint venture agreement with the venturer in the People’s Republic of China for the development of a new vaccine for preventing tuberculosis. In accordance with the joint venture agreement, the Company has 26.67% interest in the joint venture. During the year, the joint venture agreement was cancelled and the deposits was refunded to the Company in full.
- (iii) As at 31 December 2009, included in the balance of “Prepayments and deposits” is a refundable deposit of RMB13,000,000 paid for a proposed investment in a private enterprise established in the PRC which terms are subject to negotiations and the due diligence results. In the opinion of the directors of the Company, this deposit is fully recoverable and thus, no impairment is required.
- (iv) During the year, the amounts due from fellow subsidiaries were reclassified to other receivables and prepayments as a result of change in shareholders in those fellow subsidiaries.

20. ASSETS CLASSIFIED AS HELD FOR SALE

	2009 <i>RMB'000</i>	2008 <i>RMB'000</i>
Construction in progress		
– Land lease premium	2,433	–
– Other construction cost	46,751	–
	<u>49,184</u>	–
Land lease premium	12,770	–
	<u>61,954</u>	–
Impairment loss	(11,954)	–
	<u>50,000</u>	–

On 28 December 2009, a sales and purchase agreement was signed between the Company and an independent third party in relation to disposal of a parcel of land and construction in progress with the book value of approximately RMB15,203,000 and RMB46,751,000 respectively in return of consideration of RMB50,000,000 in cash. The Company assessed the recoverable amounts of the land and construction in progress and as a result an impairment of approximately RMB11,954,000 was recognised in respect of the construction in progress. The estimates of recoverable amounts were based on the fair values of land and construction in progress less costs to sell, determined by reference to the recent observable market prices for similar assets within the same location. The above transaction was completed subsequent to the end of reporting period in the year 2010. Accordingly, the land lease premium and construction in progress were reclassified as assets classified as held for sale at 31 December 2009.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

21. TRADE PAYABLES

The aged analysis of trade payables at the respective end of reporting period is as follows:

	2009 RMB'000	2008 <i>RMB'000</i>
Over 365 days	508	508

22. ACCRUALS AND OTHER PAYABLES

Included in other payables is an amount of RMB2,490,000 (2008: RMB2,490,000) that is a dividend payable to Xian Northwest Industry (Group) Company Limited, ultimate holding company of the Company.

23. SHORT TERM BANK LOANS

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

	2009 RMB'000	2008 <i>RMB'000</i>
Fixed rate borrowings:		
Secured		
Bank loan bearing interest at 7.668% per annum	-	15,000
Bank loan bearing interest at 7.349% per annum	-	15,000
	<u>-</u>	<u>30,000</u>

In the year 2008, the short term bank loans of the Company were secured by its land and construction in progress with an aggregate carrying amount of approximately RMB15,203,000 and RMB46,751,000 respectively. During the year, both two short term bank loans were fully repaid and those land and construction in progress were released from the pledge of assets.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

24. INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION

Current taxation in the statement of financial position represents:

	2009 RMB'000	2008 <i>RMB'000</i>
Provision for PRC enterprise income tax for the year	250	850
PRC enterprise income tax paid	—	(2,707)
	250	(1,857)
Balance of PRC enterprise income tax provision relating to prior years	5,318	7,175
	5,568	5,318

At 31 December 2009, the Company has unused tax losses of approximately RMB439,000 (2008: RMB143,000) 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 losses will expire after 2 years under current tax legislation.

25. SHARE CAPITAL

	Number of shares <i>'000</i>	Value <i>RMB'000</i>
Share capital of RMB0.10 each		
Registered, issued and fully paid:		
As at 31 December 2009	910,000	91,000
As at 31 December 2008	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 2009

26. CAPITAL MANAGEMENT

The Company's primary objectives 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 ultimate holding company) less cash and bank balance. Total capital is calculated as equity, as shown in the statement of financial position.

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

	2009	2008
	RMB'000	RMB'000
Total debts	17,574	45,778
Cash and bank balances	(978)	(9,524)
Net debt	16,596	36,254
Total equity	112,792	135,775
Net debt to equity ratio	15%	27%

The Company is not subject to externally imposed capital requirements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

27. MATERIAL RELATED PARTY TRANSACTIONS

The Company had the following related party transactions:

- a) The Company purchased goods from a fellow subsidiary amounting to RMBNil (2008: RMB21,980,000).
- b) As at the end of respective reporting period, the Company had the following balances with related parties:

	Dr/(Cr)	
	2009	2008
	RMB'000	RMB'000
Due from fellow subsidiaries	-	11,478
Due to ultimate holding company	(252)	(150)
Dividend payable to ultimate holding company (note 22)	(2,490)	(2,490)
	<u>(2,742)</u>	<u>(1,162)</u>

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 9.

28. FINANCIAL INSTRUMENTS

- a) Categories of financial instruments

Financial assets at the end of reporting period are as follows:

	2009	2008
	RMB'000	RMB'000
Trade receivable	10,065	8,810
Other receivables	85	1,805
Due from fellow subsidiaries	-	11,478
Cash and bank balances	978	9,524
	<u>11,128</u>	<u>31,617</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

28. FINANCIAL INSTRUMENTS (Continued)

a) Categories of financial instruments (Continued)

Financial liabilities as at the end of reporting period are as follows:

	2009	2008
	RMB'000	RMB'000
Trade payables	508	508
Accruals and other payables	11,246	9,802
Due to ultimate holding company	252	150
Bank loans	–	30,000
	<hr/>	<hr/>
Financial liabilities at amortised costs	12,006	40,460
	<hr/> <hr/>	<hr/> <hr/>

b) Financial risk management objectives and policies

The Company's financial instruments as stated in note 28(a) are disclosed in respective notes. The risks associated with these financial instruments are limited by the Company's financial management policies described below:

i) Credit risk

The Company's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customers' past history of making payments when due and current ability to pay, and take into account information specific to the customers as well as pertaining to the economic environment in which the customer operates. Trade receivables are normally due within 90 days of the billing date. Normally, the Company does not obtain collateral from customers.

At the end of reporting period, the Company has a concentration of credit risk as 87% (2008: 89%) of trade 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 statement of financial position 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 18.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

28. FINANCIAL INSTRUMENTS (Continued)

b) Financial risk management objectives and policies (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 end of reporting period.

	2009		
	Carrying amount <i>RMB'000</i>	Total contractual undiscounted cash flow <i>RMB'000</i>	Within 1 year or on demand <i>RMB'000</i>
Trade payable	508	508	508
Accruals and other payables	11,246	11,246	11,246
Due to ultimate holding company	252	252	252
Bank loans	–	–	–
	<u>12,006</u>	<u>12,006</u>	<u>12,006</u>
	2008		
	Carrying amount <i>RMB'000</i>	Total contractual undiscounted cash flow <i>RMB'000</i>	Within 1 year or on demand <i>RMB'000</i>
Trade payable	508	508	508
Accruals and other payables	9,802	9,802	9,802
Due to ultimate holding company	150	150	150
Bank loans	30,000	30,000	30,000
	<u>40,460</u>	<u>40,460</u>	<u>40,460</u>

In order to manage the above liquidity demands, at 31 December 2009 RMB978,000 (2008: RMB9,524,000) of the Company's assets were held as cash that is readily realisable.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

28. FINANCIAL INSTRUMENTS (Continued)

b) Financial risk management objectives and policies (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 2009, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would decrease/increase the Company's loss after tax and retained profits by approximately RMB9,000 (2008: increase in loss of approximately RMB95,000). Other components of equity would not be affected (2008: 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 end of the reporting period and had been applied to the exposure to interest rate risk for financial instruments in existence at that date. The 100 basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next end of annual reporting period. The analysis is performed on the same basis for 2008.

iv) Foreign currency risk

Most of the Company's monetary assets and liabilities are denominated in RMB and the Company conducted its business transactions principally in RMB. 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 statement, the directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statement approximate to their fair values.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

29. 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.

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;

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

29. SHARE OPTION SCHEME (Continued)

d) Maximum number of shares (Continued)

- 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

29. SHARE OPTION SCHEME (Continued)

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.

30. CAPITAL COMMITMENTS

	2009	2008
	RMB'000	RMB'000
Capital expenditure contracted but not provided for:		
– Acquisition of property, plant and equipment	2	11,810
– Contributions to a joint venture	–	3,000
	<u>2</u>	<u>3,000</u>
	2	14,810
	<u>2</u>	<u>14,810</u>

31. ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

31. ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

a) Key sources of estimation uncertainty

In the process of applying the Company's accounting policies which are described in note 3(b), management has made certain key assumptions concerning the future, and other key sources of estimated uncertainty at the end of the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, as discussed below.

Impairment of property, plant and equipment

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 the time value of money and the risks specific to the asset, which requires significant judgement relating to level of revenue and amount of operating costs. The Company uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of revenue and operating costs. Changes in these estimates could have a significant impact on the carrying value of the assets and could result in additional impairment charge or reversal of impairment in future periods.

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 end of reporting period.

Impairment for bad and doubtful debts

The policy for impairment 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.

The carrying amount of trade receivable at the end of reporting period was approximately RMB10,065,000 (2008: approximately RMB8,810,000) after an impairment loss of RMBNil (2008: approximately RMB17,119,000) was recognised during the year. Details of the impairment loss calculation are provided in note 18.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

31. ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

b) Critical accounting judgements in applying the Company's accounting policies

In determining the carrying amounts of some assets and liabilities, the Company makes assumptions for the effects of uncertain future events on those assets and liabilities at the end of reporting period. These estimates involve assumptions about such items as cash flows and discount rates used. The Company's estimates and assumptions are based on historical experience and expectations of future events and are reviewed periodically. In addition to assumptions and estimations of future events, judgements are also made during the process of applying the Company's accounting policies.

32. 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:

	2009	2008
	RMB'000	RMB'000
Property, plant and equipment	-	49,183
Land lease premium	-	12,771
	<u> </u>	<u> </u>
	-	61,954
	<u> </u>	<u> </u>

33. 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 statement of comprehensive income of approximately RMB182,000 (2008: RMB297,000) represents contributions payable to the scheme by the Company during the year.

Law of the PRC on Employment Contracts (the "Employment Contract Law") was adopted by the Standing Committee of the National People's Congress of the PRC in 2007 and became effective on 1 January 2008. Compliance with the requirements under the new law, in particular, the requirement of severance payment and non-fixed term employment contracts, will increase the Company's labour costs.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

33. RETIREMENT BENEFIT SCHEME (Continued)

Pursuant to the Employment Contract Law, the Company is required to enter into non-fixed term employment contract with employees who has worked for the employer for more than 10 years or whom a fixed term employment has been concluded for 2 consecutive terms. The employer is required to make severance payment to the employee when the term of the employment contract expires unless the employee voluntarily terminate the contract or voluntarily reject the offer to renew the contract in which the terms are no worse off than the terms of other employment contracts available to him/her. The severance payment will be equal to the monthly wages times the number of full years that the employee has been working for the employer. The minimum wages requirement has also been imposed. Fines will be imposed for any breach of the Employment Contract Law.

The Company has no other material obligation for the payment of retirement benefits associated with the schemes beyond the contribution described above.

34. ULTIMATE AND IMMEDIATE HOLDING COMPANY

At 31 December 2009, the directors consider the ultimate and immediate holding company of the Company to be Xi'an Northwest Industry (Group) Limited, which established in the PRC. This entity does not produce financial statements available for public use.

FIVE YEARS FINANCIAL SUMMARY

RESULTS

	For the year ended 31 December				
	2009	2008	2007	2006	2005
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Turnover	32,983	48,666	74,436	62,303	322
(Loss)/profit before taxation	(22,733)	(12,922)	16,673	14,024	(56,284)
Taxation	(250)	(850)	(2,227)	–	(1,043)
(Loss)/profit for the year	(22,983)	(13,772)	14,446	14,024	(57,327)

ASSETS AND LIABILITIES

	At 31 December				
	2009	2008	2007	2006	2005
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Total assets	130,366	181,553	202,309	220,378	215,647
Total liabilities	(17,574)	(45,778)	(52,762)	(85,277)	(94,570)
Total equity	112,792	135,775	149,547	135,101	121,077