

二零零二年，全球經濟持續衰退，本集團經歷了上市以來最嚴峻的考驗。經濟不景，加上行業產能嚴重過剩，導致稀土價格在歷史最低位徘徊，稀土行業整體出現虧損。本集團憑藉良好的生產裝備及嚴格的質量管理，使稀土業務得以維持利潤。在耐火材料業務方面，本集團依靠國際合作夥伴的技術支援，開拓及穩定市場份額，保持了穩健的增長。

本集團的成功有賴於客戶的支持與信任及員工的努力，對於一些媒體的報導及疑問，本集團已作出澄清。然而由於國內市場競爭激烈，基於商業因素考慮，本集團不便公開太多商業及經營的相關資料。本人堅信本集團的業績乃經過國際公認的專業會計師審核，數據真實可靠。

於去年年中，本集團的前度核數師安達信公司由於與另一公司－羅兵咸永道會計師事務所合併而辭任本集團核數師一職。本集團然後因種種原因更換了核數師包括安永會計師事務所及畢馬威會計師事務所。最後本集團在接觸過多家會計師事務所後於二零零三年五月五日挑選了對國內情況比較了解的何錫麟會計師行擔任本集團的核數師，現已完成了審核工作。由於核數師一再變更，故今年經審核業績公告的時間比往年延遲。

財務業績

截至二零零二年十二月三十一日止年度，本集團錄得營業額467,663,000港元，較去年同期的617,808,000港元下跌約24%。營業額下跌，主要是因為稀土的營業額從二零零一年的374,661,000港元下跌到二零零二年的206,127,000港元。股東應佔溢利為41,032,000港元。每股基本盈利為5港仙。於回顧期內，本集團仍處於稅務優惠期而得以豁免了部分中國企業所得稅。

The lagging world economy persisted in 2002, giving the Group the toughest and most challenging period since its listing. Affected by the sluggish economy and the severe over supply of rare earth products, price levels for rare earth products plunged, lingering at historical lows and causing the entire rare earth industry to suffer loss. However, helped by its comprehensive production facilities and stringent quality controls, the Group managed to record profits for the rare earth business. In the refractory materials business, the Group expanded and sustained its market share with the technical support rendered by international partners and was therefore able to maintain a stable growth.

The Group's success is attributed to the continued support and trust given by its clients as well as the dedication of its staff members. In response to some news reports and queries raised by certain media, the Company has clarified to explain the situation. However, due to the intense competition in the PRC market and for commercial reasons, the Group was not in a position to disclose too much information regarding the business and operations. The Group's annual results were audited by internationally recognized professional accountants, therefore I strongly believe that the financial figures were true and fair.

In the middle of last year, the Group's ex-auditors, Arthur Andersen & Co., resigned due to its combination with PricewaterhouseCoopers. The Group has then changed its auditors including Ernst & Young and KPMG due to various reasons. On 5 May 2003, the Group decided to appoint Ho and Ho & Company, auditors who have a deeper understanding of the situation in the PRC, to fill the vacancy and they have now completed their audit. As a result of the changes of auditors, this year's audited results announcement was postponed compared with previous year.

FINANCIAL RESULTS

For the year ended 31 December 2002, the Group recorded a total turnover of HK\$467,663,000, representing a 24% drop approximately from HK\$617,808,000 last year. The decrease in turnover was mainly caused by the drop in the rare earth business, whose turnover declined from HK\$374,661,000 in 2001 to HK\$206,127,000 in 2002. Profit attributable to shareholders amounted to HK\$41,032,000. Basic earnings per share were HK5 cents. During the year under review, the Group still enjoyed tax-relief and was partially exempted on the PRC Enterprise Income Tax.



股息

董事會建議派發截至二零零二年十二月三十一日止年度之末期股息每股1港仙。連同中期股息1港仙，累積全年每股股息共2港仙。倘若股東於二零零三年八月八日舉行的股東週年大會中通過有關動議，末期股息將於二零零三年八月二十二日或以前派發給於二零零三年八月八日登記冊上的股東。

本公司將於二零零三年八月五日至八月八日，包括首尾兩天，暫停辦理股份過戶手續，期間將不會進行任何股份之過戶登記。如欲獲得建議之末期股息及出席本公司的股東大會，所有股份之過戶文件連同有關之股票須於二零零三年八月四日下午四時前送達本公司股份過戶處香港分處香港中央證券登記有限公司。

業務回顧

稀土業務

稀土是冶金、石油化工和玻璃製造必不可少的添加材料，也是製造發光材料、永磁材料和高性能電池的基本原料，其應用更涉及到電腦、電視、手提電話及汽車等大眾產品。

中國稀土礦產的蘊藏量佔全球約80%，目前全球的稀土原材料主要由中國供應。

本集團利用在香港資本市場籌集的資本及企業留存資金，在二零零零年和二零零一年對稀土生產線實施了徹底的技术改造和擴建，把原來分散的生產線整合成三條連續的分離稀土生產線，使本集團的規模化程度和稀土分離質量都達到了國際領先水平。二零零二年，本集團進一步完善生產工藝，在降低消耗、提高回收率、穩定產品質量方面又取得了進一步的成效。目前，本集團已擁有年生產6,500噸(REO)優質稀土產品的能力。

DIVIDENDS

The Board has recommended the payment of a final dividend of HK1 cent per share for the year ended 31 December 2002. Together with the interim dividend of HK1 cent per share, total dividends for the year will amount to HK2 cents per share. Subject to the approval of shareholders at the forthcoming Annual General Meeting to be held on 8 August 2003, the final dividend will be paid on or before 22 August 2003 to the registered shareholders as at 8 August 2003.

The Register of Members will be closed from 5 August to 8 August 2003, both days inclusive. During this period, no transfer of shares will be registered. To qualify for the entitlement of the proposed final dividend and to attend the Annual General Meeting, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Share Registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, for registration not later than 4:00 p.m. on 4 August 2003.

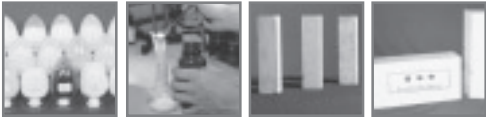
BUSINESS REVIEW

Rare Earth Business

Rare earth products are essential additives for metallurgy, petrochemical and glass. They are also used as raw materials in the production of fluorescent materials, magnetic materials and high performance batteries. Their applications have also been extended to many consumer products such as computers, television sets, mobile phones and automobiles.

Holding approximately 80% of the world's rare earth reserves, China is currently the world's main supplier of rare earth materials.

Making use of the net proceeds raised in the Hong Kong capital market and the capital generated from ongoing business, the Group has undertaken comprehensive and thorough technical reforms with the expansion of its rare earth production lines in 2000 and 2001. It has combined and consolidated its originally divided production lines into three connected rare earth separating production lines, raising the Group's integration levels and the quality of its rare earth separation technology to international standards. In 2002, the Group further enhanced its production techniques, attaining further improvements in lowering consumption rates, raising recycling rates and stabilizing the quality of products. The Group's annual production capacity for high-quality rare earth products currently reaches 6,500 tonnes (REO).



然而亦由於技術與工藝的改進，本集團很多於上市前沿用至今的機器設備等固定資產已顯得不合時宜而被淘汰，另外還有一部份資產因遷拆改建而報銷，故此對於固定資產的撇帳較往年大幅增加。希望此舉能對本集團未來的業績帶來更健康的增長。

市場方面，二零零二年世界經濟增長放緩，尤其是中國的稀土產品出口大戶日本及美國經濟萎縮，與稀土消費直接相關的半導體、資訊等高科技產業發展緩慢，加上中國國內的稀土礦產開採過度，生產企業惡性競爭，導致稀土價格在二零零二年跌至歷史新低。

面對艱難的營商環境，本集團利用本身在資金、設備、技術和工藝方面的優勢，同時嚴厲推行成本控制、生產工藝改進、跟蹤市場等政策，得以實現稀土業務略有盈利的成績。鑒於二零零二年稀土價格已達到全行業虧損的低位，本集團相信中國政府的行業整合政策以及世界經濟的復甦，都將使稀土價格回升。本集團在二零零二年採取了適當增加庫存的政策。縱然因為價格下跌及庫存數量上升而使二零零二年的存貨撥備較往年多，然而希望透過增加庫存及不參與不良的割價競爭，能將惡性循環的負面影響減至最低。

Nevertheless, due to technological advancements and modernization of skills, some of the fixed assets, including machinery and equipment which had been in use before the Group's listing, are now obsolete. Some of the assets were also disposed due to removal and renovation. This has led to a substantial increase in the written-off of fixed assets compared to the previous year. Hopefully this move will bring a positive impact on the growth of the Group's performance in the future.

Regarding the market, the worldwide economy experienced a downturn in 2002. In particular, the recession in Japan and the United States, the two main export countries for China's rare earth products, affected the development of high-tech industries such as semiconductors and information technology, in turn lowering the consumption of rare earth. This situation was further worsened by the over extraction of rare earth materials within the region, leading to fierce competition and thus the decline in rare earth products' prices to historical lows in 2002.

Amid this difficult business environment, the Group was able to capitalize on its competitive edge in terms of capital, facilities, skills and techniques, and, at the same time, through enforcing stringent cost controls, improving production techniques, and market-tracking policies, to bring in slight profits for the rare earth business. As the price of rare earth has fallen to loss incurring levels in 2002, the Group is confident that the industry-wide consolidation policies being implemented by the PRC government, together with the eventual recovery of the global economy, will make the price of rare earth rebound. The Group adopted a strategy to increase inventory levels of rare earth products in 2002. Although the provision for inventory was larger than that in last year due to the drop in prices and increases in inventory levels, through increasing the inventory balances and not participating in unhealthy price wars, the negative repercussions due to the poor economic cycle could hopefully be minimized.



同時，本集團大力推行向稀土的高附加值深加工產品發展的戰略，旗下的無錫新威螢光材料有限公司之設計產能500噸三基色螢光粉生產線已於二零零二年五月開始投產，本年度共售出產品近100噸。螢光粉產品的毛利大大高於氧化稀土產品，螢光粉產量的提高將成為本集團盈利的新增長點之一。

於回顧期內，本集團共銷售約3,700噸稀土氧化物，連同上述的螢光粉及其他稀土產品，稀土業務的營業額為206,127,000港元。在眾多產品中，雖然主要應用於節能燈和顯示屏的氧化鎔的價格與去年比較基本持平，但主要應用於磁性材料、磁光記憶材料及玻璃等產品的氧化釹及氧化鐳的平均價下調約一半，而被廣泛應用於製造光學玻璃的氧化釷的價格亦下調約三成多。隨著銷售量及價格的下跌，再加上大幅增加存貨撥備，本集團於二零零二年稀土產品的業務利潤大幅下降，毛利率從二零零一年的28%大幅下降到二零零二年的5%。

耐火材料業務

耐火產品廣泛應用於冶金、石油化工、建材、電力等行業。

本集團的耐火材料業務自上市以來一直穩定增長。本集團利用資本市場籌集到的資金，於二零零一年對耐火材料第二生產部進行了重組和擴建，而於二零零二年六月又完成了對耐火材料第一生產部進行技擴能改造，實現日本引進設計的118米超高溫隧道窯一次性調試成功，從而使本集團的中高檔耐火產品生產能力提高到年生產80,000噸。新的超高溫隧道窯

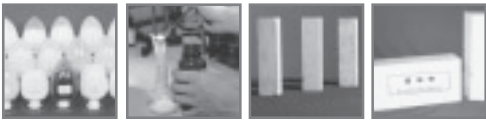
At the same time, the Group focused its efforts on the development of high value-added products. Trichromatic phosphor production line with designed capacity up to 500 tonnes of its subsidiary, Wuxi Xinwei Fluorescent Materials Company Limited, commenced operations in May 2002. It recorded sales of almost 100 tonnes of products this year. As the gross profit of fluorescent products is much higher than that of oxidized rare earth products, the increase in the output of fluorescent powder would become a profit driven point for the Group.

During the year under review, the Group sold about 3,700 tonnes rare earth oxides, together with the fluorescent products as mentioned above and other rare earth products, turnover of rare earth business amounted to HK\$206,127,000. Among the different types of products, the price level for Europium oxide, which is widely deployed in the production of energy efficient lighting and monitor screens, maintained its levels compared with that in last year. While the prices for Neodymium oxide and Dysprosium oxide, which are mainly used on metallic materials, magneto-optic memory materials and glass decreased on average by a half, the prices for Lanthanum oxide which is widely employed in the production of optical glass also dropped by more than 30%. Affected by the reduction in sales volume and lowered price levels, coupled with the significant increase in the provision for inventory, the Group's profits generated from rare earth business in 2002 dropped substantially, with the gross profit margin moving down to 5% in 2002 compared with 28% in 2001.

Refractory Materials Business

Refractory products are widely employed in industries including the metallurgy, petrochemical, construction and electrical-related businesses.

The Group's refractory materials business has been sustaining a stable growth since its listing. Using the proceeds raised in the capital market, the Group's refractory materials production Division II underwent reconstruction and expansion in 2001. The refractory materials production Division I also completed a further round of technical reform and expansion in June 2002. The newly installed 118m super high temperature tunnel kiln with design imported from Japan achieved satisfactory results in trial production, raising



比二零零一年建成的要求更嚴格，能生產出更優質的耐火產品，因此它的造價亦比較高。由於有關設備於二零零二年六月才投入生產，故新增產能的貢獻將反映於二零零三年之業績內。

本集團生產的中高檔耐火產品主要供應鋼鐵、有色金屬冶煉、石油化工和玻璃製造等行業。本集團借助和國際合作夥伴進行長期技術協作的優勢，不斷提高產品質量和開發產品品種，開拓國際市場，使公司的耐火產品出口從二零零一年的16%進一步上升到二零零二年的18%。國內銷售方面，本集團採取提供優質產品及優質服務的營銷策略，繼續保持在國內主要煉鋼企業客戶中的市場份額。

於回顧期內，本集團共銷售約55,000噸耐火材料，銷售額從二零零一年的243,147,000港元上升到261,536,000港元，增長約8%。由於二零零二年耐火材料用戶普遍壓縮生產成本，使耐火產品的價格整體有所下降。儘管如此，本集團耐火產品的毛利率仍能維持於30%以上。

科研開發

二零零二年，在行業整體毛利下降的市場環境下，我們不是被動地等待市場價格回升，而是主動地調整自己的產品結構，通過開發和生產高附加值產品，來提升本集團的整體盈利水平。本集團規劃設計產能為500噸的熒光材料生產線已經投產，可望在二零零三年為本集團帶來新的盈利增長。

the annual production capacity for medium to high-grade refractory products to 80,000 tonnes. The standards and quality of the new super high temperature tunnel kiln are much higher than the previous one completed in 2001. It could produce refractory products of much higher quality, therefore its construction costs were also higher. The Group expects the contribution to revenue from these production facilities, which commenced operation in June 2002, to be reflected in the results for the financial year 2003.

The Group supplies medium to high-grade refractory products mainly to companies engaging in the production of steel, non-ferrous metallurgy, petrochemical and glass. The long-term technical assistance from international partners is the Group's prime competitive edge. It will continue to apply its expertise to improve the standard and quality of the Group's products and explore new product varieties. With an expanded scope of superb products, more international markets were captured and it secured a surge in exports of refractory products growing from 16% in 2001 to 18% in 2002. As for local sales, adhering diligently to its business strategies of providing top quality products and superior services, the Group was able to maintain its share in the market of the steel industry in the PRC.

During the year under review, the Group sold about 55,000 tonnes of refractory materials. Turnover surged from HK\$243,147,000 in 2001 to HK\$261,536,000, representing a growth of approximately 8%. Triggered by users squeezing production costs, price levels for refractory products also dropped. Nevertheless, the Group managed to maintain the gross profit margin of refractory products at over 30%.

RESEARCH AND DEVELOPMENT

While the industry experienced a drop in gross profit in 2002, rather than waiting for a rebound in product prices, we took the initiative to restructure our product mix through exploring and producing high value-added products to raise overall profit levels for the Group. The production line of fluorescent materials with designed capacity of up to 500 tonnes has commenced operations, and is expected to bring in growth in profits for the Group in 2003.



在科研方面，本集團的科研開發中心正與上海的大專院校合作研究開發新的LED粉及PDP等離子顯示屏粉，而納米級稀土氧化物和稀土深加工的拋光粉材料的研究亦取得了進展；極有應用前景的緻密鋯磚和緻密鉻磚的研製也取得了成功。

環境保護

本集團視環境保護為對人類提供社會效益的直觀體現。本集團作為中國江蘇省的重點環保監測企業，在年度內，本集團的各項受江蘇省環保廳專項監測的指標均達到合格範圍，3,500噸(REO)離子型礦技改擴能專案也經江蘇省環保廳驗收合格。集團內部的環境管理體系從二零零二年六月正式運行，目前“CQC”正對本集團ISO14000標準的貫標工作進行正式審核。

流動資金及財務資源

於二零零二年十二月三十一日，本集團持有現金及銀行存款約333,000,000港元而並無未償還長期負債。總負債對總資產比率仍維持於約7%。

僱員及薪酬

於二零零二年十二月三十一日，本集團僱用了員工約950人，為員工提供了完善的薪酬及福利制度。本集團一直根據市場需要，引進及培訓包括管理、科研及生產等各方面的專業人才，更透過定期的員工培訓，令各員工可在崗位上發揮所長。

回顧期內，僱員成本扣除董事酬金後合計約為11,776,000港元。此外，本集團亦設有購股權計劃，以激勵合資格員工。

Boasting outstanding research and development capabilities, the Group's research and development centre cooperates with the technical institutes in Shanghai to carry out research and develop the new LED powder and PDP powder. Additionally, the Group also saw progress in the research on nano technological oxidized rare earth and value-added polishing powder. It also attained successes in the research and production of highly applicable refractory products such as high densed zirconia bricks and high densed chrome bricks.

ENVIRONMENTAL PROTECTION

The Group considers environmental protection a direct act of bringing benefits to the community. As a corporation on the surveillance list of the Environmental Protection Department of Jiangsu Province, the PRC, the Group's production procedures and facilities, which include a production line for Ionic Ore with an annual production capacity of 3,500 tonnes (REO), are fully compliant with the environmental regulations. The Group's internal environmental protection management system was launched in June 2002 and the Group has applied for ISO14000 certification. CQC is currently auditing related implementation work.

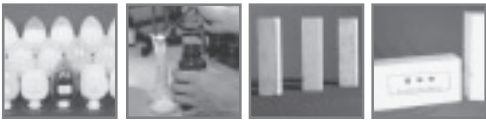
LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2002, the Group had cash and bank balances of approximately HK\$333,000,000 with nil long-term liability. Total liabilities to total assets ratio has been maintained at approximately 7%.

STAFF AND REMUNERATION

As at 31 December 2002, the Group had a workforce of approximately 950 staff. Comprehensive remuneration and welfare packages are offered to them. Keeping abreast of market trends, the Group continues to employ professionals with the right skills and expertise in management, research and development, and production. Training programs are also conducted regularly to enable staff to fully explore their potential in their respective positions.

During the year under review, total staff costs incurred excluding directors' emoluments amounted to HK\$11,776,000. The Group has also adopted a share option scheme as part of the benefits package to reward staff for outstanding performance.



所得款項用途

本集團於二零零一年七月配售了105,200,000股新股而籌集了約2.5億港元。其中約1.4億港元已於二零零一及二零零二年期間投資於耐火產品生產線的改造及熒光材料生產設備的添置上。餘下的款項已全數投放於流動資產上。

展望

本集團在過去幾年的基本發展戰略是通過擴展生產規模及改善生產設備來實現規模經濟效益。董事會認為，本集團的技改和擴建階段基本完成。本集團未來幾年的目標是，在不顯著增加內部投資的條件下，發掘企業的內部和外部資源優勢，以技術研究開發為主導，生產高增值的深加工產品為方向，提高企業的綜合競爭能力和經濟效益，發展向上下游產業為依托。

稀土業務

自去年開始，國家積極督促及協助中國的稀土企業建立兩大稀土集團公司以保護國有資源，擬將中國的稀土行業作大規模整頓。南北集團有望於二零零三年內成立，將是中國稀土行業發展的重要里程碑。而國家相應的種種政策將在一定程度上消除稀土企業的惡性競爭，稀土價格有望回升到合理的水平。本集團將鼎力支持國家稀土集團公司的未來發展。

雖然本集團預期稀土價格回升將給本集團帶來增加銷售和提高毛利率的雙重利益，但我們仍堅持全力發展高附加值產品和調整產品結構的目標。我們計劃在二零零三年進一步增加熒光材料的銷售，及爭取早日把拋光粉材料等更多高附加值產品推向市場。

USE OF PROCEEDS

In July 2001, the Group has placed 105,200,000 new shares and generated net proceeds of approximately HK\$250,000,000. Among which, HK\$140,000,000 had been used in investment for restructuring the production lines for refractory products and the additions of production facilities for fluorescent materials in 2001 and 2002. The remaining portion had been allocated to current assets.

PROSPECTS

The Group's business strategies in the past few years were, through the expansion and upgrading of production facilities, to achieve economies of scale. The Board believes that preliminary technical reforms and expansion have generally been completed. On the understanding that not many internal investments will be made, the Group's business goal for the next few years will be to further explore its internal and external competitive advantages. Major emphasis will also be placed on the research and development of value-added products, which will allow the Group to benefit from the economies of scale achieved and to enhance overall competitiveness.

Rare Earth Business

Since last year, the PRC government has initiated the restructuring of the PRC's rare earth industries. It has actively supervised and assisted rare earth corporations in the PRC to form two major rare earth groups in order to protect state-owned resources. The Southern and Northern groups are expected to be established in 2003 and it will be an important milestone in the development of China's rare earth industry. The regulatory policies will help to minimize the negative impact of fierce market competition and bring the price of rare earth back to reasonable levels. The Group pledges its full support to the future development of the rare earth groups.

Although the Group is confident of a rebound in rare earth prices, which will bring in extra sales and increase gross profit margins, we will continue in full thrust to achieve the goal of developing high value-added products and restructure our product mix. We plan to further increase the sales of fluorescent materials and launch more high value-added products, including polishing powder into the market as soon as we can in 2003.



此外，本集團對提升研發能力的工作從未鬆懈。本集團持續為研發人員提供培訓、與大型研發機構及大學共同研發產品，並經常走訪客戶，瞭解市場發展及客戶所需，配合他們更快、更準確地發展新產品，保持與國際市場接軌。

本集團明白強化銷售網路的重要性，將繼續聘用及培訓銷售人才，開發新的市場及加強與客戶的密切聯繫。

耐火材料業務

耐火材料行業的發展趨勢是，耐火產品的總體需求在逐步下降，但中高檔耐火產品的比例在不斷提高。為滿足市場對本企業生產的高檔耐火產品的持續需求增長，本集團計劃進一步改善現有的生產設施，在無需額外融資的前提下，今年產能力由目前的80,000噸提升至約100,000噸。擴充工程已在進行中，預期可於二零零三年年末完成。

此外，本集團將繼續拓展國際市場，提高市場佔有率，務求達至50%出口比例的長遠目標。

致謝

最後，本人謹代表董事會，感謝各股東、投資者、客戶、供應商及業務夥伴一直以來對本集團的信賴與支援。並向一直竭誠效力的員工們致以由衷謝意。

主席

蔣泉龍

二零零三年六月二十六日

Furthermore, the Group will unrelentingly improve its research and development capabilities. It has been constantly providing trainings for its research and development staff and, in cooperation with large-scale research and development institutions and universities, developing new products. To grow with the global market, the Group will work hand-in-hand with clients, staying alert to their needs and market trends, and assisting them in developing new products in a timely manner.

Appreciating the importance of strengthening its sales network, the Group will continue to employ and nurture sales professionals, explore new market segments and strengthen customer relationships.

Refractory Materials Business

While decreasing demand for refractory products looks to be the general trend for refractory materials industry, the demand for medium to high-grade refractory products is on the rise. To meet this increasing demand for medium to high-grade refractory products, the Group plans to further improve and upgrade existing production facilities, increasing the present production capacity of 80,000 tonnes to approximately 100,000 tonnes without seeking additional financing. The expansion plan is now in progress and is expected to be completed at the end of 2003.

The Group will also continue to enlarge its market share in international markets and achieve its long-term goal to increase the export ratio to 50%.

APPRECIATION

Finally, on behalf of the Board, I would like to extend my gratitude to our shareholders, investors, customers, suppliers and business partners for their continuous commitment and contribution. I also wish to thank all our staff members for their continued commitment and dedication.

Jiang Quanlong

Chairman

26 June 2003