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 2013

* For identification purposes only

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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

Hong Kong Exchanges and Clearing Limited and The Stock Exchange take no responsibility for the contents of this report, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

This report, for which the directors (the "Directors") of Shaanxi Northwest New Technology Industry Company Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, there are no other matters the omission of which would make any statement herein or this report misleading

CONTENT

CORPORATE INFORMATION

DIRECTORS OF THE COMPANY

Executive Directors
Mr. Wang Cong *(Chairman)*
Mr. Wang Feng
Mr. Yang Xiaohuai
Ms. Tian Lingling
Ms. Zhou Jin

Non-executive Directors
Mr. Gao Peng
Mr. Wong Hon Kit
Mr. Simon Luk

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

SUPERVISORS

Mr. Zeng Yinglin
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 CPA Limited

LEGAL ADVISORS

As to PRC law
Jiayuan Law Firm, Beijing

As to Hong Kong law
Cheung & Lee
In association with
Locke Lord Bissell & Liddell (HK) LLP

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 Xi'an (Gaoxin Branch)
No. 27 Keji 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 hereby present the annual report of the Company for the year ended 31 December 2013.

OPERATING PERFORMANCE

During 2013, the Company recorded a turnover of approximately RMB57,186,000 representing an increase of 6% from the previous year. A gross profit of approximately RMB17,681,000 was achieved. However, the Board provided approximately RMB65,000,000 of other receivables in the past year for bad debt according accounting policy, and as agreed by the auditor, resulting in an after-tax loss of RMB56,365,000 representing an decrease of RMB66,673,000 from the previous year. The Board does not recommend paying any final dividend for the year ended 31 December 2013.

BUSINESS STRATEGY

In 2013, the business operations of the Company generally remained stable, representing an increase against last year to some extent. This was mainly due to our more efforts on the sale strategies on FA-90, our traditional product, particularly on the after-sales services for our traditional customers, increasing the usage by customers.

During the year, the Company increased the investment in the development of new products while remaining business growth at the previous level. In particular, it developed petrochemical products that meet the needs in the future market together with colleges and universities, so as to seek to broaden the range to which the Company's products are applied, and exploit new markets, therefore generating additional business growth points for the Company and achieving further development in the traditional petrochemical sector at the same time , further reduced operating costs, improved gross margin, and increased corresponding operating profit.

PROSPECT

Although the company's main business in the period under review remained steady with a slight growth, competition in the traditional business is getting more intense and it will be difficult to have any major breakthrough and rapid growth on the current basis. In the future, the Board will focus on the Company's business transformation and change of business model, re-design the future development plan of the Company's and strive to seek steady growth by developing new mode of profitability and areas of profits, so as to accelerate the Company's growth rate and achieve 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 2014

FINANCIAL REVIEW

The Company's turnover was approximately RMB57,186,000 for the financial year ended 31 December 2013, representing an increase of 6% over the previous year.

The Company's gross profit was approximately RMB17,681,000 for the financial year ended 31 December 2013, compared to RMB15,463,000 last year. The gross profit margin of 2013 was 30.91% (2012: 28.69%).

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2013, the equity of owners of the Company was approximately RMB86,523,000 (2012: RMB142,888,000); cash and bank balances were RMB34,426,000 (2012: RMB27,353,000); and current assets amounted to RMB80,163,000 (2012: RMB135,122,000). Current liabilities amounted to approximately RMB15,980,000 (2012: RMB17,836,000). The Company's liquidity ratio, defined as total current assets over total current liabilities, decreased from 7.58 as at 31 December 2012 to 5.02 as at 31 December 2013.

SIGNIFICANT INVESTMENT HELD AND MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES

On 24 December 2012, the Company has entered into an agreement (the "Agreement") with Mr. Yau Yik Ming, Leao in relation to the sale and purchase of 3% of the issued shares in Champion Commercial Consultant Limited, which will be settled by way of allotment and issue of 46,000,000 H shares by the purchaser to the vendor. On 14 March 2013, both parties to the Agreement entered into a supplementary agreement, pursuant to which, they agreed to extend the long stop date for the fulfillment of any of the precedent conditions as set out in paragraph 3.1 of the Agreement to 28 September, 2013 and other terms remained unchanged. Regarding the information on the Agreement and the supplementary agreement thereto, the Company published on the websites of both the Stock Exchange and the Company. Both parties intended to cancel this project after negotiation due to changes on investment plan. Particulars on such cancellation will be published on the websites of both the Stock Exchange and the Company after a written agreement is entered between the Company and Mr. Yau Yik Ming, Leao to terminate such project.

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 (the "Proposal"), with an aim to extend the Company's core business to clean energy sector. Announcement in relation to the Proposal has been published by the Company on 5 December 2011. During the year ended 31 December 2013, owing to the changes of a number of conditions during the process of implementing the proposal, which resulted in delay and uncertainty, certain terms and conditions stated in were unlikely to be fulfilled.

PLEDGE OF ASSETS

As at 31 December 2013, the Company had no pledge of assets.

GEARING RATIO

Gearing ratio, defined as total borrowings over net assets was 0% (same period of 2012: 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 2013:

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 RMB57,186,000 for the year.

For the financial year ended 31 December 2013, the turnover of the Company amounted to approximately RMB57,186,000, representing an increase of 6% 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. In particular, it enhanced the after-sales services, increasing the demands of traditional customers for the Company's products, which in turn resulted in a certain growth in the sales of traditional products for the year.

EMPLOYEES AND REMUNERATION POLICY

For the year ended 31 December 2013, staff remuneration of the Company amounted to approximately RMB1,977,000 (2012: RMB1,960,000). The Company employed a total of 78 staff (2012: 80). 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 56, 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. 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). Mr. Wang was appointed to be a professor and Master Instructor of Xi'an Petroleum University in 2000. 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 54, 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 53, 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.

Zhou Jin (周瑾), aged 38, is currently the vice president, financial vice president and chief financial manager of the Company. Ms. Zhou is responsible for day-to-day affairs of the Company's financial department. She graduated from Northwestern Polytechnical University in 1997 with a bachelor degree in computerized financial management. From July 1997 to June 2001, Ms. Zhou worked as an accountant and later an accountant supervisor in Xi'an Boda Furnace Company Limited (西安博大電爐有限公司). From July 2001 to January 2011, Ms. Zhou worked as a financial manager and an administrative supervisor in Xi'an Pingcheng Electric Company Limited (西安平成電氣有限公司). She joined the Company in February 2011. She has been engaged in financial work, familiar with the financial policies and regulations. She was appointed as an executive director of the Company in December 2012.

Yang Xiaohuai (楊小懷), aged 50, 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 40, 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 Sino Corp CPA Limited (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.

Wong Hon Kit (黃漢傑), aged 46, is a certified public accountant of The Hong Kong Institute of Certified Public Accountants. He has over 10 years experience in corporate finance, auditing, accounting, taxation, company secretarial, and financial management and also possesses accounting experience in the PRC. Mr. Wong had worked in various listed companies as senior executive and director. Mr. Wong was an executive director of Seamless Green China (Holdings) Limited (stock code: 8150) from October 2009 to November 2009 and Chanceton Financial Group Limited (stock code: 8020) from 21 September 2011 to 1 December 2011, both are companies listed on GEM. He was appointed as a non-executive director of the Company in September 2012.

Simon Luk (陸東全), aged 47, graduated from The University of Alberta with a degree of Bachelor of Arts in 1990 and from Heriot-Watt University with a degree of Master of Business Administration in 2000. Mr. Luk has extensive experience in development and management of various funds and private equity portfolios. He is a responsible officer for the regulated activities of asset management (type 9) under the SFO. Mr. Luk has been an investment director of a hedge fund since 2011. Mr. Luk is responsible of identifying target companies for investments, negotiating appropriate terms and conditions, performing valuation and execution, monitoring the investments and providing investment and disposition recommendations. He was appointed as a nonexecutive director of the Company in September 2012.

Independent non-executive Directors

Li Gangjian (李剛劍), aged 50, 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 43, 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 (清華紫光環保集團) 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 69, 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.

Zhao Xiaoning (趙小寧), born on 14 December 1955, Han nationality, graduated from a professional technology college with a bachelor degree in relevant discipline. She is a professor and a member of the Chinese Communist Party. During the period from December 1972 to April 1984, Prof. Zhao worked in a microwave equipment factory in Xi'an, the PRC, and was responsible for, among others, the high frequency mechanical studies and development, the machines design studies and handling various factory administration matters. During 1981 and 1985, she studied and graduated from 中央廣播電視大學 (The Open University of China) with a bachelor degree in mechanical studies. Since August 1985, Prof. Zhao has worked in 陝西廣播電視大學 (Shaanxi Radio & TV University) as the deputy officer, officer, deputy director and director and has became a professor at Shaanxi Radio & TV University and has been responsible for the education administration management, the corporate culture development and the corporate strategic development studies. Prof. Zhao has in-depth knowledge in personnel management, corporate strategic development studies and corporate culture development.

SUPERVISORS

Zeng Yinglin (曾應林), aged 61, is an executive Director and the vice president of the Company and the general manager of Wei Nan Branch of the Company in charge of the business department. Mr. Zeng graduated from Northwest Textile Technical Institute (西北紡織工學院) 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 1991 to June 1994. He joined the Company in 1994.

Upon the appointment as the Supervisor and the chairman of the Supervisory Committee at the 2011 AGM, Mr. Zeng will resign as the executive Director of the Company with effect from the conclusion of the AGM.

Xing Manli (邢曼麗), aged 40, 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 Xiaoping (張小平), aged 41, 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 51, 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 77, 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 (陝西省三門峽庫區管理局), Water and Electricity Bureau of Weinan District (渭南地區水電局) and Finance Bureau of Shaanxi Province (陝西省財政廳). He served as deputy principal of Shaanxi Finance Vocational School (陝西財政專科學院) from April 1982 to October 1988, as head of the accounts department of Shaanxi Finance Bureau (陝西省財政廳會計處), head of Shaanxi Accountants Firm (陝西會計師事務所) and deputy principal of Shaanxi Province Zhonghua Accounting Distance Learning School (陝西省中華會計函授學校) from November 1988 to August 1996, and as chief secretary of Society of Registered Accountants of Shaanxi Province (陝西省註冊會計師協會) from September 1996 to August 2002. He has served as consultant of Renhongxin Accountants Firm (鴻信會計師事務所) and Shaanxi Zhengyi Judicial Appraisal Centre (陝西正義司法鑒定中心) since August 2002. Mr. Wang served as committee member of Society of Registered Accountants of the PRC (中國註冊會計師協會) for 14 years, vice-chairman and chief secretary of Society of Accountancy of Shaanxi (陝西會計學會) for 8 years, vice-chairman of Society of Chief-accountants of Xi'an District (西安地區總會計師協會) for 6 years, deputy supervisor of middle level and committee member of high level accounting qualification examination committee of Shaanxi Province (陝西省會計職稱評審委員會). Mr. Wang has written a number of articles on accounting. His biographical details were published in Dictionary on Name of China Experts (中國專家名辭典)and Books on China Outstanding Persons of Leadership (中國優秀領導人才大典).

QUALIFIED ACCOUNTANTS AND COMPANY SECRETARY

Yao Yan Ping, Francis (姚恩平), aged 44, holds a bachelor's degree in accountancy from the City University of Hong Kong. He is currently a fellow member of the Hong Kong Institute of Certified Public Accountants (HKICPA) and a fellow member of The Association of Chartered Certified Accountants in United Kingdom. Mr. Yao has over 19 years' experience in financial field, money market and capital market.

SENIOR MANAGEMENT

Bi Hongxia (畢紅霞), aged 37, 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. She joined the Company in 2011.

Yan Xi (嚴希), aged 46, 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.

Xu Yan (徐艷), aged 38, 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.

Wu Chuandong (吳傳東), aged 50, 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 46, 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 41, is the manager of the human resources department and administration department of the Company. Ms. Feng graduated from Shaanxi Commerce College (陝西商業專科學院) majoring in international tourism and business in July 1994. From July 1995 to October 1999, she served consecutively as the office secretary in Xi'an Jinguishou Pharmacy Group Company (西安市金龜壽藥業集團公司), the head of the dealing department of Shaanxi Hualong Futures Dealers Limited Liability Company (陝西華隆期貨經紀有限責任公司) and the manager of the dealing department of Weinan New Century Information Consultancy Limited Liability Company (渭南新世紀信息諮詢有限責任公司). She joined the Company in November 1999.

DIRECTORS' REPORT

The Directors present their report and the audited financial statements of the Company for the year ended 31 December 2013.

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, petroleum processing aids and oil field chemicals.

RESULTS AND APPROPRIATIONS

The results of the Company for the year ended 31 December 2013 are set out on page 27 of the annual report. The Directors do not recommend the payment of a final dividend in respect of the year ended 31 December 2013.

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 2013 amounted to approximately RMB27.93 million (2012: RMB26.67 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
Tian Lingling
Zhou Jin

Non-executive Directors:

Gao Peng
Wong Hon Kit
Simon Luk

Independent non-executive Directors:

Li Gangjian
Chen Tao
Zhao Boxiang
Zhao Xiaoning

Supervisors:

Zeng Yinglin
Zhang Xiaoping
Xing Manli

Independent Supervisors:

Duan Lin
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. Yang Xiaohuai
Ms. Tian Lingling
Ms. Zhou Jin

Non-executive Directors:

Mr. Gao Peng
Mr. Wong Hon Kit
Mr. Simon Luk

Independent non-executive Directors:

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

Supervisors:

Mr. Zeng Yinglin
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 2013, 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 the domestic shares	Approximate shareholding percentage in the entire issued domestic shares	Approximate shareholding percentage in total 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 Qiubao	Beneficial owner	2,000,000	0.29%	0.22%

Note:

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

SUBSTANTIAL SHAREHOLDERS AND OTHER SHAREHOLDERS INTERESTS

As at 31 December 2013, 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 the total issued domestic shares	Approximate shareholding percentage in the entire issued domestic shares	Approximate shareholding percentage in 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.

SHARE OPTION SCHEME

The Company has conditionally adopted a share option scheme, which expired on 6 June 2013. The decision whether to continue with a share option scheme will be made according to the resolutions of the Shareholders' meeting. 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.

INVESTMENT PROJECT PLAN

Please refer to the Paragraph headed "Management discussion and analysis — Significant investment held and material acquisition and disposal of subsidiaries."

DIRECTORS AND SUPERVISORS INTERESTS IN MATERIAL CONTRACTS

During the year ended 31 December 2013, 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 2013, 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 18.89% of the Company's purchases. The largest supplier accounted for 66.51% of the purchase of the Company.

Aggregate sales attributable to the Company's five largest customers accounted for approximately 75.68% of the total turnover. The largest customer accounted for approximately 20.02% 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 2013.

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 2013

	Thiol products	**FA-90**
	RMB'000	*RMB'000*
Turnover	21,995	35,191
Cost of sales	(13,265)	(26,240)
Gross profit	8,730	8,951

For the year ended 31 December 2012

	Thiol products	FA-90
	RMB'000	*RMB'000*
Turnover	20,721	33,187
Cost of sales	(14,079)	(24,366)
Gross profit	6,642	8,821

LITIGATION

As of 31 December 2013, 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 2013.

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.

On behalf of the Board
Wang Cong
Chairman
Xi'an the PRC

28 March 2014

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The board of directors (the "Board") of the Company is always committed to maintaining high standards of corporate governance. In the opinion of the Board, the Company has complied with the code provisions as set out in the Code on Corporate Governance Practices during the period from 1 January 2013 to 31 March 2013 and the Corporate Governance Code and Corporate Governance Report (the "Code") during the period from 1 April 2013 to 31 December 2013 contained in Appendix 15 of the GEM Listing.

THE BOARD OF DIRECTORS

Composition and function

As at 31 December 2013, the Board comprised twelve Directors including Mr. Wang Cong (chairman), Mr. Wang Feng, Mr. Yang Xiaohuai, Ms. Tian Lingling and Zhou Jin as executive Directors, Mr. Gao Peng, Mr. Wong Hon Kit and Mr. Simon Luk as non-executive Directors and Mr. Li Gangjian, Mr. Chen Tao, Mr. Zhao Boxiang and Prof. Zhao Xiaoning as independent non-executive directors. Biographies of the Directors are set out in the paragraph headed "Directors, Supervisors and Senior Management" of this annual report.

The Board is responsible for overseeing the preparation of accounts of each financial period, which shall give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. It is also responsible for formulating the Group's long-term strategy and supervising the management to ensure thorough implementation of the Group's policies and effective performance of their duties. Also, the Board is responsible for performing the corporate governance duties set out in the Code which included developing and reviewing the Company's policies and practices on corporate governance, training and continuous professional development of the Directors, and reviewing the Company's compliance with the code provision in the Code and disclosures in this report. During the financial year ended 31 December 2013, the Board has performed the corporate governance duties set out in the Code.

Delegation by the Board

The management, consisting of executive Directors along with other senior executives, is delegated with responsibilities for implementing the strategy and direction as adopted by the Board from time to time and conducting the day-to-day operations of the Group. Executive Directors and senior executives meet regularly to review the performance of the businesses of the Group as a whole, co-ordinate overall resources and make financial and operational decisions. The Board also gives clear directions as to their powers of management including circumstances where management should report back, and will review the delegation arrangements on a periodic basis to ensure that they remain appropriate to the needs of the Group.

Amongst the board members, Mr. Wang Feng is a younger brother of Mr. Wang Cong, and Ms. Tian Lingling is the wife of Mr. Wang Cong. Other Board members have no financial, business, family or other material/relevant relationships with each other.

All non-executive Directors are engaged by a service contract for a fixed term for not more than 3 years. All Directors appointed to fill a casual vacancy are subject to re-election by shareholders at the first annual general meeting following their appointment and all Directors are subject to re-appointment or re-election at least once every three years. Composition of the Board, by category of Directors, including names of the Chairman, executive Directors, independent non-executive Directors and non-executive Directors, has been disclosed in all corporate communications.

The Separate Roles of Chairman and Chief Executive Officer

Under the provision A.2.1 of the Code, 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.

The day-to-day management of the Group's business was handled by the executive Directors of the Company collectively. The Board believes that the present arrangement is adequate to ensure an effective management and control of the Group's present business operations. The Board continually reviews the effectiveness of the Group's corporate governance structure to assess whether any changes, including the appointment of a chief executive officer, are necessary.

Board meetings and attendance

The Board meets at least quarterly and additional Board meetings are held as and when required. Between scheduled meetings, the Directors are provided with information on the activities and development in the businesses of the Group in a timely manner to keep them abreast of the Group's latest developments. During the financial year ended 31 December 2013, the Board held five meetings.

Details of Directors' attendance records in 2013:

	Number of board meeting attended/Total	Number of general meeting attended/Total
Executive Directors		
Mr. Wang Cong	5/5	2/2
Mr. Wang Feng	5/5	2/2
Mr. Yang Xiaohua	5/5	2/2
Ms. Tian Lingling	5/5	2/2
Ms. Zhou Jin	5/5	2/2
Non-Executive Directors		
Mr. Gao Peng	5/5	1/2
Mr. Wong Hon Kit	5/5	0/2
Mr. Simon Luk	5/5	0/2
Independent Non-Executive Directors		
Mr. Li Gangjian	5/5	0/2
Mr. Chen Tao	5/5	0/2
Mr. Zhao Boxiang	5/5	2/2
Prof. Zhao Xiaoning (appointed on 3 April 2013)	3/5	1/2

CONTINUOUS PROFESSIONAL DEVELOPMENT

The Company provides regular training to Directors to update the Directors on the requirements under the GEM Listing Rules and the amendments to the GEM Listing Rules in the hope that all the Directors would comply with the GEM Listing Rules.

DIRECTORS' SECURITIES TRANSACTIONS

The Company adopted a code of conduct regarding securities transactions by Directors on terms which are the same as the required standard of dealings as referred to in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company has made specific enquiries of all the Directors and the Company was not aware of any noncompliance with the required standard of dealings and the code of conduct regarding securities transactions by the Directors.

INDEPENDENCE

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

REMUNERATION COMMITTEE

The Remuneration Committee was established in June 2006 and consists of three members, majority of which being independent non-executive Directors. Currently, the Chairman of the committee is Mr. Gao Peng, and other members include Mr. Zhao Boxiang and Mr. Li Gangjian.

The Remuneration Committee is responsible, among others, to make recommendations to the Board on the Company's policy and structure for all remuneration of directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration. The Remuneration Committee has the delegated responsibility to determine the specific remuneration packages of all executive Directors and senior management. Remuneration includes benefits in kind, pension rights and compensation payments, basic salary and performance bonus, of the executive Directors and senior management is based on skills, knowledge, involvement and performance of the individuals by reference to the Company's performance and profitability, as well as industry practice. The committee ensures that no Director is involved in deciding his own remuneration.

The specific terms of reference of the Remuneration Committee is posted on the Company's website.

The Remuneration Committee held 2 meeting(s) in 2013 and was attended by all committee members. The individual attendance record of each member is as follows:

	Number of meetings attended/Total
Non-Executive Directors	
Mr. Gao Peng	2/2
Independent Non-Executive Directors	
Mr. Li Gangjian	2/2
Mr. Zhao Boxiang	2/2

During the financial year ended 2013, the Remuneration Committee has, amongst other things, reviewed the remuneration of executive Directors, assessed performance of executive Directors and approved the terms of executive Directors' service contracts.

NOMINATION COMMITTEE

The Nomination Committee was established in June 2006 and consists of three members, all of them being independent non-executive Directors. Currently, the chairman of the committee is Mr. Zhao Boxiang, an independent non-executive Director, and other members include Ms. Zhao Xiaoning and Mr. Li Gangjian.

The Nomination Committee is responsible for formulating nomination policy, reviewing the structure, size and composition of the Board on a regular basis and making recommendations to the Board on selection and appointment of Board members. The specific terms of reference of the Nomination Committee is posted on the Company's website.

The Nomination Committee held 1 meeting(s) in 2013 and was attended by all committee members for the selection and recommendation of candidates for directorship having regard to the relevance of skills and experience appropriate to the Group's business. The individual attendance record of each member is as follows:

	Number of meetings attended/Total
Non-Executive Directors	
Mr. Zhao Boxiang	1/1
Independent Non-Executive Directors	
Mr. Zhao Xiaoning	1/1
Mr. Li Gangjian	1/1

During the financial year ended 2012, the Nomination Committee has, amongst other things, determined the policy for the nomination of directors and adopted the nomination procedures and the process and criteria to select and recommend candidates for directorship during the year.

AUDIT COMMITTEE

The Company established an Audit Committee with written terms of reference in compliance with Rules 5.28 of the GEM Listing Rules 6 July 2002. The Audit Committee is currently chaired by a nonexecutive Director, Mr. Li Gangjian and the other members are Mr. Gao Peng and Mr. Chen Tao, with the majority being independent non-executive Directors.

The Audit Committee is responsible for reviewing accounting policies and practices adopted by the Group. It also reviews and discusses matters related to financial reporting, internal control, audit and performs other duties as assigned by the Board, and reports its work, findings and recommendations to the Board after each meeting in respect of the above matters as well as to the operating risks faced by the Group. The Audit Committee has reviewed the audited financial results of the Group for the year ended 31 December 2013.

The terms of reference of the Audit Committee is published on the Company's website.

The Audit Committee held 4 meetings in 2013 discussing the Group's annual results for 2012, quarterly results for 2013, and reviewing internal control matters. The individual attendance record of each member is as follows:

	Number of meetings attended/Total
Independent Non-Executive Directors	
Mr. Li Gangjian	4/4
Mr. Chen Tao	4/4
Non-Executive Directors	
Mr. Gao Peng	4/4

During the financial year ended 2013, the Audit Committee has, amongst other things, reviewed the quarterly, half-yearly and annual results of the Company and reviewed internal control matters of the Company.

The Company has complied with Rules 5.28 of the GEM Listing Rules in that at least one of the members of the Audit Committee (which must comprise a minimum of three members and must be chaired by an independent non-executive Director) is an independent non-executive Director who possesses appropriate professional qualifications or accounting related financial management expertise.

AUDITOR

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. Elite Partners CPA Limited continued to be the auditor of the Company by the approval of the general meeting of the Company held on 28 December 2012 and 24 December 2013. During 2013, the remuneration for provision of audit services paid to Elite Partners CPA Limited for the Company amounted to approximately RMB600,000.

INTERNAL CONTROL

The Board has overall responsibility for the Group's systems of internal control and for reviewing its effectiveness. The Board will conduct regular review on internal control systems of the Group. During the year under review, the Board has reviewed the operational and financial reports, budgets and business plans provided by management. Besides, the Audit Committee and the Board also performed quarter review on the Group's performance and internal control system in order to ensure effective measures are in place to protect material assets and identify business risks of the Group.

COMPANY SECRETARY

The Company has appointed Mr. Yao Yan Ping, Francis as its Company Secretary and is responsible for all the secretarial service. Mr. Yao has confirmed that for the year under review, he has taken no less than 15 hours of relevant professional training.

SHAREHOLDERS' RIGHTS

Extraordinary general meeting may be convened by the Board on written requisition of shareholders holding 10% (including 10%) or more of the Company's issued and outstanding shares carrying voting rights pursuant to Article 58 of the articles of association of the Company. According to Article 60 of the articles of association of the Company, when the Company convenes an annual general meeting, shareholders holding 5% (including 5%) or more of the total voting shares of the Company, are entitled to propose new motions in writing to the Company and the Company shall place such motions on the agenda for such meeting if they are matters falling with the scope of duties of the general meeting on the agenda. Shareholders may propose new motions at general meeting of the Company by sending the same to the Company at the registered office and principal place of business in the People's Republic of China of the Company and the principal place of business in Hong Kong of the Company.

For putting forward any enquiries to the Board, shareholders may send written enquiries to the Company. Shareholders may send their enquiries or requests in respect of their rights to the principal place of business in Hong Kong of the Company.

INVESTOR RELATIONS AND COMMUNICATION WITH SHAREHOLDERS

The Company follows a policy of disclosing relevant information to shareholders in a timely manner. Members of the Board meet and communicate with shareholders at the annual general meeting of the Company. The Chairman proposes separate resolutions for each issue to be considered and put each proposed resolution to the vote by way of a poll. Voting results are posted on the Company's website on day of the annual general meeting.

Our corporate websites which contain corporate information, quarterly, interim and annual reports, announcements and circulars issued by the Company enables the Company's shareholders to have timely and updated information of the Company.

There is no significant change in the Company's articles of association during the financial year ended 2013.

REPORT OF SUPERVISORY COMMITTEE

To the Shareholders:

In 2013, 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 2013. 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 six meetings, and the members of the Supervisory Committee attended every board meeting and general meeting.

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

1. The seventh meeting of the third Supervisory Committee was held on 25 March 2013, which considered and approved the audited annual results report of the Company for the year ended 31 December 2012 and audited 2012 annual report.

2. The eighth meeting of the third Supervisory Committee was held on 9 May 2013, which considered and approved the unaudited first quarterly results report of the Company for the three months ended 31 March 2013.

3. The ninth meeting of the third Supervisory Committee was held on 13 August 2013, which considered and approved the unaudited interim results report of the Company for the six months ended 30 June 2013.

4. The tenth meeting of the third Supervisory Committee was held on 13 November 2013, which considered and approved the unaudited third quarterly results report of the Company for the nine months ended 30 September 2013.

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

In 2013, the Supervisory Committee devoted more efforts to supervise the management. The Supervisory Committee considered:

1. In 2013, 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 2013 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
Zeng Yinglin
Chairman of the Supervisory Committee

Xi'an, the PRC
28 March 2014

INDEPENDENT AUDITOR'S REPORT

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

To the members of Shaanxi Northwest New Technology Industry Company Limited
(A joint stock company incorporated in the People's Republic of China with limited liability)

We have audited the financial statements of Shaanxi Northwest New Technology Industry Company Limited (the "Company") set out on pages 27 to 70, which comprise the statement of financial position as at 31 December 2013 and the statement of profit or loss and other 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 about 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 2013 of the loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Elite Partners CPA Limited
Certified Public Accountants
Hong Kong, 28 March 2014

Ng Man Chung Siman
Practising Certificate Number P03122

Suites 2B-4A, 20th Floor, Tower 5,
China Hong Kong City,
33 Canton Road,
Tsim Sha Tsui, Kowloon,
Hong Kong

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2013

	Notes	**2013** **RMB'000**	2012 RMB'000
Revenue	6	**57,186**	53,908
Cost of sales		**(39,505)**	(38,445)
Gross profit		**17,681**	15,463
Other revenue and other gains and losses, net	7	**(64,602)**	10,547
Distribution and selling expenses		**(2,029)**	(1,917)
Administrative expenses		**(5,615)**	(12,446)
Operating (loss)/profit		**(54,565)**	11,647
Finance costs		**–**	–
(Loss)/profit before taxation	8	**(54,565)**	11,647
Income tax expense	11	**(1,800)**	(1,339)
(Loss)/profit for the year		**(56,365)**	10,308
Other comprehensive income		**–**	–
Total comprehensive (expense)/income for the year		**(56,365)**	10,308
(Loss)/earnings per share			
– Basic and diluted	13	**RMB (0.062)**	RMB 0.011

STATEMENT OF FINANCIAL POSITION

As at 31 December 2013

	Notes	2013 RMB'000	2012 RMB'000
Non-current assets			
Property, plant and equipment	14	**15,302**	18,354
Land lease premium	15	**7,038**	7,248
		22,340	25,602
Current assets			
Land lease premium	15	**210**	210
Inventories	16	**1,349**	1,316
Trade receivables	17	**27,934**	26,666
Prepayments, deposits and other receivables	17	**16,244**	79,577
Cash and cash equivalents		**34,426**	27,353
		80,163	135,122
Current liabilities			
Trade payables	18	**461**	400
Other payables and accruals	19	**6,986**	9,290
Amount due to the ultimate holding company	20	**3,276**	3,278
Tax liabilities		**5,257**	4,868
		15,980	17,836
Net current assets		**64,183**	117,286
Net assets		**86,523**	142,888
Capital and reserves			
Share capital	21	**91,000**	91,000
Reserves	22	**(4,477)**	51,888
Total equity		**86,523**	142,888

Approved and authorised for issue by the board of directors on 28 March 2014.

Wang Cong
Director

Yang Xiaohuai
Director

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2013

	Share capital *RMB'000*	Share premium *RMB'000*	Statutory surplus reserve *RMB'000*	Statutory welfare fund *RMB'000*	(Accumulated losses)/ retained profits *RMB'000*	Total equity *RMB'000*
At 1 January 2012	91,000	25,880	12,220	5,493	(2,013)	132,580
Profit for the year and total comprehensive income for the year	–	–	–	–	10,308	10,308
Transfer	–	–	1,031	–	(1,031)	–
At 31 December 2012 and at 1 January 2013	91,000	25,880	13,251	5,493	7,264	142,888
Loss for the year and total comprehensive expense for the year	–	–	–	–	(56,365)	(56,365)
At 31 December 2013	91,000	25,880	13,251	5,493	(49,101)	86,523

STATEMENT OF CASH FLOWS

For the year ended 31 December 2013

	2013 *RMB'000*	2012 *RMB'000*
Operating activities		
(Loss)/profit before taxation	**(54,565)**	11,647
Adjustments for:		
Reversal of impairment loss on trade and other receivables, prepayments and deposits	**(655)**	(20,650)
Impairment loss on trade and other receivables, prepayments and deposits	**67,089**	10,208
Amortisation of land lease premium	**210**	210
Depreciation of property, plant and equipment	**2,768**	2,787
Interest income	**(63)**	(105)
Loss on disposal of property, plant and equipment	**276**	203
	15,060	4,300
Change in working capital		
(Increase)/decrease in inventories	**(33)**	2,141
(Increase)/decrease in trade receivables	**(2,702)**	3,325
Increase in prepayments, deposits and other receivables	**(1,667)**	(6,208)
Increase/(decrease) in trade payables	**61**	(292)
(Decrease)/increase in accruals and other payables	**(2,304)**	989
Cash generated from operations	**8,415**	4,255
Income tax paid	**(1,411)**	(957)
Net cash generated from operating activities	**7,004**	3,298
Investing activities		
Proceeds from the sale of property, plant and equipment	**8**	–
Interest received	**63**	105
Repayment to the ultimate holding company	**(2)**	(549)
Payment for investment deposits	**–**	(37,000)
Net cash generated from/(used in) investing activities	**69**	(37,444)
Net increase/(decrease) in cash and cash equivalents	**7,073**	(34,146)
Cash and cash equivalents at 1 January	**27,353**	61,499
Cash and cash equivalents at 31 December		
Cash and bank balances	**34,426**	27,353

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 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 and chemical products.

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

2. THE ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

2.1 Standards and Interpretations adopted in the current period

The Hong Kong Institute of Certified Public Accountants ("HKICPA") has issued certain new and revised Hong Kong Financial Reporting Standards ("HKFRSs") which are first effective or available for early adoption for the current accounting period of the Company.

In the current year, the Company initially applied the following Hong Kong Financial Reporting Standards:

Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income
HKAS 19 (2011)	Employee Benefits
HKAS 27 (2011)	Separate Financial Statements
HKAS 28 (2011)	Investments in Associates and Joint Ventures
HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosure of Interests in Other Entities
HKFRS 13	Fair Value Measurement
HK(IFRIC)–Int 20	Stripping Costs in the Production Phase of a Surface Mine
Amendments to HKFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance
Annual Improvements to HKFRSs (2009-2011)	Amendments to HKFRS 1, HKAS 1, HKAS 16, HKAS 32 and HKAS 34

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

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

The initial application of these financial reporting standards does not have any impact to the financial statements and does not necessitate retrospective adjustments of the comparatives presented in the current year financial statements.

2.2 Standards and Interpretations in issued but not yet adopted

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

HKFRS 9	Financial Instruments[3]
HKFRS 14	Regulatory Deferral Accounts[4]
HK(IFRIC) – Int 21	Levies[1]
Amendments to HKAS 19 (2011)	Defined Benefit Plans: Employee Contributions[2]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[1]
Amendments to HKAS 36	Recoverable Amount Disclosures for Non-Financial Assets[1]
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting[1]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011)	Investment Entities[1]
Annual Improvements to HKFRSs (2010-2012) Cycle	Amendments to HKFRS 2, HKFRS 3, HKFRS 8, HKFRS13, HKAS16, HKAS24 and HKAS38[2]
Annual Improvements to HKFRSs (2011-2013) Cycle	Amendments to HKFRS 1, HKFRS 3, HKFRS 13, and HKAS 40[2]

1 Effective for annual periods beginning on or after 1 January 2014
2 Effective for annual periods beginning on or after 1 July 2014
3 Available for application – the mandatory effective date will be determined when the outstanding phases of HKFRS 9 are finalised
4 Effective for annual periods beginning on or after 1 January 2016

The Company is in the process of making an assessment of what the impact of these new and revised HKFRSs upon initial application. So far the Company considers that these new and revised HKFRSs are unlikely to have a significant impact on the Company's results of operations and financial position.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation

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

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 significant 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, 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.

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.

3.3.1 Financial assets

Financial assets are classified as loans and receivables.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3 Financial instruments (Continued)

3.3.1 Financial assets (Continued)

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.

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 receivables, other receivables 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, 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 loans and receivables, 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3 Financial instruments (Continued)

3.3.1 Financial assets (Continued)

Impairment of financial assets (Continued)

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.

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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3 Financial instruments (Continued)

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

Financial liabilities including trade payables, other payables and accruals, amount due to the ultimate holding company are subsequently measured at amortised cost using the effective interest method.

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 method.

3.3.3 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3 Financial instruments (Continued)

3.3.3 Derecognition (Continued)

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.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7 Foreign currencies

The primary functional currency of entities within the Company is Renminbi ("RMB"). The Company adopted RMB as its presentation currency in the preparation of the annual financial statements, which is the currency of the primary economic environment in which most of the Company's entities operate.

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in currencies other than the functional currency are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

3.8 Revenue recognition

Revenue comprises the fair value for the sale of goods, 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9 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 profit or loss 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.

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 tax 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.10 Retirement benefit costs and short term employee benefits

Retirement benefits to employees are provided through defined contribution plans.

3.10.1 Defined contribution plan

Pursuant to the relevant regulations of the government of the People's Republic of China except Hong Kong (the "PRC"), Company operating in the PRC participate in a local municipal government retirement benefits scheme (the "PRC Scheme"), whereby the Company 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 Company. 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.

3.10.2 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.11 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.

3.12 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.12 Leases (Continued)

3.12.1 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; 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. 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.

3.12.2 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 profit or loss 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)

3.13 Provisions, contingent liabilities and contingent assets

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.

3.14 Related parties

For the purposes of these financial statements, related parties include a person and entity as defined below:

(i) A person or a close member of that person's family is related to the Company if that person:

(a) has control or joint control over the Company;

(b) has significant influence over the Company;

(c) is a member of the key management personnel of the Company or of a parent of the Company;

(ii) An entity is related to the Company if any of the following conditions applies:

(a) the entity and the Company are members of the same Company (which means that each parent, subsidiary and fellow subsidiary is related to the others);

(b) either entity is an associate or joint venture of the other entity (or of a member of a Company of which the other entity is a member);

(c) both entities are joint ventures of a third entity;

(d) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.14 Related parties (Continued)

(ii) (Continued)

(e) the entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company. If the reporting entity is itself such a plan, the sponsoring employers are also related to the plan;

(f) the entity is controlled or jointly controlled by a person identified in (i); and,

(g) a person identified in (i)(a) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of 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. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

4.3 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 reassesses the impairment of receivables at the end of the reporting period.

4.4 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.

4.5 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.

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.

5.1 Segment revenue and results

	Segment revenue		**Segment results**	
	2013	2012	**2013**	2012
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Unleaded gasoline additives	**35,191**	33,187	**9,960**	19,518
Mercaptoacetic acid isooctyl	**21,995**	20,721	**5,631**	5,730
Total	**57,186**	53,908	**15,591**	25,248
Other revenue			**1,832**	127
Depreciation and amortisation			**(141)**	(148)
Loss on disposal of property, plant and equipment			**(276)**	(203)
Other corporate expenses			**(71,571)**	(13,377)
(Loss)/profit before taxation			**(54,565)**	11,647

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales in the both year.

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

5. SEGMENT INFORMATION (Continued)

5.2 Segment assets and liabilities

	Segment assets		Segment liabilities	
	2013	2012	**2013**	2012
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Unleaded gasoline additives	**51,349**	48,597	**4,870**	5,653
Mercaptoacetic acid isooctyl	**9,606**	9,600	**2,577**	4,037
Subtotal	**60,955**	58,197	**7,447**	9,690
Unallocated	**41,548**	102,527	**8,533**	8,146
Total	**102,503**	160,724	**15,980**	17,836

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

- all assets are allocated to reportable segments other than assets classified as 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	
	2013	2012	**2013**	2012
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Unleaded gasoline additives	**1,594**	1,792	**–**	–
Mercaptoacetic acid isooctyl	**1,243**	1,057	**–**	–
Unallocated	**141**	148	**–**	–
	2,978	2,997	**–**	–

5. SEGMENT INFORMATION (Continued)

5.4 Geographical information

All the Company's 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

The following is an analysis of revenue from customers contributing over 10% of the total revenue:

	2013	2012
	RMB'000	*RMB'000*
Customer A	**11,447**	11,727
Customer B	**10,548**	8,994
Customer C	**6,333**	6,769
Customer D	**6,062**	5,901
Customer E	**6,017**	5,517
Customer F	**5,773**	6,630

Excepts for the customers stated above, there is no other single customer contributing over 10% of total revenue for the both years.

6. REVENUE

Revenue represents the net invoiced value of goods sold, after allowances for returns, trade discounts and net of value added tax during the year. An analysis of revenue is as follows:

	2013	2012
	RMB'000	*RMB'000*
Unleaded gasoline additivies	**35,191**	33,187
Mercaptoacetic acid isooctyl	**21,995**	20,721
	57,186	53,908

7. OTHER REVENUE AND OTHER GAINS AND LOSSES, NET

	2013	2012
	RMB'000	*RMB'000*
Bank interest income	**63**	105
Impairment loss on trade and other receivables, prepayments and deposits	**(67,089)**	(10,208)
Reversal of impairment loss on trade and other receivables, prepayments and deposits	**655**	20,650
Sundry income	**1,769**	–
	(64,602)	10,547

8. (LOSS)/PROFIT BEFORE TAXATION

(Loss)/profit before taxation is arrived at after charging:

	2013	2012
	RMB'000	*RMB'000*
Amortisation of land lease premium	**210**	210
Auditor's remuneration		
– Audit services	**600**	600
Staff costs (including directors' and supervisors' remuneration *(Note 9)*)		
– Wages and salaries	**1,815**	1,737
– Defined contribution scheme	**162**	223
	1,977	1,960
Cost of inventories sold	**39,505**	38,445
Depreciation of property, plant and equipment	**2,768**	2,787
Loss on disposal of property, plant and equipment	**276**	203

9. DIRECTORS' AND SUPERVISORS' EMOLUMENTS

	Year ended 31 December 2013			
	Fees *RMB'000*	Salaries and other benefits *RMB'000*	Retirement benefit scheme contributions *RMB'000*	Total *RMB'000*
Name of directors				
Executive directors				
Wang Cong	–	120	8	128
Wang Feng	–	60	8	68
Yang Xiaohuai	–	60	8	68
Tian Lingling	–	60	8	68
Zhou Jin	–	60	8	68
Non-executive directors				
Gao Peng	50	–	–	50
Wong Hong Kit	60	–	–	60
Simon Luk	60	–	–	60
	170	360	40	570
Independent non-executive directors				
Li Gangjian	50	–	–	50
Chen Tao	50	–	–	50
Zhao Boxiang	50	–	–	50
Zhao Xiaoning *(Note a)*	50	–	–	50
	200	–	–	200
Total directors' emoluments for 2013	370	360	40	770
Name of supervisors				
Zeng Yinglin *(Note b)*	–	60	8	68
Zhang Xiaoping	–	36	5	41
Xing Manli	–	24	5	29
Duan Lin	–	30	–	30
Wang Gongxun	–	30	–	30
Total supervisors' emoluments for 2013	–	180	18	198
Total	–	540	58	968

9. DIRECTORS' AND SUPERVISORS' EMOLUMENTS (Continued)

	Year ended 31 December 2012			
	Fees *RMB'000*	Salaries and other benefits *RMB'000*	Retirement benefit scheme contributions *RMB'000*	Total *RMB'000*
Name of directors				
Executive directors				
Wang Cong	–	120	8	128
Wang Feng	–	60	8	68
Yang Xiaohuai	–	60	8	68
Tian Lingling	–	60	8	68
Zeng Yinglin *(Note b)*	–	60	8	68
Zhou Jin	–	60	8	68
Non-executive directors				
Gao Peng	50	–	–	50
Wong Hong Kit	60	–	–	60
Simon Luk	60	–	–	60
Zheng Rongfang *(Note c)*	–	–	–	–
	170	420	48	638
Independent non-executive directors				
Li Gangjian	50	–	–	50
Chen Tao	50	–	–	50
Wei Dazhi *(Note d)*	–	–	–	–
Zhao Boxiang	50	–	–	50
	150	–	–	150
Total directors' emoluments for 2012	320	420	48	788
Name of supervisors				
Yan Buqiang *(Note e)*	–	–	–	–
Zhang Xiaoping	–	24	5	29
Duan Lin	–	30	–	30
Wang Gongxun	–	30	–	30
Xing Manli	–	36	5	41
Total supervisors' emoluments for 2012	–	120	10	130
Total	320	540	58	918

9. DIRECTORS' AND SUPERVISORS' EMOLUMENTS (Continued)

Note:

a) Prof. Zhao Xiaoning was appointed to be the independent non-executive director on 3 April 2013.

b) Mr. Zeng Yinglin resigned as the executive director and re-appointed as the supervisor and chairman of supervisory Committee on 28 December 2012.

c) Mr. Zheng Rongfang resigned as non-executive director on 3 January 2012.

d) Mr. Wei Dazhi resigned as independent non-executive director on 3 January 2012.

e) Mr. Yan Buqiang passed away on 23 September 2012 and ceased as the supervisor of the Company.

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:

	2013	2012
	RMB'000	*RMB'000*
Current tax:		
PRC corporate income tax		
– provision for the year	**1,800**	1,339
	1,800	1,339

(a) An uniform corporate income tax ("CIT") of 25% became generally applicable to all domestic and foreign investment enterprises established in the PRC, subject to certain exceptions or exemptions with effect from 1 January 2008.

According to the relevant laws and regulations in the PRC, the Company and its branches being registered as a New and High Technology Enterprise since 2008, is entitled to a preferential CIT rate of 15% till 31 December 2020.

(b) No provision for Hong Kong profits tax has been made as the Company's income neither arises in, nor is derived from, Hong Kong.

11. INCOME TAX EXPENSE (Continued)

The tax charge for the year can be reconciled to the (loss)/profit per the statement of profit or loss and other comprehensive income as follows:

	2013	2012
	RMB'000	*RMB'000*
(Loss)/profit before taxation	**(54,565)**	11,647
Tax at the statutory tax rates	**(8,185)**	1,747
Income not subject to tax	**(133)**	(3,098)
Expenses not deductible for tax	**10,118**	2,690
Income tax expense for the year	**1,800**	1,339

12. DIVIDENDS

The Directors do not recommend the payment of any final dividend in respect of for both years.

13. (LOSS)/EARNINGS PER SHARE

The calculation of the basic (loss)/earnings per share is based on the loss for the year of approximately RMB56,365,000 (Profit for the year 2012: RMB 10,308,000) and the weighted average number of 910,000,000 (2012: 910,000,000) shares in issue during the year.

Diluted (loss)/earnings per share is equal to basic (loss)/earnings per share as there were no dilutive potential ordinary shares outstanding for both years.

14. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings RMB'000	Leasehold improvements RMB'000	Plant and equipment RMB'000	Furniture, fixtures and equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
At cost:						
At 1 January 2012	19,376	3,883	31,002	2,289	760	57,310
Disposal	–	–	(272)	–	–	(272)
At 31 December 2012 and at 1 January 2013	19,376	3,883	30,730	2,289	760	57,038
Disposal	(12)	–	(677)	(344)	(760)	(1,793)
At 31 December 2013	19,364	3,883	30,053	1,945	–	55,245
Accumulated depreciation and impairment:						
At 1 January 2012	5,424	3,883	23,834	2,083	742	35,966
Charge for the year	588	–	2,192	–	7	2,787
Written back on disposal	–	–	(69)	–	–	(69)
At 31 December 2012 and at 1 January 2013	6,012	3,883	25,957	2,083	749	38,684
Charge for the year	588	–	2,178	–	2	2,768
Written back on disposal	(5)	–	(430)	(323)	(751)	(1,509)
At 31 December 2013	6,595	3,883	27,705	1,760	–	39,943
Net carrying value:						
At 31 December 2013	12,769	–	2,348	185	–	15,302
At 31 December 2012	13,364	–	4,773	206	11	18,354

15. LAND LEASE PREMIUM

	2013	2012
	RMB$'000	*RMB$'000*
At cost:		
Carrying value at 1 January	**7,458**	7,668
Amortisation	**(210)**	(210)
Carrying value at 31 December	**7,248**	7,458
Non-current portion	**(7,038)**	(7,248)
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 interest in leasehold land held for own use was approximately of RMB10,240,000 (2012: approximately of RMB10,240,000).

The amortisation charge for the year is included in "administrative expenses" in the statement of profit or loss and other comprehensive income.

16. INVENTORIES

	2013	2012
	RMB'000	*RMB'000*
Raw materials	**859**	1,027
Finished goods	**490**	289
	1,349	1,316

The amount of inventories recognised as an expense for inventories sold during the year was approximately RMB39,505,000 (2012: RMB38,445,000).

17. TRADE AND OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

	2013	2012
	RMB'000	*RMB'000*
Trade receivables *(note (b))*	**27,934**	26,666
Other receivables	**223**	223
Loans and receivables	**28,157**	26,889
Prepayments and deposits *(note (e))*	**16,021**	79,354
	44,178	106,243

a) All of the trade and other receivables, apart from prepayments and deposits are expected to be recovered within one year.

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

	2013	2012
	RMB'000	*RMB'000*
0 – 90 days	**16,081**	17,613
91 – 180 days	**9,538**	9,053
181 – 365 days	**11,568**	8,634
Over 365 days	**14,383**	13,568
	51,570	48,868
Less: Accumulated impairment loss on trade receivables	**(23,636)**	(22,202)
	27,934	26,666

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 RECEIVABLES, PREPAYMENTS AND DEPOSITS (Continued)

c) The movement in the provision for impairment of trade receivables is as follows:

	2013 ***RMB'000***	2012 *RMB'000*
At 1 January	**22,202**	32,644
Impairment losses on trade receivables	**2,089**	10,208
Reversal of impairment losses on trade receivables	**(655)**	(20,650)
At 31 December	**23,636**	22,202

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

Write back of impairment loss on trade receivables represents the recovery of debts due from these trade receivables previously considered to be impaired. An allowance for the non-recoverable amounts that had been made in previous years was written back accordingly.

As at 31 December 2013, trade receivables of the Company amounting to approximately RMB23,636,000 (2012: RMB22,202,000) were individually determined to be impaired and full provision had been made. These individually impaired receivables had been outstanding for over 1 year as at the end of the reporting period or were due from companies with financial difficulties. Specific allowances for doubtful debts of approximately RMB2,089,000 (2012: RMB10,208,000) were recognised during the year. The Company does not hold any collateral over these balances. The factors which the Company considered in determining whether these trade receivables were individually impaired include the following:

– Significant financial difficulty of the debtors;

– Receivables that have been outstanding for a certain period;

– The Company is granting to the debtors, for economic or legal reasons relating to the debtors' 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 RECEIVABLES, PREPAYMENTS AND DEPOSITS (Continued)

(c) The movement in the provision for impairment of trade receivables is as follows: (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 as at the end of the reporting period. Ageing analysis of trade receivables past due but not impaired is as follows:

	2013	2012
	RMB'000	*RMB'000*
Neither past due nor impaired	**16,081**	17,613
Less than 6 months past due	**9,538**	9,053
More than 6 months but less than 1 year past due	**2,315**	–
Total trade receivables, net	**27,934**	26,666

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 as at the end of the reporting period are of good credit quality. The Company does not hold any collateral over these balances.

e) As at 31 December 2012, included in the balance of "Prepayment and deposits" are investment deposits of RMB65,000,000 paid for a proposed investment in private enterprises established in the PRC when terms are subject to negotiations and the due diligence result.

During the year ended 31 December 2013, in the opinion of the Board of Directors of the Company, due to the unexpected delay in the progress of negotiation, in which many conditions have changed, and many uncertainties, certain terms and conditions stated in the Equity Purchase Framework Agreement dated 4 December 2011 were unlikely to be fulfilled. Accordingly, such investment deposits were impaired, and such impairment has no relationship with the Company's normal business.

18. TRADE PAYABLES

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

	2013	2012
	RMB'000	*RMB'000*
0 day to 90 days	**61**	9
91 days to 180 days	**–**	–
181 days to 360 days	**–**	–
Over 360 days	**400**	391
	461	400

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 THE ULTIMATE HOLDING COMPANY

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

21. SHARE CAPITAL

	Number of Shares	Amount
Registered shares of RMB0.1 each	*'000*	*RMB'000*
Registered, issued and fully paid:		
At 1 January 2012, 31 December 2012, 1 January 2013 and 31 December 2013		
– Domestic shares	680,000	68,000
– H shares	230,000	23,000
	910,000	91,000

22. RESERVES

Details of movement in the Company's reserves has been set out in the statement of changes in equity on page 29.

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 years 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.

Distributable reserves

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, as at 31 December 2013, no reserves is available for distribution to owners of the Company (2012: RMB7,264,000).

23. SHARE OPTION SCHEME

The Company's Share Option Scheme was approved by a resolution of the Shareholders of the Company dated 6 June 2003 (the "Share Option Scheme"). The share option scheme was expired on 6 June 2013, the details are as follows:

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 schemes, 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;

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;

23. SHARE OPTION SCHEME (Continued)

d) Maximum number of shares (Continued)

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.

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 the 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 periods, the Company had the following balances with related parties:

	2013	2012
	RMB'000	*RMB'000*
Amount due to the ultimate holding company	**3,276**	3,278

(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 to the financial statements.

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 statement of profit and loss and other comprehensive income of approximately RMB162,000 (2012: approximately RMB223,000) represents contributions payable to the scheme by the Company during the year.

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

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.

25. RETIREMENT BENEFIT SCHEME (Continued)

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 employ 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 other receivables, amount due to the ultimate holding company, trade payables and 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. The Company is exposed to interest rate risk only to the extent that it earns bank interest on cash and deposits only. A reasonably possible change in interest rate in the next twelve months is assessed, which could have immaterial change in the Company's (loss)/profit after tax and accumulated losses/retained earnings. Changes in interest rates have no impact on the Company's other components of equity. Accordingly, no sensitivity analysis is presented. The Company adopts centralised treasury policies in cash and financial management and focuses on reducing the Company's overall interest expense.

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. Accordingly, no sensitivity analysis on foreign currency risk has been presented. The Company currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure if necessary.

26. RISK MANAGEMENT OBJECTIVES AND POLICES (Continued)

Credit risk

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.

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 20% and 71% (2012: 22% and 74%) 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.

26. RISK MANAGEMENT OBJECTIVES AND POLICES (Continued)

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 2013 and 31 December 2012, 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	**Total uncontractual undiscounted cash flow**	**Carrying Amount**
	RMB'000	***RMB'000***	***RMB'000***
At 31 December 2013			
Trade payables	**461**	**461**	**461**
Other payables and accruals	**6,986**	**6,986**	**6,986**
Amount due to the ultimate holding company	**3,276**	**3,276**	**3,276**
	10,723	**10,723**	**10,723**

	Within 1 year or on demand	Total uncontractual undiscounted cash flow	Carrying Amount
	RMB'000	*RMB'000*	*RMB'000*
At 31 December 2012			
Trade payables	400	400	400
Other payables and accruals	9,290	9,290	9,290
Amount due to the ultimate holding company	3,278	3,278	3,278
	12,968	12,968	12,968

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

26. RISK MANAGEMENT OBJECTIVES AND POLICES (Continued)

Financial assets

	2013	2012
	RMB'000	RMB'000
Loans and receivables		
Trade receivables	**27,934**	26,666
Other receivables	**223**	223
Cash and cash equivalents	**34,426**	27,353
	62,583	54,242

Financial liabilities

	2013	2012
	RMB'000	RMB'000
Financial liabilities measured at amortised cost		
Trade payables	**461**	400
Other payables and accruals	**6,986**	9,290
Amount due to ultimate holding company	**3,276**	3,278
	10,723	12,968

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.

No financial instruments that are measured subsequent to initial recognition at fair value ground into Levels 1 to 3 in accordance with disclosure requirement under HKFRS 7 for both years.

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 both years.

The financial leverage of the Company as at 31 December 2013, as compared to 31 December 2012 has been disclosed in the management discussion and analysis.

28. THE ULTIMATE HOLDING COMPANY

At 31 December 2013, 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.

29. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 28 March 2014.

FIVE YEARS FINANCIAL SUMMARY

RESULTS

	For the year ended 31 December				
	2013	2012	2011	2010	2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Turnover	**57,186**	53,908	46,106	53,069	32,983
(Loss)/profit before taxation	**(54,565)**	11,647	10,444	10,193	(22,733)
Taxation	**(1,800)**	(1,339)	(440)	(409)	(250)
Net (loss)/profit for the year	**(56,365)**	10,308	10,004	9,784	(22,983)

ASSETS AND LIABILITIES

	At 31 December				
	2013	2012	2011	2010	2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total assets	**102,503**	160,724	149,885	139,014	130,366
Total liabilities	**(15,980)**	(17,836)	(17,305)	(16,438)	(17,574)
Total equity	**86,523**	142,888	132,580	122,576	112,792