

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 25 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public 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, as modified for the revaluation of certain buildings of the Group.

The accounting policies adopted are consistent with those followed in the preparation of the Group’s financial statements for the year ended 31 December 2003.



3. SEGMENT INFORMATION

Segment information for the six months ended 30 June 2004 and 2003 is as follows:

(a) Business segments

	Rare Earth		Refractory		Total	
	For the six months ended 30 June					
	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
TURNOVER	158,574	97,365	177,897	99,184	336,471	196,549
RESULTS						
Segment results	25,999	9,818	50,330	19,419	76,329	29,237
Unallocated corporate expenses					(6,979)	(5,802)
Interest income					1,051	1,112
Other income, net					559	547
Profit from operations					70,960	25,094

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

Refractory: The manufacture and sale of refractory products including high temperature ceramics products

3. SEGMENT INFORMATION *(Continued)*

(b) Geographical segments

	Turnover by geographical market For the six months ended 30 June	
	2004	2003
	HK\$'000	HK\$'000
The People's Republic of China ("the PRC")	259,900	112,838
Japan	35,942	49,277
Europe	35,467	29,396
The United States of America	3,690	2,430
Others	1,472	2,608
	336,471	196,549

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

4. TURNOVER

	For the six months ended 30 June	
	2004	2003
	HK\$'000	HK\$'000
Sales of rare earth products, refractory products, fluorescent products and high temperature ceramics products	336,471	196,549

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\$23,058,000 (2003: HK\$17,586,000) and amortisation of goodwill arising on acquisition of subsidiaries of approximately HK\$2,989,000 (2003: Nil).

6. FINANCE COSTS

During the period, interest on short-term bank loan and discounted bills of approximately HK\$932,000 (2003: Nil) and HK\$267,000 (2003: HK\$93,000) was charged respectively.

7. TAXATION

	For the six months ended 30 June	
	2004	2003
	HK\$'000	HK\$'000
Enterprise income tax ("EIT")		
– The PRC subsidiaries	8,981	2,842

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, four (2003: 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 2004.

8. DIVIDENDS

During the period, a final dividend for 2003 of HK\$0.02 per share amounted to approximately HK\$19,739,000 was declared and paid. During the six months ended 30 June 2003, no dividend was declared and paid.

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\$59,834,000 (2003: HK\$21,823,000) and the weighted average number of ordinary shares of 960,414,597 (2003: 814,453,059) in issue during the period.

The calculation of the diluted earnings per share is based on the Group's net profit for the period of approximately HK\$59,834,000 and the weighted average number of ordinary shares of 961,053,941 in issue after adjusting for the effect of all dilutive potential ordinary shares during the period. No dilutive earnings per share was shown for the six months ended 30 June 2003 as there was no dilutive potential ordinary share for that period.

10. GOODWILL

On 29 January 2004, there was goodwill arising on acquisition of subsidiaries amounted to approximately HK\$143,495,000 with net book value of approximately HK\$140,506,000 as at 30 June 2004. During the period, amortisation on goodwill was amounting to approximately HK\$2,989,000.

Goodwill is amortised over its estimated useful life of 20 years.

11. PROPERTY, PLANT AND EQUIPMENT AND CONSTRUCTION-IN-PROGRESS

During the period, the Group spent approximately HK\$61,507,000 (2003: HK\$1,975,000) on additions to property, plant and equipment and construction-in-process. During the period, the net book value of property, plant and equipment acquired on acquisition of subsidiaries was amounting to approximately HK\$92,638,000.



12. ACCOUNTS AND OTHER RECEIVABLES

The Group allows an average credit period of 30 to 90 days to its trade customers.

At 30 June 2004, accounts and other receivables comprised:

	30 June	31 December
	2004	2003
	HK\$'000	HK\$'000
Accounts receivable	184,147	131,753
Other receivables	8,147	15,216
	192,294	146,969
Less: Provision for bad and doubtful debts	(8,896)	(8,689)
	183,398	138,280

An ageing analysis of accounts receivable is as follows:

	30 June	31 December
	2004	2003
	HK\$'000	HK\$'000
Current to less than 6 months	166,886	112,556
6 months to less than 1 year	6,954	9,896
1 to less than 2 years	4,701	4,058
Over 2 years	5,606	5,243
	184,147	131,753

13. ACCOUNTS PAYABLE

An ageing analysis of accounts payable is as follows:

	30 June	31 December
	2004	2003
	HK\$'000	HK\$'000
Current to less than 6 months	37,828	35,439
6 months to less than 1 year	3,597	5,678
1 to less than 2 years	2,228	2,120
Over 2 years	1,272	18
	44,925	43,255

14. SHORT-TERM BANK LOAN – UNSECURED

During the period, the average interest rate charged on the short-term bank loan was amounting to approximately 4.87% (2003: Nil) per annum.

15. COMMITMENTS

At 30 June 2004, the Group had capital commitments authorised and contracted for in respect of acquisition and construction of property, plant and equipment, so far as not provided for in the financial statements, amounted to approximately HK\$68,936,000 (31 December 2003: HK\$60,124,000).

16. ACQUISITION OF SUBSIDIARIES

On 29 January 2004, the Group acquired the entire issued share capital of Dynamic Goal Worldwide Inc. which in turn owns the entire equity interest in Wuxi Pan-Asia High Temperature Ceramics Co., Ltd. for a non-cash consideration of HK\$207,000,000 by means of issuing 172,500,000 shares at HK\$1.20 per share. This transaction has been accounted for using the purchase method of accounting.

The effect of the acquisition is summarised as follows:

	<i>HK\$'000</i>
Net assets acquired	63,505
Goodwill arising on acquisition	143,495
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Non-cash consideration	207,000
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Net cash inflow arising on acquisition:	
Cash and bank balances acquired	3,405
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17. COMPARATIVE FIGURES

Certain comparative figures had been reclassified in conformity to the presentation of the financial statements for the period.

