

## **NOTES TO THE CONDENSED FINANCIAL STATEMENTS**

### **1. Basis of preparation**

The condensed financial statements have been prepared in accordance with Statement of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants and with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

### **2. Principal accounting policies/adoption of statements of standard accounting practice**

The condensed financial statements have been prepared under the historical cost convention.

The accounting policies adopted are consistent with those followed in the preparation of the Group's financial statements for the year ended 31 December 2002, except as described below.

In the current period, the Group has adopted, for the first time, the revised SSAP 12 "Income taxes" ("SSAP 12 (Revised)"). The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision, if any, was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all 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, with limited exceptions.

The adoption of this standard has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

### 3. Segment information

Segment information for the six months ended 30 June 2003 and 2002 is as follows:

(a) *Business segments*

	Rare earth		Refractory		Total	
	For the six months ended 30 June					
	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
TURNOVER	<u>97,365</u>	<u>71,786</u>	<u>99,184</u>	<u>124,327</u>	<u>196,549</u>	<u>196,113</u>
RESULTS						
Segment results	<u>9,818</u>	<u>15,252</u>	<u>19,419</u>	<u>33,161</u>	<u>29,237</u>	48,413
Unallocated corporate expenses					(5,802)	(6,802)
Interest income					<u>1,112</u>	<u>3,187</u>
Profit from operations					<u>24,547</u>	<u>44,798</u>

Rare Earth: The manufacture and sale of rare earth products including fluorescent products

Refractory: The manufacture and sale of refractory products

(b) *Geographical segments*

	Turnover by geographical market	
	For the six months ended 30 June	
	2003	2002
	HK\$'000	HK\$'000
The People's Republic of China ("the PRC")	<u>112,838</u>	126,545
Japan	<u>49,277</u>	39,850
The United States of America	<u>2,430</u>	15,071
Others	<u>32,004</u>	14,647
	<u>196,549</u>	<u>196,113</u>

Over 90% of segment assets of the Group are located in the PRC.

**4. Turnover****For the six months  
ended 30 June**

<b>2003</b>	2002
<b>HK\$'000</b>	HK\$'000

Sales of rare earth products, refractory products and fluorescent products	<b>196,549</b>	196,113
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**5. Profit from operations**

During the period, profit from operations has been arrived at after charging depreciation on property, plant and equipment of approximately HK\$17,586,000 (2002: HK\$13,019,000).

**6. Finance costs**

During the period, interest on discounted bills of approximately HK\$93,000 (2002: interest on borrowings of approximately HK\$3,000) was charged.

**7. Taxation****For the six months  
ended 30 June**

<b>2003</b>	2002
<b>HK\$'000</b>	HK\$'000

Enterprise income tax ("EIT")		
– The PRC subsidiaries	<b>2,842</b>	6,137

Hong Kong Profits Tax has not been provided for in the financial statements as the Group did not derive any assessable profits in Hong Kong.

EIT has been provided at the prevailing rates on the estimated assessable profits applicable to each PRC subsidiary.

Pursuant to the relevant tax laws in the PRC, subsidiaries in the PRC are entitled to full exemption from EIT for two years starting from their first profit-making year after offsetting all losses brought forward, followed by a 50% reduction for the next three years thereafter.

During the period, two PRC subsidiaries are entitled to a 50% reduction of EIT.

The Group did not have any significant unprovided deferred taxation for the period or at 30 June 2003.

**8. Dividends**

During the period, no dividend was declared and paid. During the six months ended 30 June 2002, a final dividend for 2001 of HK\$0.02 per share amounted to approximately HK\$16,289,000 was declared and paid. Subsequent to 30 June 2003, a final dividend for 2002 of HK\$0.01 per share amounted to approximately HK\$8,144,000 was declared and paid.

The Board of Directors does not recommend the declaration of an interim dividend for the six months ended 30 June 2003. Subsequent to 30 June 2002, the Board of Directors had resolved to declare an interim dividend for the six months ended 30 June 2002 of HK\$0.01 per share amounted to approximately HK\$8,145,000.

**9. Earnings per share**

The calculation of the basic earnings per share is based on the Group's net profit for the period of approximately HK\$21,823,000 (2002: HK\$37,918,000) and the weighted average number of ordinary shares of 814,453,059 (2002: 814,453,059) in issue during the period.

There were no diluted earnings per share shown for the six months ended 30 June 2003 as there was no dilutive potential ordinary share as at 30 June 2003.

**10. Property, plant and equipment and construction-in-progress**

During the period, the Group spent approximately HK\$1,975,000 (2002: HK\$95,631,000) on additions to property, plant and equipment and construction-in-progress.

**11. Accounts and other receivables**

At 30 June 2003, accounts and other receivables comprised:

	<b>30 June 2003</b> <i>HK\$'000</i>	31 December 2002 <i>HK\$'000</i>
Accounts receivable	<b>75,638</b>	109,036
Other receivables	<b>25,596</b>	26,302
	<b>101,234</b>	135,338
Less: Provision for bad and doubtful debts	<b>(7,422)</b>	(8,529)
	<b>93,812</b>	126,809

**11. Accounts and other receivables** *(Continued)*

An ageing analysis of accounts receivable is as follows:

	<b>30 June 2003</b> <i>HK\$'000</i>	31 December 2002 <i>HK\$'000</i>
Current to less than 6 months	<b>51,318</b>	98,791
6 months to less than 1 year	<b>16,382</b>	2,241
1 to less than 2 years	<b>2,481</b>	2,388
Over 2 years	<b>5,457</b>	5,616
	<u><b>75,638</b></u>	<u>109,036</u>

**12. Accounts payable**

An ageing analysis of accounts payable is as follows:

	<b>30 June 2003</b> <i>HK\$'000</i>	31 December 2002 <i>HK\$'000</i>
Current to less than 6 months	<b>32,387</b>	47,138
6 months to less than 1 year	<b>6,008</b>	2,602
1 to less than 2 years	<b>485</b>	1,486
Over 2 years	<b>131</b>	149
	<u><b>39,011</b></u>	<u>51,375</u>

**13. Commitments**

At 30 June 2003, the Group had capital commitments authorized and contracted for in respect of acquisition of equipment and machinery and construction of buildings, so far as not provided for in the financial statements, amounted to approximately HK\$4,090,000 (31 December 2002: HK\$6,145,000).