NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and with the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost basis, except for certain buildings, which are measured at revalued amounts, as appropriate.

The accounting policies adopted in the condensed financial statements are consistent with those followed in the preparation of the annual financial statements of the Group for the year ended 31 December 2004 except as described below.

In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations ("Int") (hereinafter collectively referred to as "new HKFRSs") issued by the HKICPA that are effective for the accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the income statement, balance sheet and the statement of changes in equity. The changes in presentation have been applied retrospectively, as appropriate. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current or previous accounting periods are prepared and presented:

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Business combinations

In the current period, the Group has applied HKFRS 3, "Business Combinations", the principal effects of the application of HKFRS 3 to the Group are summarised below:

Goodwill

In previous periods, goodwill arising on acquisitions of a subsidiary was capitalised and amortised over its estimated useful life. The Group has applied the relevant transitional provisions in HKFRS 3 from 1 January 2005, and has discontinued amortising such goodwill from 1 January 2005 onwards and goodwill will be tested for impairment at least annually. As a result of this change in accounting policy, no amortisation of goodwill has been charged in the current accounting period (see note 3 for the financial impact).

Excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost (previously known as "negative goodwill")

In accordance with HKFRS 3, any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition ("discount on acquisition") is recognised immediately in profit or loss in the period in which the acquisition takes place. In previous periods, negative goodwill arising on acquisition prior to 1 January 2001 was held in reserves. In accordance with the relevant transitional provisions in HKFRS 3, the Group has derecognised all negative goodwill at 1 January 2005 of HK$10,489,000 which was previously recorded in reserves with a corresponding increase to accumulated profits.

Owner-occupied leasehold interest in land

In previous periods, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In the current period, the Group has applied HKAS 17, "Leases". Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interest in land is reclassified to prepaid lease payments on land use rights under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively (see note 3 for the financial impact).

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Minority interests

In previous periods, minority interests at the balance sheet date were presented in the consolidated balance sheet separately from liabilities and as deduction from net assets. In the consolidated income statement, minority interests were also separately presented as a deduction before arriving at the profit attributable to equity holders.

With effect from 1 January 2005, in order to comply with HKAS 1, "Presentation of Financial Statements" and HKAS 27, "Consolidated and Separate Financial Statements", minority interests at the balance sheet date are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity holders of the Company, and the profit attributable to minority interests are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the period between the minority interests and the equity holders of the Company.

The presentation of minority interests in the consolidated balance sheet, consolidated income statement and consolidated statement of changes in equity for the comparative period has been restated accordingly (see note 3 for the financial impact).

3. SUMMARY OF THE EFFECT OF THE CHANGES IN ACCOUNTING POLICIES

The effect of the changes in the accounting policies described in note 2 above on the results for the current and previous periods are as follows:

	For the six months ended 30 June	
	2005	2004
	HK$'000	HK$'000
Arising from adoption of HKAS 17	**126**	107
Arising from adoption of HKFRS 3	**3,577**	–
Increase in profit for the period	**3,703**	107
Attributable to:		
Equity holders of the Company	**3,703**	107
Minority interests	–	–
	3,703	107

3. SUMMARY OF THE EFFECT OF THE CHANGES IN ACCOUNTING POLICIES *(Continued)*

Analysis of increase/(decrease) in profit for the period by line items presented according to their function:

	For the six months ended 30 June	
	2005	2004
	HK$'000	*HK$'000*
Decrease in depreciation of property, plant and equipment	**291**	259
Increase in amortisation of prepaid lease payments on land use rights	**(173)**	(160)
Decrease in amortisation of goodwill	**3,585**	8
	3,703	107

The accumulated effect of the application of the new HKFRSs on the balance sheet as at 31 December 2004 and 1 January 2005 are summarised as follows:

	As at 31 December 2004 (originally stated)	Adjustments	As at 31 December 2004 (restated)	Adjustments	As at 1 January 2005 (restated)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Goodwill	136,918	(378)	136,540	–	136,540
Property, plant and equipment and construction-in-progress	559,798	(10,032)	549,766	–	549,766
Prepaid lease payments on land use rights	–	10,384	10,384	–	10,384
Other assets, net	622,986	–	622,986	–	622,986
Net assets	1,319,702	(26)	1,319,676	–	1,319,676
Share capital	98,695	–	98,695	–	98,695
Accumulated profits	489,467	(25)	489,442	10,489	499,931
Capital reserve	32,837	–	32,837	(10,489)	22,348
Other reserves	681,232	–	681,232	–	681,232
Minority interests	–	17,470	17,470	–	17,470
Total equity	1,302,231	17,445	1,319,676	–	1,319,676
Minority interests	17,471	(17,471)	–	–	–
	1,319,702	(26)	1,319,676	–	1,319,676

3. SUMMARY OF THE EFFECT OF THE CHANGES IN ACCOUNTING POLICIES *(Continued)*

Potential impact of new standards not yet adopted

The Group has not early applied the following new HKFRSs that have been issued but are not yet effective. The directors of the Company anticipate that the application of these new HKFRSs will have no material impact on the financial statements of the Group.

HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS-Int 4	Determining Whether an Arrangement Contains a Lease
HKFRS-Int 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

4. SEGMENT INFORMATION

Segment information for the six months ended 30 June 2005 and 2004 is as follows:

(a) Business segments

	Rare Earth		Refractory		Total	
	For the six months ended 30 June					
	2005	2004	**2005**	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)	**(Unaudited)**	(Unaudited)
		(Restated)		(Restated)		(Restated)
Turnover	**187,116**	158,574	**188,389**	177,897	**375,505**	336,471
RESULTS						
Segment results	**22,914**	26,008	**53,520**	50,420	**76,434**	76,428
Unallocated corporate expenses					**(3,983)**	(6,971)
Interest income					**892**	1,051
Other income, net					**467**	559
Profit from operations					**73,810**	71,067

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

4. SEGMENT INFORMATION *(Continued)*

(b) Geographical segments

	Turnover by geographical market For the six months ended 30 June	
	2005	2004
	HK$'000	*HK$'000*
The People's Republic of China (the "PRC")	**295,555**	259,900
Japan	**47,991**	35,942
Europe	**15,213**	35,467
The United States of America	**6,847**	3,690
Others	**9,899**	1,472
	375,505	336,471

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

5. TURNOVER

	For the six months ended 30 June	
	2005	2004
	HK$'000	*HK$'000*
Sales of rare earth products (including fluorescent products) and refractory products (including high temperature ceramics products)	**375,505**	336,471

6. PROFIT FROM OPERATIONS

During the period, profit from operations has been arrived at after charging depreciation on property, plant and equipment of approximately HK$29,860,000 (2004 as restated: HK$22,767,000).

7. FINANCE COSTS

During the period, no interest (2004: HK$932,000) on short-term bank loan was charged and interest on discounted bills of approximately HK$21,000 (2004: HK$267,000) was charged.

8. TAXATION

	For the six months ended 30 June	
	2005	2004
	HK$'000	*HK$'000*
Enterprise income tax ("EIT")		
– The PRC subsidiaries	**16,984**	8,981

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 (2004: four) PRC subsidiaries are entitled to a 50% reduction of EIT and two (2004: Nil) PRC subsidiaries are subject to full provision of EIT.

The Group did not have any significant unprovided deferred taxation for the period or at 30 June 2005.

9. DIVIDENDS

During the period, a final dividend for 2004 of HK$0.02 per share amounted to approximately HK$19,739,000 was declared and paid. During the six months ended 30 June 2004, a final dividend for 2003 of HK$0.02 per share amounted to approximately HK$19,739,000 was declared and paid.

10. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the Group's profit attributable to equity holders of the Company of approximately HK$56,136,000 (2004 as restated: HK$59,941,000) and the weighted average number of ordinary shares of 986,953,059 (2004: 960,414,597) in issue during the period.

No diluted earnings per share was shown for the six months ended 30 June 2005 as there was no dilutive potential ordinary share for the period. For the six months ended 30 June 2004, the calculation of the diluted earnings per share is based on the Group's restated profit attributable to equity holders of the Company of approximately HK$59,941,000 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 that period.

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

During the period, the Group spent approximately HK$1,772,000 (2004: HK$61,507,000) on additions to property, plant and equipment and construction-in-progress.

12. ACCOUNTS AND OTHER RECEIVABLES

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

At 30 June 2005, accounts and other receivables comprised :

	30 June 2005	31 December 2004
	HK$'000	*HK$'000*
Accounts receivable	**294,775**	201,124
Other receivables	**9,962**	10,644
	304,737	211,768
Less: Provision for bad and doubtful debts	**(8,973)**	(8,212)
	295,764	203,556

12. ACCOUNTS AND OTHER RECEIVABLES *(Continued)*

An ageing analysis of accounts receivable is as follows:

	30 June 2005 HK$'000	31 December 2004 HK$'000
Current to less than 6 months	**253,835**	180,549
6 months to less than 1 year	**31,172**	6,785
1 to less than 2 years	**3,190**	7,581
Over 2 years	**6,578**	6,209
	294,775	201,124

13. ACCOUNTS PAYABLE

An ageing analysis of accounts payable is as follows:

	30 June 2005 HK$'000	31 December 2004 HK$'000
Current to less than 6 months	**66,175**	50,768
6 months to less than 1 year	**4,647**	4,549
1 to less than 2 years	**1,221**	491
Over 2 years	**1,364**	74
	73,407	55,882

14. COMMITMENTS

At 30 June 2005, 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$45,384,000 (31 December 2004: HK$45,434,000).