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

2011

* For identification purposes only

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This report, for which the directors (the "Directors") of Shaanxi Northwest New Technology Industry Company Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange for the purpose of giving information with regard to 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. Zeng Yinglin
Ms. Tian Lingling
Mr. Yang Xiaohuai

Non-executive Directors
Mr. Gao Peng

Independent non-executive Directors
Mr. Li Gangjian
Mr. Chen Tao
Mr. Zhao Boxiang

SUPERVISORS

Mr. Yan Buqiang
Mr. Zhang Xiaoping
Ms. Xing Manli

INDEPENDENT SUPERVISORS

Mr. Duan Lin
Mr. Wang Gongxun

AUDIT COMMITTEE

Mr. Li Gangjian
Mr. Chen Tao
Mr. Gao Peng

COMPLIANCE OFFICER

Mr. Wang Feng

AUTHORIZED REPRESENTATIVES

Mr. Wang Cong
Mr. Wang Feng

AUDITOR

Elite Partners CPL Limited
Certified Public Accountants

LEGAL ADVISORS

As to PRC law
Jiayuan Law Firm, Beijing

As to Hong Kong law
K&L Gates

REGISTERED OFFICE

No.6, Gao Xin Yi 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
(Jinhua Road Branch)
No. 117, Jinhua North Road
Xi'an, Shaanxi, the PRC

China Everbright Bank (Taibai Road Branch)
No. 1 Kechuang Road, Yanta Dirstrict
Xi'an, Shaanxi, the PRC

Bank of Communication (Xi'an Branch, Chengbei Sub-branch)
No. 36 Beiguan Zheng Street
Xi'an, Shaanxi Province, the PRC

Bank of Xi'an (Gaoxin Branch)
No. 27 Kechuang 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 2011.

OPERATING PERFORMANCE

During 2011, the Company recorded a turnover of approximately RMB46,106,000, representing an decrease of 13.12% from the previous year respectively. The Board does not recommend paying any final dividend for the year ended 31 December 2011.

BUSINESS STRATEGY

In 2011, affected by the decline of demand from the Company's major customers and shrinking market, production and sales and income of FA-90, the company's traditional product, have decreased, resulting some impact on the Company's operation. The production and sales of another product, isooctyl-thioglycatate (mercaptan), maintained basic stablity. The production and sales of luminescent materials products have already suspended during the year after encountered some problems in terms of market development in the pilot process, requiring further adjustments to the product positioning and development direction. Sales of the Company for the year also experienced some weakness.

PROSPECT

While strengthening the existing business, the Company will also concentrate on fostering new projects that would contribute to profit growth to promote business transformation. The Company will secure qulity projects in clean energy sector as soon as possible in order to contribute to further business growth and to significantly improve profitability, thus producing a better return for all shareholders.

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

Professor Wang Cong
Chairman

Xi'an, the PRC
28 March 2012

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The Company's turnover was approximately RMB46,106,000 for the financial year ended 31 December 2011, representing an decrease of 13.12% over the previous year.

The Company's gross profit was approximately RMB10,188,000 for the financial year ended 31 December 2011, compared to RMB9,906,000 last year. The gross profit margin of 2011 was 22.10% (2010: 18.67%).

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2011, the equity of owners of the Company was approximately RMB132,580,000 (2010: RMB122,576,000); cash and bank balances were RMB61,499,000 (2010: RMB49,396,000); current assets amounted to RMB121,083,000 (2010: RMB107,054,000); and current liabilities amounted to approximately RMB17,305,000 (2010: RMB16,438,000). The Company's liquidity ratio, defined as total current assets over total current liabilities, increased from 6.51 as at 31 December 2010 to 7.00 as at 31 December 2011.

SIGNIFICANT FUTURE INVESTMENT PLANS AND EXPECTED FINANCIAL RESOURCES

On 4 December 2011, the Company entered into an equity purchase framework agreement with Shaanxi Yuanfeng Energy Development Co., Ltd. 陝西元豐能源開發有限公司* (the "Counterparty"), in relation to acquiring a target company which is engaged in the distribution of natural gas in Shaanxi Province through the Counterparty (the "Proposal"), with an aim to extend the Company's core business to clean energy sector. The Proposal has been published on the website of the Stock Exchange by the Company on 5 December 2011. The project is currently in the process of implementation as scheduled.

PLEDGE OF ASSETS

As at 31 December 2011, the Company had no pledge of assets.

GEARING RATIO

Gearing ratio, defined as total borrowings over net assets was 0% (same period of 2010: 0%).

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 2011:

Products and production

The Company's principal products were FA-90 unleaded gasoline additive ("FA-90") and 2-ETHYLHEXYL THIOGLYCOLATE (thiol products). The Company realized a sales income of RMB46,106,000 for the year.

For the financial year ended 31 December 2011, the turnover of the Company amounted to approximately RMB10,004,000, representing an increase of 2.25% over 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 the Company's product, recorded a substantial fall due to the decrease in domestic demand on PA-90 products.

EMPLOYEES AND REMUNERATION POLICY

For the year ended 31 December 2011, staff remuneration of the Company amounted to approximately RMB1,513,000 (2010: RMB1,936,000). The Company employed a total of 80 staff (2010: 78). 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, as the Company is concentrating on fostering new projects that would contribute to profit growth, and in particular, it expects that a significant progress will be made in the clean energy sector, the Company's core business will experience a remarkable change which will play an active role in enhancement and sustainable development of the Company's operating results in future. While ensuring the sustainable development of existing business, the Company will also continuously exploit new businesses in new areas, in order to contribute to further business growth and to significantly improve profitability, thus producing a better return for all shareholders.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Wang Cong (王聰), aged 54, 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 has obtained a master degree from the EMBA programme of China Europe International Business School. Mr. Wang was appointed to be a professor and Master Instructor of Xi'an Petroleum University in 2000. 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 52, is an executive Director, vice president and secretary to the Board. He is responsible for the overall operations of the marketing and sales of the Company's products. From 1981 to December 1993, Mr. Wang Feng was the deputy general manager of Ankang District Department Store (安康地區百貨公司). Mr. Wang Feng 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 Company in 1994. He served as a general manager of Jing He Branch and a marketing branch of the Company and was mainly responsible for the overall operation of product production, promotion and sales. He took the position of vice president and secretary to the Board in November 2010 to manage the administrative and secretarial matters of the Company. Mr. Wang Feng is the younger brother of the Company's chairman, Mr. Wang Cong.

Tian Lingling (田玲玲), aged 51, is the vice president of the Company. She is responsible for the personnel and external affairs of the Company. She graduated from Shaanxi Business College majoring in the profession of Chinese Language in 1985 and further studied in MBA at Xi'an Jiaotong University between 2005 and 2006. She was the deputy general manager and artistic director of Xi'an Shuguang Decoration Group Company Limited (西安曙光裝飾集團有限公司). She has been the deputy general manager of Xi'an Northwest Industry (Group) Company Limited since 2005. She joined the Company in 2005. She served as a manager of the human resources department. Ms. Tian Linlin is the spouse of Mr. Wang Cong, the chairman of the Company.

Zeng Yinglin (曾應林), aged 59, is the vice-president of the Company and the general manager of the Wei Nan Branch of the Company in charge of the business department. Mr. Zeng graduated from Northwest Textile Technical Institute (西安紡織工學院) 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 1991 to June 1994. He joined the Company in 1994.

Yang Xiaohuai (楊小懷), aged 48, 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

Gao Peng (高鵬), aged 38, is an executive Director and 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 and resigned from the office of secretary to the board of Directors of the Company on July 2010.

Independent non-executive Directors

Li Gangjian (李剛劍), aged 48, 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 41, 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.

Zhao Boxiang (趙伯祥), aged 67, graduated and obtained an undergraduate degree from the Department of Politics and Education of Shaanxi Normal University (陝西師範大學) in July 1969. He is a senior economist and a member of the ninth and tenth session of Shaanxi Provincial Political Consultative Committee. He spent his time at Lanzhou Airforce Farm after graduation in 1969 and start working for Shaanxi's authorities at provincial level in the spring of 1971 until his retirement in the spring of 2005. During such period, he worked for Shaanxi Light-Textile Industry Bureau, Shaanxi Light Industry Department, Shaanxi Second Light Industry Department, Shaanxi Province Party Rectification Office, Shaanxi Commission for Economic System Restructuring and SASAC of Shaanxi Province and served as an executive, associate director, director, deputy officer, officer, secretary to the party, inspector, etc. Currently, he is also a president of Shaanxi System Reform Research Association, honor president of Shaanxi Economic Development Promotion Association, president of Shaanxi Independent Directors Association, Shaanxi Credit Promotion Association and Public Relations Association in Shaanxi Province and a visiting professor of Xibei University and chief planner of Institute of Planning and Research of Economic Development in Central and Western China.

SUPERVISORS

Yan Buqiang (閻步強), aged 58, 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.

Xing Manli (邢曼麗), aged 38, joined the predecessor of the Company since 1998, and served as an office clerk and treasurer of the financial department of the Company and accountant of the financial department of Xi'an Northwest Industry (Group) Company Limited. (Supervisor representing the staff)

Zhang Xiaping (張小平), aged 39, 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 (青海省海西洲武警消防支隊). 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 49, 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 75, 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 (陝西正義司法鑑定中心) 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 (鍾志鋼), aged 41, is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. Mr. Chung has over nine-year experience of being auditor for international accounting firms, and was a finance controller of a listed company on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited from September 2002 to June 2004.

SENIOR MANAGEMENT

Zeng Yinglin (曾應林), aged 59, is the vice-president of the Company and the general manager of the Wei Nan Branch in charge of the business department. Mr. Zeng graduated from Northwest Textile Technical Institute (西安紡織工學院) majoring in textile studies in 1982. Before he joined the predecessor of the Company, Northwest Industry Corporation, in June 1994, Mr. Zeng had worked in Sanmenxia Huixing Textile Factory (三門峽會興棉紡織廠) as the factory office director and vice-factory director from July 1982 to October 1991 and Henang No. 2 Printing and Dyeing Factory (河南第二印染廠) as vice-factory director and factory director from October 1981 to June 1994.

Wang Feng (王峰), aged 52, is an executive Director, vice president and secretary to the Board. He is responsible for the overall operations of the marketing and sales of the Company's products. From 1981 to December 1993, Mr. Wang Feng was the deputy general manager of Ankang District Department Store (安康地區百貨公司). Mr. Wang Feng 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 Company in 1994. He served as a general manager of Jing He Branch and a marketing branch of the Company and was mainly responsible for the overall operation of product production, promotion and sales. He took the position of vice president and secretary to the Board in November 2010 to manage the administrative and secretarial matters of the Company. Mr. Wang Feng is the younger brother of the Company's chairman, Mr. Wang Cong.

Tian Lingling (田玲玲), aged 51, is the vice president of the Company. She is responsible for the personnel and external affairs of the Company. She graduated from Shaanxi Business College majoring in the profession of Chinese Language in 1985 and further studied in MBA at Xi'an Jiaotong University between 2005 and 2006. She was the deputy general manager and artistic director of Xi'an Shuguang Decoration Group Company Limited (西安曙光裝飾集團有限公司). She has been the deputy general manager of Xi'an Northwest Industry (Group) Company Limited since 2005. She joined the Company in 2005. She served as a manager of the human resources department. Ms. Tian Linlin is the spouse of Mr. Wang Cong, the chairman of the Company.

Bi Hongxia (畢紅霞), aged 35, is currently the vice president of the Company, responsible for management of the company's new project. She was graduated from Chang'an University of Applied Electronics in 1999. From 2003 to 2009, she served as the vice president of China GrenTech Corporation Limited, mainly responsible for management of research and development, production and sales. Ms. Bi has obtained intermediate and advanced level qualifications in human resource management and quality control. She has obtained intermediate qualification of professional manager in 2010 with extensive experience in project management and industrial operation. In 2011, she was appointed vice president of the Company.

Yang Xiaohuai (楊小懷), aged 48, 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).

Zhou Jin (周瑾), aged 36, bachelor degree, financial vice president and chief financial manager of the Company. Mr. Zhou is responsible for day-to-day affairs of the Company's financial department. He was graduated from Northwestern Polytechnical University, computerized financial management expertise in 1997. He has been engaged in financial work, familiar with the financial policies and regulations. He joined the company in 2011.

Yan Xi (嚴希), aged 44, 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 an 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 BaTi03 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.

Xu Yan (徐艷), aged 36, head of the president office of the Company. She graduated from Jiangxi University of Finance and Economics majoring in accountancy in 2002, with the qualification of intermediate level economist. She has been worked in Shangrao District Branch in Jiangxi Province of the China Construction Bank from 1996 to 2002, Suntek Technology Co. Ltd. from 2002 to 2005, and Aisino Co. Ltd. from 2005 to 2008. She joined the Company in September 2011 as the head of the president office.

Wang Min (王敏), aged 48, 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 48, 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 44, 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 39, 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.

The Directors present their report and the audited financial statements of the Company for the year ended 31 December 2011.

PRINCIPAL BUSINESS

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

ARTICLES OF ASSOCIATION

According to a special resolution passed by the extraordinary general meeting held on 6 June 2003, the Company amended from time to time the Articles of Association in accordance with the requirements of the Listing Rules and the resolutions of general meeting, and adopted the amended Articles of Association.

RESULTS AND APPROPRIATIONS

The results of the Company for the year ended 31 December 2011 are set out on page 26 of the annual report. The Directors do not recommend the payment of a final dividend in respect of the year ended 31 December 2011.

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 total trade receivables net of impairment loss as at 31 December 2011 amounted to approximately RMB19.55 million (2010: RMB31.21 million).

SHARE CAPITAL

The details of the movements in the share capital of the Company during the year are set out in Note 21 to the financial statements.

DIRECTORS AND SUPERVISORS

The Directors and supervisors of the Company during the year were:

Executive Directors:

Wang Cong
Wang Feng
Yang Xiaohuai
Gao Peng

Non-executive Directors:

Zheng Rongfang

Independent non-executive Directors:

Li Gangjian
Chen Tao
Wei Daizhi

Supervisors:

Yan Buqiang
Zhang Xiaoping
Jiang Lifen

Independent Supervisors:

Mr. Duan Lin
Mr. Wang Gongxun

The Directors and supervisors of the Company as at the date of the report were:

Executive Directors:

Mr. Wang Cong *(Chairman)*
Mr. Wang Feng
Mr. Zheng Yinglin
Ms. Tian Lingling
Mr. Yang Xiaohuai

Non-executive Directors:

Mr. Gao Peng

Independent non-executive Directors:

Mr. Li Gangjian
Mr. Chen Tao
Mr. Zhao Boxiang

Supervisors:

Mr. Yan Buqiang
Mr. Zhang Xiaoping
Ms. Xing Manli

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.

DIRECTORS, CHIEF EXECUTIVES AND SUPERVISORS' INTERESTS

As at 31 December 2011, 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 *(Note 1)*	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%

Note:

1. The 600,950,000 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 600,950,000 domestic shares.

SUBSTANTIAL SHAREHOLDERS AND OTHER SHAREHOLDERS INTERESTS

As at 31 December 2011, 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	58,500,000	8.60%	6.43%
Ding Xianguang *(Note 2)*	Interest of controlled corporation	58,500,000	8.60%	6.43%
Zhang Jianming *(Note 2)*	Interest of controlled corporation	58,500,000	8.60%	6.43%

Note:

2. 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 58,500,000 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
Tang Weichao	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. On November 22, 2011, the Company entered into a share option agreement to make a conditional placing of 46,000,000 new H shares to JL Investment Capital Limited, a company incorporated in the British Virgin Islands. The Share Option Scheme and the Notice was published in the website of the Stock Exchange on November 22, 2011. At present, the share option agreement has not yet implemented in practice.

DIRECTORS AND SUPERVISORS INTERESTS IN MATERIAL CONTRACTS

During the year ended 31 December 2011, 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 2011, 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 27.40% of the Company's purchases. The largest supplier accounted for 58.82% of the purchase of the Company.

Aggregate sales attributable to the Company's five largest customers accounted for approximately 68.45% of the total turnover. The largest customer accounted for approximately 21.57% 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 2011.

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 2011

	Thiol products	FA-90
	RMB'000	*RMB'000*
Turnover	19,206	26,900
Cost of sales	(14,458)	(21,460)
Gross profit	4,748	5,440

For the year ended 31 December 2010

	Ey-053 rare earth luminescent material	Thiol products	FA-90
	RMB'000	*RMB'000*	*RMB'000*
Turnover	5,641	10,386	37,042
Cost of sales	(4,383)	(8,683)	(30,097)
Gross profit	1,258	1,703	6,945

LITIGATION

As of 31 December 2011, the Company had no pending material 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 2011.

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 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 2011, 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

After the election and re-election of Board members in the general meeting held on 3 January 2012, the new session of the Board is formed. The Board comprises nine Directors, with five executive Directors, namely Mr. Wang Cong (Chairman), Mr. Wang Feng, Mr. Zeng Yinglin, Ms. Tian Lingling and Mr. Yang Xiaohuai, one non-executive director, namely Mr. Gao Peng, and three independent non-executive Directors, namely Mr. Li Gangjian, Mr. Chen Tao and Mr. Zhao Boxiang.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

The main responsibilities of the Board includes:

- to implement resolutions of the general meetings;
- to formulate the Company's business plans and investment plans;
- to formulate the Company's annual budgets and financial policies;
- to report its work in general meetings, to submit reports to regulatory authorities, and to disclose information in accordance with statutory requirements;
- the daily operation and management of the Company are performed by executive Directors and the senior management. The Board formulates the Company's overall policies and plans, and regularly monitors and supervises their implementation by executive Directors and the senior management;
- there are clearly defined authorities and duties for the management, including periodic report to the Board, and specified matters require prior approval by the Board before their implementation, including matters such as the establishment of internal management structure and the appointment and 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 2011, the Board held four meetings. The attendance record of each Director is set out below:

Executive Directors:	
Mr. Wang Cong *(Chairman)*	4/4
Mr. Wang Feng	4/4
Mr. Yang Xiaohuai	4/4
Mr. Gao Peng	4/4
Non-executive Directors:	
Ms. Zheng Rongfang	4/4
Independent non-executive Directors:	
Mr. Li Gangjian	4/4
Mr. Wei Dazhi	0/4
Mr. Chen Tao	4/4

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

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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. During 2011, the audit committee is composed of 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 was the chairman of the audit committee. Since 3 January 2012, the Company's Audit Committee comprises Mr. Li Gangjian, Mr. Gao Peng and Mr. Chen Tao, still chaired by Mr. Li Gangjian.

The audit committee received and commented on the financial statements, interim report and quarterly report of the Company for the year ended 31 December 2011. During the year ended 31 December 2011, 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	4/4

REMUNERATION COMMITTEE

The remuneration committee of the Company was established in June 2006. It comprised Mr. Li Gangjian (chairman), Ms. Zheng Rongfang and Mr. Chen Tao. Since 3 January 2012, the Company's Remuneration Committee is composed of Mr. Zhao Boxiang, Mr. Li Gangjian and Mr. Gao Peng, still chaired by Mr. Li Gangjian. 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.

In 2011, 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 comprised Mr. Gao Peng (chairman), Mr. Chen Tao and Mr. Li Gangjian. Since 3 January 2012, the Company's Nomination Committee is composed of Mr. Zhao Boxiang, Mr. Chen Tao and Mr. Gao Peng, still chaired by Mr. Gao Peng. 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.

In 2011, the nomination committee held one meeting. The meeting confirmed the responsibilities of the nomination committee, examined the composition of the Board and the qualifications of each Director, reviewed the independence of the Independent Non-executive Directors and qualifications of the Non-executive Directors. It also gave reasonable advise on matters regarding the appointment of Directors to the Board. The attendance records of the members of the nomination committee were as follows:

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

AUDITOR

For the year ended 31 December 2003, the auditor of the Company was Deloitte Touche Tohmatsu, who resigned from the office of auditor of the Company on 26 July 2005. CCIF CPA Limited was appointed to fill the casual vacancy on 12 August 2005, and continued to serve as the auditor of the Company, as approved by the annual general meetings of the Company on 30 December 2005 and held in subsequent years thereafter. On 12 March 2012, according to the requirments of the Listing Rules of the Stock Exchange to enhance corporate governance, CCIF CPA Limited submitted a resignation to the Company, and the Board of Directors of the Company accepted its resignation as the Company's auditor and then appointed Elite Partners CPA Limited instead for the year of 2011, whose remuneration for provision of audit services to the Company was RMB600,000 together with the reimbursement of related travel expenses. The decision of the Board of Directors of the Company regarding change of the auditor is yet to be ratified at the general meeting.

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
28 March 2012

REPORT OF SUPERVISORY COMMITTEE

To the Shareholders:

In 2011, 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 2011. 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 twenty-fifth meeting of the second Supervisory Committee was held on 30 March 2011, which considered and approved the audited annual results report of the Company for the year ended 31 December 2010 and audited the 2010 annual report.

2. The twenty-sixth meeting of the second Supervisory Committee was held on 11 May 2011, which considered and approved the unaudited first quarterly results report of the Company for the three months ended 31 March 2011.

3. The twenty-seventh meeting of the second Supervisory Committee was held on 12 August 2011, which considered and approved the unaudited interim results report of the Company for the six months ended 30 June 2011.

4. The twenty-eighth meeting of the second Supervisory Committee was held on 14 November 2011, which considered and approved the unaudited third quarterly results report of the Company for the nine months ended 30 September 2011.

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

In 2011, the Supervisory Committee devoted more efforts to supervise the management. The Supervisory Committee considered:

1. In 2011, 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 2011 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
28 March 2012

開元信德會計師事務所有限公司
ELITE PARTNERS CPA LIMITED
Certified Public Accountants

To the members of Shaanxi Northwest New Technology Industry Company Limited
(A joint stock company incorporated in 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 26 to 75, which comprise the statements of financial position as at 31 December 2011, 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 information.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of these financial statements that give a true and fair view 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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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 of the financial statements that give a true and fair view 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 2011 and of the profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Elite Partners CPA Limited
Certified Public Accountants
Hong Kong, 28 March 2012

Yip Kai Yin
Practising Certificate Number P05131

Suite 921-921,
Star House,
3 Salibury Road,
Tsim Sha Tsui, Kowloon,
Hong Kong

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
Revenue	6	**46,106**	53,069
Cost of sales		**(35,918)**	(43,163)
Gross profit		**10,188**	9,906
Other revenue and other net income and expenses	7	**7,572**	7,119
Distribution and selling expenses		**(1,812)**	(1,606)
Administrative expenses		**(5,504)**	(4,562)
Other operating expenses		**–**	(664)
Operating profit		**10,444**	10,193
Finance costs		**–**	–
Profit before taxation	8	**10,444**	10,193
Income tax expense	11	**(440)**	(409)
Profit for the year		**10,004**	9,784
Other comprehensive income		**–**	–
Total comprehensive income for the year		**10,004**	9,784
Earnings per share – Basic and diluted	13	**RMB0.011**	RMB0.011

STATEMENT OF FINANCIAL POSITION

As at 31 December 2011

	Notes	2011 RMB$'000	2010 RMB$'000
Non-current assets			
Property, plant and equipment	*14*	**21,344**	24,292
Land lease premium	*15*	**7,458**	7,668
		28,802	31,960
Current assets			
Land lease premium	*15*	**210**	210
Inventories	*16*	**3,457**	3,884
Trade receivables	*17*	**19,548**	31,209
Prepayments, deposits and other receivables	*17*	**36,369**	22,355
Cash and cash equivalents		**61,499**	49,396
		121,083	107,054
Current liabilities			
Trade payables	*18*	**692**	508
Other payables and accruals	*19*	**8,301**	7,148
Amount due to ultimate company	*20*	**3,827**	4,034
Tax liabilities		**4,485**	4,748
		17,305	16,438
Net current assets		**103,778**	90,616
Net Assets		**132,580**	122,576
Capital and reserves			
Share capital	*21*	**91,000**	91,000
Reserves	*22*	**41,580**	31,576
Total equity		**132,580**	122,576

Approved and authorised for issue by the board of directors on 28 March 2012.

Wang Cong
Director

Wang Feng
Director

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011

	Share capital *RMB'000*	Share premium *RMB'000*	Statutory surplus reserve *RMB'000*	Statutory welfare fund *RMB'000*	Accumulated loss *RMB'000*	Total equity *RMB'000*
At1 January 2010	91,000	25,880	10,987	5,493	(20,568)	112,792
Profit for the year and total comprehensive income for the year	–	–	–	–	9,784	9,784
Transfer	–	–	233	–	(233)	–
At 31 December 2010 and 1 January 2011	91,000	25,880	11,220	5,493	(11,017)	122,576
Profit for the year and total comprehensive income for the year	–	–	–	–	10,004	10,004
Transfer	–	–	1,000	–	(1,000)	–
At 31 December 2011	91,000	25,880	12,220	5,493	(2,013)	132,580

STATEMENT OF CASH FLOWS

For the year ended 31 December 2011

	2011 *RMB'000*	2010 *RMB'000*
Operating activities		
Profit before taxation	**10,444**	10,193
Adjustments for:		
Reversal of impairment loss on trade and Other receivables, prepayments and deposits	**(22,417)**	(7,347)
Impairment loss on trade and other receivables, prepayments and deposits	**14,971**	308
Amortisation of land lease premium	**210**	210
Depreciation of property, plant and equipment	**2,960**	4,778
Interest Income	**(126)**	(80)
Loss on disposal of property, plant and equipment	**–**	124
Written down of inventories	**–**	125
	6,042	8,311
Change in working capital		
Decrease in inventories	**425**	2,200
Decrease/(increase) in trade receivables	**19,106**	(19,085)
(Increase)/decrease in prepayments, deposits and other receivables	**(14,014)**	8,457
Increase in trade payables	**185**	–
Increase/(decrease) in accruals and other payables	**1,154**	(4,098)
Cash generated from/(used in) operations	**12,898**	(4,215)
PRC enterprise income tax paid	**(686)**	(1,229)
Net cash generated from/(used in) operating activities	**12,212**	(5,444)
Investing activities		
Payment for the purchase of property, plant and equipment	**(12)**	–
Interest received	**126**	80
Proceeds from disposal of assets classified as held for sale	**–**	50,000
Advance from ultimate holding company	**(223)**	3,782
Net cash (used in)/generated from investing activities	**(109)**	53,862
Net increase in cash and cash equivalents	**12,103**	48,418
Cash and cash equivalents at 1 January	**49,396**	978
Cash and cash equivalents at 31 December		
Cash and bank balances	**61,499**	49,396

1. GENERAL INFORMATION

Shaanxi Northwest New Technology Industry Company Limited (the "Company") was incorporated in 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 addresses of the registered office and principal place of business of the Company are disclosed in the corporate information section of the annual report.

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

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

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

2.1 Standards and Interpretations adopted in the current period

In the current year, the Company has adopted the following new and revised standards, amendments and interpretations (hereinafter collectively referred to as "new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") which are relevant to and effective for the Company's financial period beginning on 1 January 2011:

HKFRSs (Amendments)	Improvements to HKFRSs 2010 except for the amendments to HKFRS 3 (as revised in 2008), HKFRS 7, HKAS 1 and HKAS 28
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for Firs-time Adopters
HKFRS 1 (Amendment)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets
HKFRS 9	Financial Instruments
HKAS 12 (Amendment)	Deferred Tax: Recovery of Underlying Assets
HKAS 24 (as revised in 2009)	Related Party Disclosures
HKAS 32 (Amendments)	Classification of Rights Issues
HK(IFRIC)-Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments

Except as described below, the adoption of the new and revised HKFRSs has no material effect on the financial statements of the Company for the current and prior accounting periods.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

2.1 Standards and Interpretations adopted in the current period (Continued)

HKAS 24 (Revised) – Related Party Disclosures

HKAS 24 was revised to include a new definition of related party and to provide a partial exemption from the disclosure requirements in relation to related party transactions and outstanding balances, including commitments, with:

(a) a government that has control, joint control or significant influence over the reporting entity; and

(b) another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity.

The Company adopted the new definition in its accounting policies but such adoption does not have an effect on the disclosures made in the financial statements

Improvements to HKFRSs 2010 – Improvements to HKFRSs 2010

The improvements comprise a number of improvements to Standards including the following that are considered to be relevant to the Company:

Amendments to HKFRS 7 Financial Instrument Disclosures: Clarification of disclosures

The Amendments clarify the required level of disclosures about credit risk and collateral held and provide relief from disclosures previously required for renegotiated loans. The Company has amended its disclosures accordingly.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

2.2 Standards and Interpretations in issued but not yet adopted

The Company has not early applied any of the following new and revised standards, amendments and interpretations which have been issued but are not yet effective for annual periods beginning on 1 January 2011:

HKFRS 1 Amendments	Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards– Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters[1]
HKFRS 7 Amendments	Amendments to HKFRS 7 Financial Instruments: Disclosures – Transfers of Financial Assets[1]
HKFRS 7 Amendments	Amendments to HKFRS 7 Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities[4]
HKFRS 9	Financial Instruments[6]
HKFRS 10	Consolidated Financial Statements[4]
HKFRS 11	Joint Arrangements[4]
HKFRS 12	Disclosure of Interests in Other Entities[4]
HKFRS 13	Fair Value Measurement[4]
HKAS 1 Amendments	Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income[3]
HKAS 12 Amendments	Amendments to HKAS 12 Income Taxes – Deferred Tax: Recovery of Underlying Assets[2]
HKAS 19 (2011)	Employee Benefits[4]
HKAS 27 (2011)	Separate Financial Statements[4]
HKAS 28 (2011)	Investments in Associates and Joint Ventures[4]
HKAS 32 Amendments	Amendments to HKAS 32 Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities[5]
HK(IFRIC)-Int 20	Stripping Costs in the Production Phase of a Surface Mine[4]

[1] Effective for annual periods beginning on or after 1 July 2011
[2] Effective for annual periods beginning on or after 1 January 2012
[3] Effective for annual periods beginning on or after 1 July 2012
[4] Effective for annual periods beginning on or after 1 January 2013
[5] Effective for annual periods beginning on or after 1 January 2014
[6] Effective for annual periods beginning on or after 1 January 2015

HKFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace HKAS 39 Financial Instruments: Recognition and Measurement. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of HKAS 39.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

2.2 Standards and Interpretations in issued but not yet adopted (Continued)

In November 2010, the HKICPA issued additions to HKFRS 9 to address financial liabilities (the "Additions") and incorporated in HKFRS 9 the current derecognition principles of financial instruments of HKAS 39. Most of the Additions were carried forward unchanged from HKAS 39, while changes were made to the measurement of financial liabilities designated at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income ("OCI"). The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of the Additions.

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on hedge accounting and impairment of financial assets continues to apply. The Company expects to adopt HKFRS 9 from 1 January 2015.

HKFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The standard does not change the circumstances in which the Company is required to use fair value, but provides guidance on how fair value should be applied where its use is already required or permitted under other HKFRSs. The Company expects to adopt HKFRS 13 prospectively from 1 January 2013.

Amendments to HKAS 1 change the Companying of items presented in OCI. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items which will never be reclassified. The Company expects to adopt the amendments from 1 January 2013.

HKAS 19 (2011) includes a number of amendments that range from fundamental changes to simple clarifications and re-wording. The revised standard introduces significant changes in the accounting for defined benefit pension plans including removing the choice to defer the recognition of actuarial gains and losses. Other changes include modifications to the timing of recognition for termination benefits, the classification of short-term employee benefits and disclosures of defined benefit plans. The Company expects to adopt HKAS 19 (2011) from 1 January 2013.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation

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

The financial statements have been prepared on the historical cost basis. as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

3.2 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 accumulated depreciation and accumulated impairment losses (see note 3.6).

When a lease includes both land and building elements, the Company assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Company.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as “land lease premium” in the statement of financial position and is amortised over the lease term on a straight-line basis.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Property, plant and equipment (Continued)

Depreciation is provided to write off the cost or revalued amounts less their residual values over their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

Land and buildings	over the lease terms
Leasehold improvements	8 years
Plant and machinery	7 years
Motor vehicles	7 years
Furniture and office equipment	5 years

The assets' residual values, depreciation methods and useful lives are reviewed, and adjusted if appropriate, at each reporting period. The gain or loss arising on retirement or disposal is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss. Any revaluation surplus remaining in equity is transferred to retained earnings on the disposal of land and buildings.

Construction in progress represents factory buildings, plant and machinery under construction and installation, which is stated at cost less any impairment losses and is not depreciated. Cost comprises direct costs of construction, installation and testing. Construction in progress is reclassified to the appropriate category of property, plant and equipment or investment properties when completed and ready for use.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other costs, such as repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

3.3 Financial instruments

Financial assets and financial liabilities are recognised when a Company entity becomes a party to the contractual provisions of the instrument.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3 Financial instruments (Continued)

3.3.1 Financial assets

Financial assets are classified into the following specified categories: financial assets "at fair value through profit or loss" (FVTPL), "held-to-maturity" investments, "available-for-sale" (AFS) financial assets and "loans and receivables". The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near future; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3 Financial instruments (Continued)

3.3.1 Financial assets (Continued)

Financial assets at FVTPL (Continued)

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

- the financial asset forms part of a Company of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the Companying is provided internally on that basis; or

- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the statement of comprehensive income.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity date that the Company has the positive intention and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment (see the accounting policy in respect of impairment loss on financial assets below).

Available-for-sale financial assets (AFS financial assets)

AFS financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at FVTPL.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3 Financial instruments (Continued)

3.3.1 Financial assets (Continued)

Available-for-sale financial assets (AFS financial assets) (Continued)

AFS financial assets are measured at fair value at the end of the reporting period. Changes in fair value are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. Where the financial asset is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss (see the accounting policy in respect of impairment loss on financial assets below).

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of the reporting period (see the accounting policy in respect of impairment loss on financial assets below).

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and other receivables, amount due from a non-controlling interest of a subsidiary, pledged bank deposit and cash and bank balances) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3 Financial instruments (Continued)

3.3.1 Financial assets (Continued)

Impairment of financial assets (Continued)

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is 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.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods (see the accounting policy below).

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3 Financial instruments (Continued)

3.3.1 Financial assets (Continued)

Impairment of financial assets (Continued)

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity investments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. In respect of AFS debt investments, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

3.3.2 Financial liabilities and equity instruments

Debt and equity instruments issued by a Company entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.
Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL on initial recognition.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3 Financial instruments (Continued)

3.3.2 Financial liabilities and equity instruments (Continued)

Equity instruments (Continued)

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or

- on initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or

- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

- the financial liability forms part of a Company of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the Companying is provided internally on that basis; or

- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the statement of comprehensive income.

Other financial liabilities

Other financial liabilities (including trade and other payables, amount due to a non-controlling interest of a subsidiary, convertible bonds and promissory note) are subsequently measured at amortised cost using the effective interest method.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3 Financial instruments (Continued)

3.3.2 Financial liabilities and equity instruments (Continued)

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis other than financial liabilities classified as at FVTPL.

Derecognition

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Company retains an option to repurchase part of a transferred asset or retains a residual interest that does not result in the retention of substantially all the risks and rewards of ownership and the Company retains control), the Company allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3 Financial instruments (Continued)

3.3.2 Financial liabilities and equity instruments (Continued)

Derecognition (Continued)

The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

3.4 Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is determined using the weighted average cost formula, and in the case of work in progress and finished goods, comprise direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and applicable selling expenses.

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

3.5 Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand, demand deposits with banks with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. For the purpose of presentation in the statement of cash flows, cash and cash equivalents include bank overdrafts which are repayable on demand and form an integral part of the Company's cash management.

3.6 Impairment

At the end of each reporting period, the Company reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest Company of cash-generating units for which a reasonable and consistent allocation basis can be identified.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6 Impairment (Continued)

Recoverable amount is the higher of fair value less costs to sell 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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

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

3.7 Foreign currencies

In preparing the financial statements of each individual Company entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at 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 on monetary items re recognised in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;

- exchange differences on transactions entered into in order to hedge certain foreign currency risks (see the accounting policies below); and

- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8 Revenue recognition

Revenue comprises the fair value for the sale of goods and the use by others of the Company's assets yielding interest and dividends, net of rebates and discounts. Provided it is probable that the economic benefits will flow to the Company and the revenue and costs, if applicable, can be measured reliably, revenue is recognised as follows:

- Sales of goods are recognised upon transfer of the significant risks and rewards of ownership to the customer. This is usually taken as the time when the goods are delivered and the customer has accepted the goods.
- Interest income is recognised on a time-proportion basis using the effective interest method.

3.9 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

3.10 Income taxes

Income tax comprises current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.10 Income taxes (Continued)

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current for the year is recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax is also recognised in other comprehensive income or directly in equity respectively.

3.11 Retirement benefit costs and short term employee benefits

Retirement benefits to employees are provided through defined contribution plans.

3.11.1 Defined contribution plan

Pursuant to the relevant regulations of the government of the People's Republic of China, the Company operating in the PRC participate in a local municipal government retirement benefits scheme (the "PRC Scheme"), whereby the subsidiaries are required to make contributions, as calculated under the rules specified by the relevant PRC local government authorities, to the PRC Scheme to fund their retirement benefits. The local municipal government undertakes to assume the retirement benefits obligations of all existing and future retired employees of the subsidiaries. The only obligation of the Company with respect to the PRC Scheme is to pay the ongoing required contributions under the PRC Scheme mentioned above. Contributions under the PRC Scheme are charged to profit or loss as incurred. There are no provisions under the PRC Scheme whereby forfeited contributions may be used to reduce future contributions.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.11 Retirement benefit costs and short term employee benefits (Continued)

3.11.2 Short term employee benefits

(i) Provisions for bonus due are recognised when the Company has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

(ii) Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of the reporting period.

Non-accumulating compensated absences such as sick leave and maternity leave are not recognised until the time of leave.

3.12 Share-based employee compensation

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Company's operations. Employees (including directors) of the Company receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

All employee services received in exchange for the grant of any share-based compensation are measured at their fair values. These are indirectly determined by reference to the share options awarded. Their value is appraised at the grant date and excludes the impact of any non-market vesting conditions.

All share-based compensation is ultimately recognised as an expense in profit or loss in full at the grant date when the share options granted vest immediately, with a corresponding increase in equity. If vesting periods or other vesting conditions apply, the expense is recognised over the vesting period, based on the best available estimate of the number of share options expected to vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised, if there is any indication that the number of share options expected to vest differs from previous estimates. No adjustment to expense recognised in prior periods is made if fewer share options ultimately are exercised than originally vested.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.13 Leases

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 land lease premium and charge to profit or loss on a straight-line basis over the lease terms. Rights for using land use rights which are to be charged to profit or loss in the next twelve months or less are classified as current assets.

3.13.1 Classification of assets leased to the Company

Assets that are held by the 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, with the following exceptions:

- property held under operating leases that would otherwise meet the definition of an investment property is classified as an investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease (see note 3.9); and

- 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 (see note 3.8). 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.

3.13.2 Operating lease charges as the lessee

Where the Company has the right to use of assets held under operating leases, payments made under the leases are charged to profit or loss on a straight line basis over the lease terms except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made. Contingent rental are charged to profit or loss in the accounting period in which they are incurred.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.14 Provisions, contingent liabilities and contingent assets (Continued)

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

3.15 Related parties

For the purposes of these financial statements, a party is 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.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

In the application of the Company's accounting policies, which are described in Note 3, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. 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.

The following are the key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

4.1 Useful life of property, plant and equipment

The Company estimates the useful lives of property, plant and equipment in order to determine the amount of depreciation expenses to be recorded. The useful lives are estimated at the time the asset is acquired based on historical experience, the expected usage, wear and tear of the assets, as well as technical obsolescence arising from changes in the market demands or service output of the assets. The Company also performs annual reviews on whether the assumptions made on useful lives continue to be valid.

4.2 Estimated impairment of assets

The Company tests annually whether the assets has suffered any impairment. The recoverable amount of an asset or a cash generating unit is determined based on value-in-use calculations which require the use of assumptions and estimates.

4.4 Estimated impairment of receivables

The Company's management determines impairment of receivables on a regular basis. This estimate is based on the credit history of its customers/borrowers and current market conditions. Management reassess the impairment of receivables at the end of the reporting period.

4.5 Income taxes

The Company is subject to income taxes in the PRC. Significant judgment is required in determining the amount of the provision for income taxes and the timing of payment of related taxes. The Company recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which the tax outcome is realisable.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

4.9 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 expenses. These estimates are based on the current market condition and the historical experience of selling products of similar nature. It could change significantly as a result of competitor actions in response to severe industry cycles. Management will reassess the estimations at the end of the reporting period.

4.10 Fair value of financial assets and instruments

Where the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

5. SEGMENT INFORMATION

Information reported to the Board of Directors, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on types of goods delivered by the Company's operating divisions.

The Company's operating and reportable segments under HKFRS 8 are therefore as follows:

– Sales of unleaded gasoline additives: this segment produces and sells innovation environmental protection energy material and products and fuel oil additives.

– Sales of mercaptoacetic acid isooctyl: this segment produces and sells thiol products.

– Sale of rare earth luminescent materials: this segment produces and sells high technology materials.

5. SEGMENT INFORMATION

5.1 Segment revenue and results

	Segment revenue		Segment results	
	2011	2010	**2011**	2010
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Unleaded gasoline additives	**26,900**	37,042	**12,404**	7.424
Mercaptoacetic acid isooctyl	**19,206**	10,386	**4,572**	1,261
Rare earth luminescent materials	**–**	5,641	**–**	5,997
Total	**46,106**	53,069	**16,976**	14,682
Other revenue			**127**	80
Depreciation and amortisation			**(148)**	(148)
Loss on disposal of property, plant and equipment			**–**	(124)
Other corporate expenses			**(6,511)**	(4,297)
Profit before taxation			**10,444**	10,193

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales in the current year (2010: Nil).

The accounting policies of the reportable segments are the same as the Company's accounting policies described in note 3 to the financial statements. Segment result represents the profit earned by each segment without allocation of corporate income and expenses, central administrative costs, directors' salaries, gain on disposal of property, plant and equipment and finance costs. This is the measure reported to the chief operating decision maker for the purpose of resource allocation and performance assessment.

5.2 Segment assets and liabilities

	Segment assets		Segment liabilities	
	2011	2010	**2011**	2010
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Unleaded gasoline additives	**51,224**	57,562	**5,249**	5,344
Mercaptoacetic acid isooctyl	**24,941**	8,758	**3,747**	1,498
Rare earth luminescent materials	**–**	10,099	**–**	814
Subtotal	**76,165**	76,419	**8,996**	7,656
Unallocated	**118,075**	62,595	**8,311**	8,782
Total	**194,240**	139,014	**17,307**	16,438

5. SEGMENT INFORMATION (Continued)

5.2 Segment assets and liabilities (Continued)

For the purposes of monitoring segment performance and allocating resources between segments:

- all assets are allocated to reportable segments other than assets classified as held for sale refundable deposit, other receivables and cash and bank balance. Assets used jointly by segments are allocated on the basis of the revenues earned by individual segments; and

- all liabilities are allocated to reportable segments other than current tax liabilities and due to ultimate holding company. Liabilities for which segments are jointly liable are allocated in proportion to segment assets.

5.3 Other segment information

	Depreciation and amortisation		**Capital expenditures**	
	2011	2010	**2011**	2010
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Unleaded gasoline additives	**1,876**	2,503	**–**	–
Mercaptoacetic acid isooctyl	**1,146**	2,093	**–**	–
Rare earth luminescent materials	**–**	244	**–**	–
Unallocated	**148**	148	**12**	–
	3,170	4,988	**12**	–

5.4 Geographical information

All the Company's interest income and profit are derived from operation carried in the PRC. In addition, all the Company's non-current assets are located in the PRC. Accordingly, no analysis of the Company's segmental information by geographical segments is presented.

5.5 Information about major customers

Included in revenue approximately RMB46,106,000 (2010: RMB53,069,000) are revenue of approximately RMB16,698,000 (2010: RMB 8,629,000) which arose from sales to the Company's largest customer. No other single customers contributed 10% or more to the Company's revenue for the years ended 31 December 2011 and 2010.

6. REVENUE

The principal activities of the Company are research and development, production and sale of innovative environmental protection energy material and products, full oil additives, chemical products and rare earth materials.

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

Revenue, which is also the Company's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts during the year. An analysis of revenue is as follows:

	2011	2010
	RMB'000	*RMB'000*
Unleaded gasoline additives	**26,900**	37,042
Mercaptoacetic acid isooctyl	**19,206**	10,386
Rare earth luminescent materials	**–**	5,641
	46,106	53,069

7. OTHER REVENUE AND OTHER NET INCOME AND EXPENSE

	2011	2010
	RMB'000	*RMB'000*
Bank interest income	**126**	80
Impairment loss on trade and other receivables, prepayments and deposits	**(14,971)**	(308)
Reversal of impairment loss on trade and other receivables, prepayments and deposits	**22,417**	7,347
	7,572	7,119

8. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	2011	2010
	RMB'000	*RMB'000*
Amortisation of land lease premium	**210**	210
Auditor's remuneration		
– audit services	**600**	513
– other services	**–**	201
Staff costs (including directors' and supervisors' emoluments (note 9))		
– Wages and salaries	**1,378**	1,846
– Defined contribution scheme	**135**	90
	1,513	1,936
Cost of inventories sold	**35,918**	43,163
Depreciation of property, plant and equipment	**2,960**	4,778
Loss on disposal of property, plant and equipment	**–**	124
Write down of inventory	**–**	125

9. DIRECTORS' AND SUPERVISORS' EMOLUMENTS

	Year ended 31 December 2011			
	Fees *RMB'000*	Salaries and other benefits *RMB'000*	Retirement benefit scheme contributions *RMB'000*	Total *RMB'000*
Name of director				
Executive directors				
Wang Cong	**–**	**120**	**8**	**128**
Yang Xiaohuai	**–**	**60**	**8**	**68**
Wang Feng	**–**	**60**	**8**	**68**
Tian Linlin *(Note a)*	**–**	**60**	**8**	**68**
Zeng Yinglin *(Note a)*	**–**	**60**	**8**	**68**
Non-executive directors				
Gao Peng *(Note b)*	**–**	**50**	**–**	**50**
Guo Bin *(Note c)*	**30**	**–**	**–**	**30**
Zheng Rongfang (*Note d)*	**30**	**–**	**–**	**30**
	60	**410**	**40**	**510**
Independent non-executive directors				
Li Gangjian	**50**	**–**	**–**	**50**
Chen Tao	**50**	**–**	**–**	**50**
Wei Dazhi *(Note e)*	**30**	**–**	**–**	**30**
Zhao Boxiang *(Note f)*	**50**	**–**	**–**	**50**
	180	**–**	**–**	**180**
Total director's emoluments for 2011	**240**	**410**	**40**	**690**
Name of supervisor				
Yan Buqiang	**–**	**60**	**8**	**68**
Jiang Lifen *(Note g)*	**–**	**–**	**–**	**–**
Zhang Xianping	**–**	**24**	**5**	**29**
Duan Lin	**–**	**30**	**–**	**30**
Wang Gongxun	**–**	**30**	**–**	**30**
Xing Manli *(Note h)*	**–**	**36**	**5**	**41**
Total supervisors' emoluments for 2011	**–**	**180**	**18**	**198**
Total	**300**	**590**	**58**	**888**

9. DIRECTORS' AND SUPERVISORS' EMOLUMENTS (Continued)

	Year ended 31 December 2010			
	Fees	Salaries and other benefits	Retirement benefit scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Name of director				
Executive directors				
Wang Cong	–	120	8	128
Gao Peng	–	180	–	180
Yang Xiaohuai	–	60	8	68
Wang Feng	–	60	8	68
Non-executive directors				
Guo Bin	30	–	–	30
Zheng Rongfang	30	–	–	30
	60	420	24	504
Independent non-executive directors				
Li Gangjian	30	–	–	30
Chen Tao	30	–	–	30
Wei Dazhi	30	–	–	30
	90	–	–	90
Total director's emoluments for 2010	150	420	24	594
Name of supervisor				
Yan Buqiang	–	60	8	68
Jiang Lifen	–	18	5	23
Zhang Xiaoping	–	14	5	19
Duan Lin	–	20	–	20
Wang Gongxun	–	20	–	20
Total supervisors' emoluments for 2010	–	132	18	150
Total	150	552	42	744

9. DIRECTORS' AND SUPERVISORS' EMOLUMENTS (Continued)

Notes:

a) Ms. Tian Lin Lin and Mr. Zheng Ying Lin appointed as director on 3 January 2012.

b) Mr. Gao Peng re-appointed as non-executive director on 28 February 2011.

c) Mr. Guo Bin resigned from non-executive director on 28 February 2011.

d) Ms. Zheng Rongfang resigned from non-executive director on 3 January 2012.

e) Mr. Wei Dazhi resigned from non-executive director on 3 January 2012.

f) Mr. Zhao Boxiang appointed as independent non-executive director on 3 January 2012.

g) Ms. Jiang Lifeng resigned from supervisor on 17 November 2011.

h) Ms. Xing Manli appointed as supervisor on 17 November 2011.

10. EMPLOYEES' EMOLUMENTS

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

11. INCOME TAX EXPENSE

Income tax recognised in profit or loss

	2011	2010
	RMB'000	*RMB'000*
Current tax:		
PRC enterprise income tax		
– provision for the years	**440**	644
– over provision in prior years	**–**	(250)
Hong Kong profits tax		
– under provision in prior years	**–**	15
	440	409

(a) 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 branch are entitled to the following tax incentives:

11. INCOME TAX EXPENSE (Continued)

(a) (Continued)

i) The Company, other than its branch – referred to as 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 branch in Wei Nan City, Shaanxi Province.

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.

(a) No provision for Hong Kong profits tax has been made since the is not subject to Hong Kong Profits Tax as the Company's income neither arises in, nor is derived from, Hong Kong. (2010: The Hong Kong Inland Revenue Department ("IRD") issued a claim of approximately HK$18,000 (equivalent to approximately RMB15,000) to the Company. Such claim was an estimated tax charges due to the Company failed to submit the Hong Kong Profits Tax Return for the year of assessment 2006/07 to the IRD within the time limit.).

The tax charge for the year can be reconciled to the profit per the income Statement of Comprehensive Income follows:

	2011	2010
	RMB'000	*RMB'000*
Profit before taxation	**10,444**	10,193
Tax at the statutory tax rates	**1,567**	1,529
Tax losses not recognised	**–**	198
Income not subject to tax	**(3,363)**	(1,324)
Expenses not deductible for tax	**2,236**	241
(Over)/under provision in prior years		
– PRC enterprise income tax	**–**	(250)
– Hong Kong profits tax	**–**	15
Income tax expense for the year	**440**	409

12. DIVIDENDS

The Directors do not recommend the payment of any final dividend in respect of the year ended 31 December 2011 (2010: Nil).

13. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit for the year of approximately RMB10,004,000 (2010: RMB9,784,000) and the weighted average number of 910,000,000 (2010: 910,000,000) shares in issue during the year.

Diluted earnings per share is equal to basic earnings per share as there were no dilutive potential ordinary shares outstanding during the year.

14. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Leasehold improvements	Plant and equipment	Furniture, fixtures and equipment	Motor vehicles	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At cost:							
At 1 January 2010	19,376	3,883	31,002	2,277	760	1,324	58,622
Disposal	–	–	–	–	–	(1,324)	(1,324)
At 31 December 2010 and 1 January 2011	19,376	3,883	31,002	2,277	760	–	57,298
Additions	–	–	–	12	–	–	12
At 31 December 2011	19,376	3,883	31,002	2,289	760	–	57,310
Accumulated depreciation and impairment:							
At 1 January 2010	4,248	3,883	17,288	2,081	728	1,200	29,428
Charge for the year	588	–	4,182	1	7	–	4,778
Disposal	–	–	–	–	–	(1,200)	(1,200)
At 31 December 2010 and at 1 January 2011	4,836	3,883	21,470	2,082	735	–	33,006
Charge for the year	588	–	2,364	1	7	–	2,960
At 31 December 2011	5,424	3,883	23,834	2,083	742	–	35,966
Net carrying value:							
At 31 December 2011	13,952	–	7,168	206	18	–	21,344
At 31 December 2010	14,540	–	9,532	195	25	–	24,292

15. LAND LEASE PREMIUM

	2011	2010
	RMB'000	*RMB'000*
At cost:		
At 1 January	**7,878**	8,088
Amortisation	**(210)**	(210)
At 31 December	**7,668**	7,878
Non-current portion	**(7,458)**	(7,668)
Current portion classified as current assets	**210**	210

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 (2010: approximately of RMB10,240,000).

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

16. INVENTORIES

	2011	2010
	RMB'000	*RMB'000*
Raw materials	**1,805**	2,351
Finished goods	**1,652**	1,533
	3,457	3,884

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

	2011	2010
	RMB'000	*RMB'000*
Carrying amount of inventories sold	**35,918**	43,163
Write-down of inventories	**–**	125
	35,918	43,288

17. TRADE AND OTHER RECEIVALBES, PREPAYMENTS AND DEPOSITS

	2011	2010
	RMB'000	*RMB'000*
Trade receivables (note (b))	**19,548**	31,209
Other receivables	**85**	85
Loans and receivables	**19,633**	31,294
Prepayments and deposits (note (e))	**36,284**	22,270
	55,917	53,564

(a) All of the trade and other receivables are expected to be recovered within one year.

(b) An aged analysis of the trade receivables at the end of the reporting period, based on the invoice date, is as follows:

	2011	2010
	RMB'000	*RMB'000*
0 – 90 days	**10,722**	11,388
91 – 180 days	**6,110**	16,110
181 – 365 days	**17,688**	22,230
Over 365 days	**17,672**	21,571
Less: Impairment loss on trade receivables	**(32,644)**	(40,090)
	19,548	31,209

Trading terms with customers are largely on credit, except for new customers, where trade deposits, advances or payments in advance are normally required. Invoices are normally payable within 90 days. Longer credit period will also be granted to exceptional customer. The Company seeks to maintain strict control over its outstanding receivables. Overdue balances are regularly reviewed by senior management. Trade receivables are non-interest bearing.

Credit is offered to customers following an assessment of their financial abilities and payment track record. Credit limits are set out for all customers and these can be exceeded only with the approval of senior officers of the Company. Business with customers considered to have a credit risk is conducted on a cash basis. Management monitors overdue trade receivables and follows up collections.

17. TRADE AND OTHER RECEIVALBES, PREPAYMENTS AND DEPOSITS (Continued)

(c) The movement in the provision for impairment of trade receivables and other receivable, prepayments and deposits is as follows:

	2011	2010
	RMB'000	*RMB'000*
At 1 January	**41,316**	48,355
Impairment losses on trade and other receivables, prepayments and deposits recognised during the year	**14,971**	308
Reversal of impairment losses on trade and other receivables, prepayments and deposits recognised during the year	**(22,417)**	(7,347)
At 31 December	**33,870**	41,316

Impairment losses in respect of trade and other receivables, prepayments and deposits are recorded using an allowance account unless the Company is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade and other receivables directly.

Write back of impairment loss on trade and other receivables, prepayments and deposits represents the recovery of debts due from those debtors previously impaired. An allowance for the non-recoverable amounts that had been made in previous years was written back accordingly.

As at 31 December 2011, trade and other receivables, prepayments and deposits of the Company amounting to approximately RMB33,870,000 (2010: RMB41,316,000) were individually determined to be impaired and full provision had been made. These individually impaired receivables had been outstanding for over 1 year at the end of the reporting period or were due from companies with financial difficulties. During the year ended 31 December 2011, specific allowances for doubtful debts of approximately RMB14,971,000 (2010: RMB308,000) were recognised. The Company does not hold any collateral over these balances. The factors which the Company considered in determining whether these trade and other receivables, prepayments and deposits were individually impaired include the following:

– significant financial difficulty of the debtor;

– receivables that have been outstanding for a certain period;

– the Company granting to the debtor, 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 debtor will enter into bankruptcy or other financial reorganisation; and

17. TRADE AND OTHER RECEIVALBES, PREPAYMENTS AND DEPOSITS (Continued)

(c) (Continued)

– 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 debtors of the Company; and

– economic conditions that correlate with defaults on the trade and other receivables, prepayments and deposits of the Company.

(d) In addition, some of the unimpaired trade receivables are past due at the end of the reporting period. Aging analysis of trade receivables past due but not impaired is as follows:

	2011	2010
	RMB'000	*RMB'000*
Neither past due nor impaired	**10,722**	11,388
Less than 6 months past due	**6,110**	19,128
More than 6 months but less than 1 year pass due	**2,716**	693
Total trade receivables, net	**19,548**	31,209

Trade receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default. The Company's management considers that trade receivables that are past due but not impaired at the reporting period are of good credit quality. The Company does not hold any collateral over these balances.

(e) As at 31 December 2011, included in the balance of "Prepayments and deposits" is a refundable deposit of RMB 28,000,000 (2010: 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 board of directors, this deposit is fully recoverable and thus, no impairment is required.

18. TRADE PAYABLES

An aged analysis of trade payables at the end of the reporting period, based on the invoice date, is as follows:

	2011	2010
	RMB'000	*RMB'000*
181 days to 360 days	**184**	–
Over 360 days	**508**	508
	692	508

19. OTHER PAYABLES AND ACCRUALS

All of the Company's other payables and accruals are expected to be settled or recognised as income within one year or are repayable on demand.

20. AMOUNT DUE TO ULTIMATE HOLDING COMPANY

The amount due to ultimate holding company is unsecured, non-interest bearing and is repayable on demand.

21. SHARE CAPITAL

Registered shares of RMB0.1 each	**Number of shares** ***'000***	Amount *RMB'000*
Registered, issued and fully paid:		
At 1 January 2010, 31 December 2011,		
at 1 January 2010 and 31 December 2011		
– Domestic shares	**680,000**	68,000
– H shares	**230,000**	23,000
	910,000	91,000

22. RESERVES

	Share premium	Statutory surplus reserve	Statutory welfare fund	Accumulated loss	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2010	25,880	10,987	5,493	(20,568)	21,792
Profit for the year	–	–	–	9,784	9,784
Transfer	–	233	–	(233)	–
At 31 December 2010 and at 1 January 2011	25,880	11,220	5,493	(11,017)	31,576
Profit for the year	–	–	–	10,004	10,004
Transfer	–	1,000	–	(1,000)	–
At 31 December 2011	25,880	12,220	5,493	(2,013)	41,580

Nature and purpose of reserves

Share premium

The share premium represents the difference between the nominal amount of share capital and amounts received on issue of shares. The application of the share premium account of the Company is governed by the PRC Company Law.

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.

Statutory welfare fund

According to the relevant PRC laws and regulations, the Company is required to set aside 5% to 10% of its profit after taxation of its statutory financial statements for the statutory welfare fund. Such fund can be used for enterprise development and the staff welfare only and are not available for profit distribution. With effective from 1 January 2006, the Company is not required to provide statutory welfare fund for profit distribution.

22. RESERVES (Continued)

Nature and purpose of reserves (Continued)

Accumulated losses

Profit distribution 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, no reserve is available for distribution at 31 December 2010 and 2011.

23. 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 the 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 (ii) or (iii) or (iv) below;

23. SHARE OPTION SCHEME (Continued)

d) Maximum number of shares (Continued)

ii) The Board may seek approval of Shareholders in general meeting to renew the 10% limit in paragraph (i). However, the total number of H Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and other schemes of the Company under the limit as renewed must not exceed 10% of the number of H Shares of the Company in issued as at the date of the approval to renew the limit;

iii) The Board may seek separate shareholders' approval in general meeting to grant options beyond 10% limit provided that (i) the total number of H Shares subject to the Share Option Scheme and other such schemes of the Company does not in aggregate exceed 30% of the total number of H Shares of the Company in issue at the date of approval and (ii) the options in excess of the 10% limit are granted only to participants specified by the Board before such approval is sought;

iv) No Employees shall be granted an option which, if all the options granted to the Employee (including both exercised and outstanding options) in any 12-month period up to the date of the grant are exercised in full, would result in such person's maximum entitlement exceeding 1% of the number of H Shares of the Company issued, unless approved by shareholders in general meeting, with such Employee and his associates abstaining from voting; and

v) Each grant of options to a connected person (as defined in the GEM Listing Rules) must be approved by the independent non-executive directors (excluding independent non-executive director who is the grantee of the options). Where any grant of options to a substantial shareholder (as defined in the GEM Listing Rules) or an independent non-executive director, or any of their respective associates, would result in the H Shares issued and to be issued upon exercise of all options granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant, representing in aggregate over 0.1% of the H Shares in issue and having an aggregate value, based on the closing price of H Shares at the date of each grant, in excess of HK$5 million, such further grant of options must be approved by the shareholders.

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.

23. 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.

24. MATERIAL RELATED PARTY TRANSACTIONS

In addition to the transactions and balances with related parties detailed elsewhere in these financial statements, the Company had the following material transactions with related parties during the year:

(a) At the end of respective reporting period, the Company had the following balances with related parties:

	2011	2010
	RMB'000	*RMB'000*
Amount due to ultimate holding company	**3,827**	4,034

(b) Compensation of key management personnel of the Company:

Remuneration for key management personnel of the Company, including amounts paid to the Company's directors is disclosed in note 9.

25. RETIREMENT BENEFIT SCHEME

The Company contributed to a local municipal government retirement scheme for all qualified employees in the PRC. The employer and its employees are each required to make contributions to the scheme at the rates specified in the rules. The only obligation of the Company with respect to the retirement scheme is to make the required contributions under the scheme. No forfeited contribution is available to reduce the contribution payable in the future years.

The total cost charged to the income statement of approximately RMB135,000 (2010: approximately RMB 90,000) represents contributions payable to the scheme by the Company during the year.

25. RETIREMENT BENEFIT SCHEME (Continued)

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.

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.

26. RISK MANAGEMENT OBJECTIVES AND POLICES

The Company does not Company employs a conservative strategy regarding its risk management. As the Company's exposure to market risks is kept at a minimum level, the Company has not used any derivatives or other instruments for hedging purposes.

The Company's principal financial instruments mainly comprise of cash and cash equivalents, trade and receivables, prepayments, deposits and other receivables, amount due to ultimate company, trade payables, other payables and accruals. The most significant financial risks to which the Company is exposed and the financial risk management policies and practices used to manage these risks are described below.

Interest rate risk

The Company does not have material exposure to interest rate risk, as the Company has no financial assets and liabilities of material amounts with floating interest rates. A reasonably possible change in interest rate in the next twelve months is assessed, which could have immaterial change in the Company's profits after tax and retained earnings. Changes in interest rates have no impact on the Company's other components of equity. The Company adopts centralised treasury policies in cash and financial management and focuses on reducing the Company's overall interest expense.

26. RISK MANAGEMENT OBJECTIVES AND POLICES (Continued)

The Company is exposed to interest rate risk only to the extent that it earns bank interest on cash and deposits only.

At 31 December 2011, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would increase/decrease the Company's profit after tax and decrease/increase the Company's accumulated losses by approximately RMB493,960 (2010: decrease in profit of approximately RMB493,960). Other components of equity would not be affected (2010: 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 2010.

Foreign currency risk

Most of the Company's monetary assets and liabilities are denominated in Renminbi and the Company conducted its business transactions principally in Renminbi. The Company currently does not have a foreign currency hedging policy. Accordingly the sensitivity analysis has not been presented.

Credit risk

The Company's exposure to credit risk is mainly limited to the carrying amount of financial assets recognised at the end of the reporting date, as summarised below:

	2011	2010
	RMB'000	*RMB'000*
Classes of financial assets:		
Trade receivables	**19,548**	31,209
Other receivables	**85**	85
Cash and cash equivalents	**61,499**	49,396
	81,132	80,690

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.

26. RISK MANAGEMENT OBJECTIVES AND POLICES (Continued)

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 24% and 75% (2010: 21% and 69%) of trade receivables was due from the largest customer and the largest 5 customers.

The credit risk on liquid funds is limited because the counter parties are banks.

Further quantitative data in respect of the Company's exposure to credit risk arising from trade receivables are disclosed in note 17 to the financial statements.

Liquidity risk

The Company's objective is to ensure adequate funds to meet commitments associated with its financial liabilities. Cash flows are closely monitored on an ongoing basis. The Company will raise additional funding from the realisation of its assets if required.

At 31 December 2011 and 31 December 2010, the remaining contractual maturity of the Company's financial liabilities which are based on undiscounted cash flows are summarised below:

	Within 1 year or on demand *RMB'000*	Total uncontractual undiscounted cash flow *RMB'000*	Carrying amount *RMB'000*
At 31 December 2011			
Trade payables	**692**	**692**	**692**
Other payables and accruals	**8,301**	**8,301**	**8,301**
Amount due to ultimate holding company	**4,485**	**4,485**	**4,485**
	13,478	**13,478**	**13,478**

26. RISK MANAGEMENT OBJECTIVES AND POLICES (Continued)

	Within 1 year or on demand *RMB'000*	Total uncontractual undiscounted cash flow *RMB'000*	Carrying amount *RMB'000*
At 31 December 2010			
Trade payables	508	508	508
Other payables and accruals	6,036	6,036	6,036
Amount due to ultimate holding company	4,034	4,034	4,034
	10,578	10,578	10,578

The carrying amounts of the Company's financial assets and liabilities recognised at the balance sheet dates may also be categorised as follows. See note 3.3 for explanations on how the category of financial instruments affects their subsequent measurement.

Financial assets

	2011 ***RMB'000***	2010 *RMB'000*
Financial assets at fair value through profit or loss		
Other receivables	**85**	85
Cash and cash equivalents	**61,499**	49,396
	61,584	49,481

Financial liabilities

	2011 ***RMB$'000***	2010 *RMB$'000*
Financial liabilities measured at amortised cost		
Trade payable	**692**	508
Other payables and accruals	**8,301**	6,036
Amount due to ultimate holding company	**4,485**	4,034
	13,478	10,578

26. RISK MANAGEMENT OBJECTIVES AND POLICES (Continued)

Fair values

The fair values of the Company's financial assets and liabilities are not materially different from their carrying amounts because of the immediate or short term maturity.

The following table presents the carrying value of financial instruments measured at fair value at the end of the reporting period across the three levels of the fair value hierarchy defined in HKFRS 7, Financial Instruments: Disclosures, with the fair value of each financial instrument categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

– Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments.

– Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data.

– Level 3: (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data.

As at 31 December 2011 and 2010, the Company does not have financial assets categorised under level 1, 2 and 3.

27. CAPITAL MANAGEMENT

Capital includes equity attributable to the equity holders of the Company. The primary objectives of the Company's capital management are:

(a) To safeguard the Company's ability to continue as a going concern, so that it continues to provide returns for shareholders and benefits for other stakeholders;

(b) To support the Company's stability and growth; and

(c) To provide capital for the purpose of strengthening the Company's risk management capability. The Company actively and regularly reviews and manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2011 and 2010.

The financial leverage of the Company as at 31 December 2011, as compared to 31 December 2010 has been disclosed in the management discussion and analysis.

28. EVENTS AFTER THE REPORTING PERIOD

On 22 November 2011, the Company entered into the Option Agreement, pursuant to which the Company has conditionally agree to grant the option to JL Investments Capital Limited, a company incorporated in the British Virgin Islands, which is exercisable during the Option Period, to subscribe for a maximum of 46,000,000 new H Shares at the Exercise Price of HK$0.25 per Option Share. the agreement is subject to approval of the China Securities Regulatory Commission for the issue and allotment of Option Shares having been obtained. Up to the date of this financial statements authorised, the agreement has not been approved by China Securities Regulatory Commission.

On 4 December 2011, the Company entered into the Equity Purchase Framework Agreement which sets out the parties' intention in relation to the possible acquisition of the entire equity interest in the a limited company incorporated in the PRC. Up to the date of this financial statements authorised, the acquisition has not been completed

29. ULTIMATE HOLDING COMPANY

At 31 December 2011, the directors consider the ultimate holding company of the Company is Xi'an Northwest Industry (Company) Limited, which is established in the PRC. This entity does not produce financial statements available for public use.

30. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 28 March 2012.

FIVE YEARS FINANCIAL SUMMARY

RESULTS

	For the year ended 31 December				
	2011	2010	2009	2008	2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Turnover	**46,106**	53,069	32,983	48,666	74,436
Profit/(loss) before taxation	**10,444**	10,193	(22,733)	(12,922)	16,673
Taxation	**(440)**	(409)	(250)	(850)	(2,227)
Net profit/(loss) for the year	**10,004**	9,784	(22,983)	(13,772)	14,446

ASSETS AND LIABILITIES

	At 31 December				
	2011	2010	2009	2008	2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total assets	**149,885**	139,014	130,366	181,553	202,309
Total liabilities	**(17,305)**	(16,438)	(17,574)	(45,778)	(52,762)
Total equity	**132,580**	122,576	112,792	135,775	149,547