

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

### 1. BASIS OF PREPARATION

The condensed consolidated interim financial statements have been prepared in accordance with the applicable disclosure requirements set out in Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with the Hong Kong Accounting Standard ("HKAS") No.34 "Interim Financial Reporting" of Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

### 2. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies used in the condensed consolidated interim financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2005.

In the current period, the Group had applied for the first time, a number of new HKFRSs issued by the HKICPA that are effective for accounting periods beginning on or after 1 January 2006. The adoption of the new HKFRSs has had no material on how the results and financial position for the current or prior accounting period as prepared and presented.

The Group has not early applied the following new standards, amendments or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards, amendments or interpretations will have no material impact on the consolidated financial statements of the Group:

HKAS 1 (Amendment)	Capital disclosures <sup>1</sup>
HKFRS 7	Financial instruments: Disclosures <sup>1</sup>
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies <sup>2</sup>
HK(IFRIC) – INT 8	Scope of HKFRS 2 <sup>3</sup>
HK(IFRIC) – INT 9	Reassessment of embedded derivatives <sup>4</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2007

<sup>2</sup> Effective for annual periods beginning on or after 1 March 2006

<sup>3</sup> Effective for annual periods beginning on or after 1 May 2006

<sup>4</sup> Effective for annual periods beginning on or after 1 June 2006

### 3. SEGMENT INFORMATION

Segment information for the six months ended 30 June 2006 and 2005 is as follows:

#### (a) Business segments

	Rare Earth		Refractory		Total	
	For the six months ended 30 June					
	2006 HK\$'000 (Unaudited)	2005 HK\$'000 (Unaudited)	2006 HK\$'000 (Unaudited)	2005 HK\$'000 (Unaudited)	2006 HK\$'000 (Unaudited)	2005 HK\$'000 (Unaudited)
Turnover	<u>231,712</u>	<u>187,116</u>	<u>238,991</u>	<u>188,389</u>	<u>470,703</u>	<u>375,505</u>
RESULTS						
Segment results	<u>44,715</u>	<u>22,914</u>	<u>82,862</u>	<u>53,520</u>	<u>127,577</u>	<u>76,434</u>
Unallocated corporate expenses					<u>(4,422)</u>	<u>(3,983)</u>
Interest income					<u>2,233</u>	<u>892</u>
Other (expenses)/income, net					<u>(37)</u>	<u>467</u>
Finance costs					<u>(667)</u>	<u>(21)</u>
Profit before taxation					<u>124,684</u>	<u>73,789</u>
Taxation					<u>(28,725)</u>	<u>(16,984)</u>
Profit for the period					<u>95,959</u>	<u>56,805</u>

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 and magnesium grains)

### 3. SEGMENT INFORMATION *(Continued)*

#### (b) Geographical segments

	Turnover by geographical market For the six months ended 30 June	
	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
The People's Republic of China ("the PRC")	<b>369,261</b>	295,555
Japan	<b>58,947</b>	47,991
Europe	<b>28,554</b>	15,213
The United States of America	<b>10,379</b>	6,847
Others	<b>3,562</b>	9,899
	<b>470,703</b>	375,505

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

### 4. TURNOVER

	For the six months ended 30 June	
	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Sales of rare earth products (including fluorescent products)	<b>231,712</b>	187,116
Sales of refractory products (including high temperature ceramics products and magnesium grains)	<b>238,991</b>	188,389
	<b>470,703</b>	375,505

## 5. FINANCE COSTS

During the period, bank charges and interest of approximately HK\$200,000 (2005: Nil) and HK\$341,000 (2005: Nil) respectively on bank borrowings were charged and interest on discounted bills of approximately HK\$126,000 (2005: HK\$21,000) was charged.

## 6. PROFIT BEFORE TAXATION

During the period, profit before taxation has been arrived at after charging depreciation on property, plant and equipment of approximately HK\$35,090,000 (2005: HK\$29,860,000) and amortisation of prepaid lease payments on land use rights of approximately HK\$200,000 (2005: HK\$173,000) respectively.

## 7. TAXATION

	<b>For the six months ended 30 June</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Enterprise income tax ("EIT")		
– The PRC subsidiaries	<b>28,725</b>	16,984

Hong Kong Profits Tax has not been provided for in the condensed consolidated 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 (2005: two) PRC subsidiaries are entitled to a 50% reduction of EIT and three (2005: two) 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 2006.

**8. DIVIDENDS**

During the period, a final dividend for the previous year of HK\$0.04 (2005: HK\$0.02) per share amounted to approximately HK\$47,374,000 (2005: HK\$19,739,000) was declared and paid.

As at the date of this report, the Board has resolved to declare an interim dividend of HK\$0.01 (2005: Nil) per share amounting to HK\$11,843,000.

**9. 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\$94,743,000 (2005: HK\$56,136,000) and the weighted average number of ordinary shares of 1,076,378,363 (2005: 986,953,059) in issue during the period.

The calculation of the diluted earnings per share is based on the Group's profit attributable to equity holders of the Company of approximately HK\$94,743,000 and the weighted average number of ordinary shares of 1,076,604,314 in issue after adjusting for the effect of all dilutive potential ordinary shares during the period. No dilutive earnings per shares was shown for the six months ended 30 June 2005 as there was no dilutive potential ordinary share for that period.

**10. PROPERTY, PLANT AND EQUIPMENT AND CONSTRUCTION-IN-PROGRESS**

During the period, the Group spent approximately HK\$10,894,000 (2005: HK\$1,772,000) on additions to property, plant and equipment and construction-in-progress.

**11. ACCOUNTS AND OTHER RECEIVABLES**

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

At 30 June 2006, accounts and other receivables comprised:

	<b>30 June 2006 HK\$'000</b>	31 December 2005 HK\$'000
Accounts receivable	<b>305,649</b>	326,865
Other receivables	<b>16,279</b>	20,313
	<hr/>	<hr/>
	<b>321,928</b>	347,178
Less: Allowance for bad and doubtful debts	<b>(8,458)</b>	(8,377)
	<hr/>	<hr/>
	<b>313,470</b>	338,801
	<hr/> <hr/>	<hr/> <hr/>

An ageing analysis of accounts receivable is as follows:

	<b>30 June 2006 HK\$'000</b>	31 December 2005 HK\$'000
Current to less than 6 months	<b>276,512</b>	286,780
6 months to less than 1 year	<b>20,663</b>	26,519
1 to less than 2 years	<b>2,364</b>	5,773
Over 2 years	<b>6,110</b>	7,793
	<hr/>	<hr/>
	<b>305,649</b>	326,865
	<hr/> <hr/>	<hr/> <hr/>

The fair values of the Group's accounts and other receivables at 30 June 2006 approximate to the corresponding carrying amounts.

**12. ACCOUNTS PAYABLE**

An ageing analysis of accounts payable is as follows:

	<b>30 June 2006 HK\$'000</b>	31 December 2005 HK\$'000
Current to less than 6 months	<b>46,118</b>	48,715
6 months to less than 1 year	<b>4,272</b>	4,581
1 to less than 2 years	<b>1,582</b>	1,456
Over 2 years	<b>1,928</b>	1,497
	<hr/> <b>53,900</b> <hr/>	<hr/> 56,249 <hr/>

The fair value of the Group's accounts payable at 30 June 2006 approximates to the corresponding carrying amount.

**13. BANK BORROWINGS – DUE WITHIN ONE YEAR**

During the period, the Group obtained new bank borrowings of approximately HK\$92,233,000 (2005: Nil), which was secured by bank deposits of approximately HK\$99,790,000, carrying at fixed interest rate of 4.73% per annum.

**14. SHARE CAPITAL**

	Number of shares	HK\$'000
Ordinary shares of HK\$0.10 each		
Authorised:		
At 1 January 2005, 31 December 2005 and 30 June 2006	<hr/> 2,000,000,000 <hr/>	<hr/> 200,000 <hr/>
Issued and fully paid:		
At 1 January 2005 and 31 December 2005	986,953,059	98,695
Issue of new shares ( <i>Note</i> )	<hr/> 197,390,000 <hr/>	<hr/> 19,739 <hr/>
At 30 June 2006	<hr/> 1,184,343,059 <hr/>	<hr/> 118,434 <hr/>

*Note:*

On 10 April 2006, 197,390,000 ordinary shares of HK\$0.10 each were issued. All shares issued during the period rank pari passu with the existing shares in all respects.

**15. COMMITMENTS**

At the balance sheet date, the Group had the following commitments, so far as not provided for in the condensed consolidated financial statements:

- (a) Capital commitments in respect of acquisition of machinery and equipment and construction of buildings:

	<b>30 June 2006 HK\$'000</b>	31 December 2005 HK\$'000
Authorised and contracted for	<b><u>258,336</u></b>	<u>67,461</u>

- (b) Operating lease commitments for future minimum lease payments under non-cancellable operating leases in respect of land and buildings which fall due as follows:

	<b>30 June 2006 HK\$'000</b>	31 December 2005 HK\$'000
Within one year	<b>1,274</b>	1,307
In the second to fifth year inclusive	<b>2,785</b>	3,036
Over five years	<b>10,360</b>	10,543
	<b><u>14,419</u></b>	<u>14,886</u>