Far Eastern
Polychem
Industries
Limited

ANNUAL REPORT 1999

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The principal means of information dissemination on GEM is publication on the internet website operated by the Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

This annual results report for which the directors of Far Eastern Polychem Industries Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to Far Eastern Polychem Industries Limited. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:— (1) the information contained in this announcement is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

CONTENT

CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Shu-Tong HSU, *Chairman*
Jar-Yi SHIH, *Deputy Chairman*
Champion LEE, *Chief Financial Officer*
Lih-Teh CHANG
Chin-Sen TU, *Chief Accountant and Compliance Officer*

NON-EXECUTIVE DIRECTOR

Shaw-Y WANG

INDEPENDENT NON-EXECUTIVE DIRECTORS

Tak-Lung TSIM, Dominic
Ying-Ho WONG, Kennedy
Shih-Hung CHAN

COMPANY SECRETARY

Shun-Fai LIU, *AHKSA, ACCA*

AUTHORISED REPRESENTATIVES

Chin-Sen TU
Shun-Fai LIU, *AHKSA, ACCA*

AUDIT COMMITTEE

Shaw-Y WANG
Ying-Ho WONG, Kennedy
Shih-Hung CHAN

AUDITORS

Arthur Andersen & Co.
Certified Public Accountants
21st Floor, Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

SOLICITORS

Richards Butler
20/F, Alexandra House
Chater Road Central
Hong Kong

PRINCIPAL BANKERS

Citibank N.A.,Shanghai Branch
Bank of China, Shanghai Pudong Branch
Bank of Shanghai, Pudong Branch
The Hongkong and Shanghai Banking Corporation Limited
Far Eastern International Bank, International Banking Department

SHARE REGISTRARS

Central Registration Hong Kong Limited
Shops 1712-1716
17th Floor, Hopewell Centre
183 Queen's Road East
Hong Kong

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

No. 198 Baisha Road
Xinghuo Development Zone
Pudong, Shanghai
The PRC

PLACE OF BUSINESS IN HONG KONG

Unit A, 11th Floor
Lippo Leighton Tower
103-109 Leighton Road
Causeway Bay
Hong Kong

CORPORATE PROFILE

Far Eastern Polychem Industries Limited (the "Company") and its subsidiary (together the "Group") are principally engaged in the production and distribution of two major categories of polyester products, namely bottle-grade polyethylene terephthalate ("PET") chips and polyester filament, and the dyeing and finishing of polyester fabrics. The Company is the flagship company of the Far Eastern Group, one of Taiwan's major business conglomerates, in respect of its polyester business operations in the People's Republic of China (the "PRC"). The Group's only operating company, Far Eastern Industries (Shanghai) Ltd. ("FEIS"), which was established as a wholly foreign-owned enterprise in Shanghai in 1996, commenced production operations in September 1998. Currently, the Group is the largest bottle-grade PET chip producer and a major polyester filament producer in the PRC. The shares of the Company were listed on the GEM of The Stock Exchange of Hong Kong Limited on 31st January, 2000.

CONSOLIDATED PROFIT AND LOSS ACCOUNTS

	Year ended 31st December,		
	1999	1998	1997
	HK$'000	HK$'000	HK$'000
Turnover	1,035,001	29,230	—
Profit (Loss) from operations	167,087	(30,601)	(14,435)
Interest (expenses) income, net	(43,701)	6,881	3,960
Profit (Loss) before taxation	123,386	(23,720)	(10,475)
Taxation	—	—	—
Profit (Loss) attributable to shareholders	123,386	(23,720)	(10,475)
Earnings (Loss) per share (in HK$)			
— Basic	0.39	(0.07)	(0.04)
— Diluted	N/A	N/A	N/A
Dividend (in HK$)	—	—	—

CONSOLIDATED BALANCE SHEET

	As at 31st December,		
	1999	1998	1997
	HK$'000	HK$'000	HK$'000
Fixed assets	1,203,055	1,134,930	357,050
Deferred assets	10,680	11,613	—
Other long-term assets	1,814	2,371	3,307
Current assets	475,370	695,976	409,015
Current liabilities	(476,507)	(335,089)	(169,189)
Net current (liabilities) assets	(1,137)	360,887	239,826
Total assets less current liabilities	1,214,412	1,509,801	600,183
Loans from related companies	(225,931)	(211,849)	(208,049)
Loans from shareholding companies	(85,470)	(85,250)	(85,250)
Long-term bank loans	(488,146)	(929,587)	—
Deferred taxation	(1,200)	—	—
Net assets	413,665	283,115	306,884
Share Capital	6,302	6,302	6,302
Reserves	318,471	311,307	311,356
Retained profit (Accumulated losses)	88,892	(34,494)	(10,774)
Shareholders' funds	413,665	283,115	306,884

Notes:

1. The results of the Group for the two years ended 31st December, 1998 have been extracted from the Company's prospectus dated 20th January, 2000. The results for the year ended 31st December, 1999 are extracted from the audited consolidated profit and loss account as set out on page 23 of this Annual Report.

2. The results of the Group for the two years ended 31st December, 1996 and the balance sheets as at 31st December, 1995 and 31st December, 1996 were not presented in the above summary as there were no published results prior to 31st December, 1997.

I. INTRODUCTION

The Year 2000 has come. It has not only marked the dawn of a new century, but brought forth a brand new operating environment.

On the macro environment, due to the Asian financial crisis in the second half of 1997, the Asian economies were in serious recession or suffered slowdown, which, in turn, led to a general downturn of the global economic development. However, after a series of reformation and adjustments, the Asian countries started to bottom out from the economic troughs in 1999, at a pace exceeding expectations in general. Prompted by the Asian economic growth, the economies of the United States and Europe is expected to sustain healthy growth. The overall economic situation can be said to be flourishing. Against the backdrop, China is anticipated to be the world's fastest growing economy and will become the driving force for the regional economic growth.

The development of the polyester industry also brings good prospects. In the past decade, application of polyester gradually substituted other synthetic and natural materials. Economic growth, technological innovations and new polyester applications, all contributed to the continued growth of the polyester industry. According to the estimation of the petrochemical consultant Tecnon (UK) Ltd., from 1993 to 1998, global polyester production was growing at a compound annual rate of 11.4%. During the same period, with a compound annual rate as high as 20.6% in terms of polyester production, the PRC became the largest market in the Asian region. Therefore, Tecnon (UK) Ltd. has forecasted that from 1998 to 2004, PRC will become the fastest growing district in the global polyester market. Being aware of this situation, and given that PRC is still lack in large polyester producers to satisfy domestic demands for polyester products (especially the PET packaging resin and polyester fibers), the Company invested in setting up a plant within the shortest time and started production in the fourth quarter of 1998. In 1999, the Company secured significant market competitive strength which resulted in a substantial increase in its profits over the previous year. With promising prospects, there is unlimited potential for the growth of the Company.

II. BUSINESS PERFORMANCE AND RESULTS

I would like to report to our shareholders the overall business performance in 1999. The Group achieved a total turnover of about HK$ 1,035 million, an increase of 35.4 times of that for 1998. Operating profit was HK$ 167.1 million, while gross profit and audited profit attributable to shareholders amounted to HK$ 215 million and HK$ 123.4 million respectively, which was a substantial improvement as compared against a gross loss and loss attributable to shareholders in 1998 of HK$ 13.3 million and HK$ 23.7 million respectively. Earnings per share in 1999 amounted to HK$ 0.39. In 1999 polyester production reached 118,716 tonnes. Below is the business performance by the respective strategic business units ("SBU"):

II. BUSINESS PERFORMANCE AND RESULTS (Cont'd)

(1) Chips SBU:

The production of non-textile PET chips in 1999 amounted to 96,802 tonnes, with turnover representing 75% of the Company's gross revenue. The Group has now become the largest PET chip producer in the PRC and the only producer with an international production scale, enjoying over 30% of the market share in the PRC.

As the Group provides quality products and comprehensive customer service, we have a competitive edge over other domestic bottle-grade PET chip producers. For example, the Company has obtained, for two consecutive years, approval from the Coca-Cola China Limited for the supply of bottle-grade PET chips for the production of Coca-Cola bottles. This further shows that our product quality is of international standards. At the same time, the Group is also one of the producers capable of producing special grade PET resin for production of hot-fill bottles and five-gallon bottles. It is believed that the Group is able to further increase its market share in respect of PET chips.

(2) Filament SBU:

In 1999, production of pre-oriented yarn ("POY") and draw textured yarn ("DTY") amounted to 23,701 and 22,709 tonnes per annum respectively, with turnover representing 20% of the Company's gross revenue. Although at present there are many domestic polyester fiber producers, a majority of them are small scale producers. The Group has about ten main competitors, but in terms of quality and research and development capability, the Group remains one of the most competitive producers.

(3) Dyeing and finishing SBU:

Output of the Dyeing and finishing SBU in 1999 amounted to 35,000,000 yards, with turnover representing 5% of the Company's gross revenue. Currently the Group is producing through Everest Textile (HK) Company Limited finished fabrics under OEM for exports to overseas markets (including the Middle East, South America, Europe and other parts of Asia). The Group's current strategy is to concentrate on development of high grade, high unit price specialty products, such as microfibre fabrics with special peach-like or moss-like texture, so as to avoid keen market competitions.

Under the leadership of an experienced management team, the Group's operational staff are able to fully keep abreast of the market trend, including application of a vertically-integrated production strategy in order to achieve competitive superiority in terms of cost. This, coupled with the focus on the production of high value-added PET chips , has enhanced the Group's profitability. Its parent company Far East Textile Ltd. ("FET") has over 30 years' presence in the polyester industry, is a leading producer of polyester and related products in Asia and is one of the ten largest producers of polyester polymer and PET resin in the world. With the full support of the FET research team of 130 staff for the product development and after sales service of the Company, the Group's product quality has reached international standards. We have even been accredited by the authorities of the PRC as a grade A enterprise, allowing us to enjoy various preferential tax rates. In short, the favorable external environment and the Group's strong competitiveness have all constituted to be the best driving force for the sustained growth of the Company.

III. BUSINESS OBJECTIVES AND PROSPECTS

The operating environment is always changing. In this keen competitive environment, "speed" will be the key factor to success. Adhering to creation of enterprise values or maximisation of shareholders' wealth is therefore our management concept. In January 2000, the Company succeeded in launching an initial public offering of its shares on the GEM of The Stock Exchange of Hong Kong Limited. The proceeds of HK$ 266 million will be invested in the construction of a non-woven polyester fiber plant and a bottle-grade PET plant as well as other new production facilities such as storage and other ancillary facilities, which are expected to be completed before end of 2002. At the same time, we are also committed to enhancing both quality control standards and internal management information systems. There will be an application for ISO-9002 certification before end of 2000, and connections with the electronic data interchange systems of major customers before the first half of 2001.

Our continued investments are aimed at maintaining our leading position as well as increasing our share in the growing market of the PRC. PRC is expected to enter the World Trade Organisation ("WTO") within the year 2000, and upon its WTO entry, more producers which are not competitive in terms of costs, qualities and scales of production will be eliminated. The Company, with its world class technology, will sustain growth in the viable polyester market of the PRC. To keep growing is our commitment towards the shareholders, and is also the key factor of our choice for our listing on the Hong Kong GEM. With enhanced quality standards and diversified products, the Group will remain versatile and persistent in its concept, advanced in technology, with a view to realisation of a better future at the turn of the new millennium.

SHU-TONG HSU
Chairman

Taipei
14th March, 2000

ACTUAL BUSINESS ACHIEVEMENTS

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By March 2000, we had achieved the following business objectives:

1. The annual production of polyester polymer reached 118,716 tonnes by the end of 1999.

2. The annual production of non-textile PET chips reached 96,802 tonnes by the end of 1999.

3. The annual production of POY and DTY reached approximately 23,701 tonnes and 22,709 tonnes respectively by the end of 1999.

4. The annual production of finished fabrics reached approximately 35 million yards by the end of 1999.

5. The Dyeing and Finishing SBU achieved approximately 51 per cent of full capacity by the end of 1999.

6. An approval from Coca-Cola China Limited for a term up to February 2001 for the supply of bottle-grade PET chips in the PRC for the production of Coca-Cola bottle was obtained in March, 2000.

7. After-sales service teams for PET chips and polyester filament was set up by the end of 1999.

8. Pre-marketing work for non-woven fibres started by the end of 1999.

9. A thorough review on the Group's purchasing, sales, inventories, fixed assets and general ledger module was started in early 2000. Such review is expected to allow better integration of different modules within the existing management information system.

10. A preliminary review of the Group's operations and procedures was started in early 2000. Such review is aimed at improving the Company's quality control standard and therefore, facilitate the Group's application for ISO-9002 certification before the end of 2000.

11. The construction of the PTA silo and the polymer silo was completed in February of 2000, while the construction of the general purpose warehouse is still at the planning stage.

12. The construction of the new waste water treatment facilities was still at the planning stage by the end of 1999.

Please refer to page 88 to page 90 of the Company's prospectus dated 20th January, 2000 for our specific business objectives set out for the two years ending 31st December, 2001.

EXECUTIVE DIRECTORS

Shu-Tong HSU, aged 58, is the Chairman of the Company. He has been serving as Director since 1995. He is also the Chairman of FET (which has an interest in the share capital of the Company) and the chairman of each of the boards of Far Eastern Department Stores Ltd., Oriental Union Chemical Corporation and Asia Cement Corporation. He joined the Far Eastern Group in 1971 and served as the Executive Vice President of the apparel division of FET and the President of FET from 1979 to 1994. He has more than 28 years of experience in managing different areas of business of the Far Eastern Group. Mr. Hsu received a Bachelor's and Master's Degree in economics at the University of Notre Dame and pursued post-graduate studies in economics at Columbia University in the United States. Mr. Hsu is a brother-in-law of Mr. Jar-yi Shih.

Jar-Yi SHIH, aged 53, is the Deputy Chairman of the Company. He has been serving as Director since 1995. He is currently also a director and the President of FET, a director of Asia Cement Corporation, a director of Oriental Union Chemical Corporation and the Chairman of Everest Textile Co., Ltd.. (which has an interest in the share capital of the Company). Mr. Shih joined the Far Eastern Group in 1974 and has been an executive officer of FET since 1979, and had served as the head of the Computer Center and the Procurement Division of the Far Eastern Group and as the senior executive vice president of the polyester division of FET. He has more than 25 years of experience in managing the petrochemical and textile business of the Far Eastern Group. Mr. Shih received a Bachelor's Degree in electrical engineering from McGill University in Canada and a Master's Degree in computer science and business administration from Columbia University in the United States. Mr. Shih is a brother-in-law of Mr. Shu-Tong Hsu.

Champion LEE, aged 52, is the Chief Financial Officer of the Group. He has been serving as Director since 1995. Mr. Lee is currently a director and a senior executive vice president of FET in charge of finance. Mr. Lee joined the Far Eastern Group in 1974 and has been an executive officer since 1988. He also served as the President of Yuang Ding Construction Co., Ltd. He has more than 25 years of experience in finance. Mr. Lee received a Master's degree in business administration from Texas A&I University in the United States.

Lih-Teh Chang, aged 60, is the General Manager of FEIS. He joined the Group in 1999. Mr. Zhang is currently also a senior executive vice president of the chemical fibre plant of FET. He joined the Far Eastern Group in 1970 and has been an executive officer of FET since 1980. He had served as the manager and chief factory manager of the technical department and chief factory manager of the chemical fibre plant of FET. He has more than 29 years' experience in management of chemical fibre production. Mr. Chang received a Bachelor's Degree in Chemical Engineering from Chung Yuen University in Taiwan.

Chin-Sen TU, aged 52, is the Chief Accountant and Compliance Officer of the Group. He has been serving as Director since 1995. Mr. Tu is currently a director and the executive vice president of the accounting department of FET. Mr. Tu joined the Far Eastern Group in 1973 and has been an executive officer since1989. He has more than 25 years of experience in auditing and accounting. Mr. Tu received a Bachelor's Degree in accounting and statistics from National Cheng Kung University in Taiwan.

NON-EXECUTIVE DIRECTOR

Shaw-Y WANG, aged 60, has been serving as Director since 1995. He is currently also a director and the first senior executive vice president of the administration department of FET. Mr.Wang joined the Far Eastern Group in 1964 and has been an executive officer since 1979. He has more than 35 years of experience in accounting and administration. Mr. Wang received a Bachelor's Degree in business administration from National Chung Hsing University in Taiwan.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Tak-Lung TSIM, Dominic, aged 53, is a non-executive director and the vice chairman of Playmates Toys Holdings Limited and Prestige Properties Holding Limited. He is also the chairman of New-Alliance Asset Management (Asia) Ltd. He operates his own consultancy business, advising multi-national companies on risk management and strategic planning. Mr. Tsim is very active in various community services in Hong Kong. He is a Justice of the Peace and had served two terms on the Central Policy Unit of the Hong Kong Government. He also serves as a trustee of Shaw College of The Chinese University of Hong Kong.

Ying-Ho WONG, Kennedy aged 36, is a solicitor of the High Court of Hong Kong and a China-Appointed Attesting Officer. He is the managing partner of Philip K.H. Wong, Kennedy Y.H. Wong & Co., a solicitors' firm in Hong Kong. Mr. Wong is the vice chairman of Shanghai Grand Sunfire Property Development Company Limited, the executive deputy chairman of Raymond Industrial Limited and a director of Hong Kong Great Wall Electronic International Limited and Hong Kong Coastal Realty Group Limited. He is also a director of a number of companies with investments in the PRC.

Shih-Hung CHAN, aged 56, is currently the president of Yuan-Ze University of Taiwan. He graduated from the University of California-Berkeley with a Ph.D. degree in mechanical engineering. He had successively served various teaching and research posts in several universities and institutes, including the University of Wisconsin-Milwaukee, the New York University and the Argonne National Laboratory in the United States. He had also served as consultants to various industrial corporations, including Kohler Corporation and Eaton Corporation, and as advisor to the Council for Economic Planning and Development of Taiwan.

SENIOR MANAGEMENT

Allen LIU, aged 41, is a deputy general manager of FEIS. He joined the Far Eastern Group in August 1988 and had for the ensuing 11 years successively held the posts of consultant, special assistant, assistant to the president, assistant manager and manager in the polyester division of FET. He joined the Group as deputy general manager of FEIS in 1999, responsible for the production and sales of polyester chips and filament. Mr. Liu graduated from the Long Beach University of California with a Master's degree in economics and was a research fellow in a Ph.D. finance programme of the University of California.

Guangrong CHEN, aged 52, is a deputy general manager of FEIS, He joined the Far Eastern Group in 1973 and previously held the posts of mechanical engineer, section chief and manager in the chemical fiber plant of FET from 1973 to 1997. Mr. Chen joined the Group as deputy general manager of FEIS in June 1997, and was in charge of the construction of the Pudong Complex. He graduated from the mechanical engineering faculty of the Datong Industrial College in Taiwan in 1970 and has over 27 years' experience in mechanical engineering.

SENIOR MANAGEMENT (Cont'd)

Shun-Fai LIU, aged 29, is the qualified accountant and company secretary of the Company. Prior to joining the Company in 1999, he worked in the Hong Kong and Shenzhen offices of Arthur Andersen & Co. Mr. Liu graduated from the Chinese University of Hong Kong with Bachelor's and Master's degrees in business administration and is an associate member of the Hong Kong Society of Accountants and the Chartered Association of Certified Accountants in the United Kingdom, respectively. He has over seven years' experience in accounting and auditing.

Chen-Yu CHENG, aged 43, is the deputy company secretary of the Company. He joined the Far Eastern Group in 1980 and the Group in 1996. He graduated from the National Chung Hsing University in Taiwan. He currently also holds the posts of vice president of the legal department and vice president of the office of the chairman of the Far Eastern Group. He has over 19 years' experience in corporate legal work.

Longsan SU, aged 48, is a manager of the Utilities and Engineering Department of FEIS. Mr Su joined the Far Eastern Group in 1984 and was transferred to the Group in 1998. He graduated from the mechanical faculty of the National Chung Hsing University in Taiwan and from the industrial engineering faculty of Yuan-Ze University in Taiwan with a Master's degree. He has over 23 years' experience in mechanical engineering.

Yiping HUNG, aged 47, is a manager in the Human Resources Department of FEIS. She joined the Group in 1997 and previously held the posts of section chief, deputy director and director of Shanghai People's Electric Induction Component Factory from 1976 to 1997. She has over 20 years' experience in production management.

Yungho CHEN, aged 37, is currently an accounting manager of FEIS. He joined the Far Eastern Group in 1988 and was transferred to the Group in 1998. Mr. Chen previously held the posts of section chief and assistant manager in the accounting departments of FET and Far Eastern Telecommunications Limited and has over 12 years' experience in accounting. He graduated from the National Chengchi University in Taiwan with a Master's degree in accounting.

Dongbao ZENG, aged 53, is a manager of the Management Information System Department of FEIS. He joined the Far Eastern Group in 1972 and was transferred to the Group in 1999. He previously held the posts of assistant manager in the Far Eastern Group. Mr. Zeng graduated from Yuan-Ze University in Taiwan. He has over 26 years' experience in management information system.

Shaoji QIU, aged 46, is a manager of the Instruments and Electrical Maintenance Department of FEIS. Mr. Qiu joined the Far Eastern Group in 1984 and was transferred to the Group in 1998. He previously held the posts of engineer, section chief and assistant manager in the FET. He graduated from the mechanical engineering faculty of the Taiwan Science and Technology University and obtained a Master's degree in electrical engineering from the Yuan-Ze University in Taiwan. He has over 20 years' experience in electrical engineering and electronic control engineering.

Tzu-Chin LIU, aged 45, is a manager of the Chip SBU of FEIS. He joined the Far Eastern Group in 1981 and was transferred to the Group in 1998. He previously held the posts of assistant to the manager, section chief and manager in the polyester division of FET. He graduated from Fujen University in Taiwan with a Bachelor's degree in chemistry. He has over 18 years' experience in sales and marketing of chemical fibre products.

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SENIOR MANAGEMENT (Cont'd)

Chang-Yuan SHIH, aged 45, is a manager of the Filament SBU of FEIS. He joined the Far Eastern Group in 1981 and was transferred to the Group in 1998. He served as sales manager in FET for two years. Mr. Shih received his Bachelor's degree in textile engineering from Feng Chia University in Taiwan and his Master's degree in business administration from the Yuan-Ze University in Taiwan. He has more than 19 years' experience in polyester manufacturing and sales.

He Zhen LIN, aged 46, is a manager of the Audit Department of FEIS. He joined the Far Eastern Group in 1981 and was transferred to the Group in 1999. He served as assistant auditor in FET for four years. He graduated from Taipei Technology Institute in Taiwan in industrial engineering and has more than 15 years' experience in industrial engineering.

Chiu Ling CHANG, aged 48, is the vice general manager of the Dyeing and Finishing SBU of FEIS. He joined the Far Eastern Group in 1986 and was transferred to the Group in 1996. He previously held posts of vice general manager in Everest Textile. He has over 23 years' experience in dyeing and finishing.

Hsin Tsan LIU, aged 42, is the manager of the Shipping and Logistics Department of FEIS. He joined the Far Eastern Group in 1987 and was transferred to the Group in 1999. He graduated from SooChou University and Yuan-Ze University in Taiwan with a Bachelor's degree and a Master's degree in business administration from both universities. He has over 17 years' experience in shipping and import and export operations.

Hueg CHIOU, aged 49, is the manager of the Finance Department of FEIS. She joined the Far Eastern Group in 1974 and was transferred to the Group in 1999. She previously held posts of assistant manager and deputy manager in FET. She graduated from the National Cheng-Chi University in Taiwan with a Bachelor's degree in 1972 and obtained a Master's degree in business administration from Yuan-Ze University subsequently. She has over 24 years' experience in finance and accounting.

The Directors have the pleasure of presenting the annual report together with the audited financial statements of the Group for the year ended 31st December, 1999.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Its subsidiary is principally engaged in the production and distribution of polyester products in the PRC.

CHANGE OF NAME

The Company was incorporated in Bermuda on 13th April, 1995 as an exempted company under the Companies Act 1981 of Bermuda. Pursuant to a resolution passed by the shareholders of the Company and with effect from 17th September, 1999, the Company changed its name from Far Eastern Asia (Holding) Limited to its current name.

SEGMENTAL INFORMATION

The Group's turnover, gross profit and operating results for the year ended 31st December, 1999 are analysed as follows:

a. By Product Range

	Turnover $'000	Operating results $'000
PET chips	778,851	177,210
Polyester filament	210,239	21,963
Finished fabrics	45,911	15,829
	1,035,001	215,002
Finance cost, other operating expenses, distribution costs and administrative expenses		(91,616)
Profit before tax		123,386

b. By geographical locations*

	Turnover $'000	Contribution to gross profit $'000
PRC	866,128	179,922
Overseas		
Asia (excluding PRC)	88,048	18,290
Europe	79,982	16,615
Middle East	843	175
	1,035,001	215,002

* Turnover by geographical locations is determined on the basis of the destination of shipments of merchandise.

CUSTOMERS AND SUPPLIERS

For the year ended 31st December, 1999, the five largest customers of the Group accounted for approximately 41.8% of the Group's total sales and the five largest suppliers accounted for approximately 80.1% of the Group's total purchase. In addition, the largest customer accounted for approximately 10.4% of the Group's turnover and the largest supplier accounted for approximetely 52.5% of the Group's purchase.

For the year ended 31st December, 1999, Everest Textile (HK) Company Limited ("Everest Textile (HK)"), a subsidiary of Everest Textile Co., Ltd., ("Everest Textile") a substantial shareholder and an initial management shareholder of the Company as defined in the GEM Listing Rules, was one of the Group's five largest customers. Revenue, mainly in the form of OEM processing fees, derived from Everest Textile (HK) constituted approximately 8% of the Group's total sales for the year ended 31st December, 1999. In addition, Far Eastern Investment Holding Limited ("FEIH"), a related company, was one of the Group's five largest suppliers during the year. The total purchases from FEIH constituted approximately 6.9% of the Group's total purchases for the year ended 31st December, 1999.

Save as disclosed above, none of the Directors, their associates, or any shareholders (which to the knowledge of the Directors owned more than 5% of the Company's share capital) had a beneficial interest in the Group's five largest customers and five largest suppliers.

RESULTS AND APPROPRIATIONS

Details of the Group's results for the year ended 31st December, 1999 are set out in the consolidated profit and loss account on page 23 of this annual report.

No interim dividend was paid and the Directors do not recommend the payment of any dividend for the year ended 31st December, 1999.

SHARE CAPITAL

Details of share capital of the Company are set out in Note 17 to the accompanying financial statements.

RESERVES AND RETAINED PROFIT (ACCUMULATED LOSSES)

Movements in reserves and retained profit (accumulated losses) of the Group and the Company during the year are set out in Note 18 to the accompanying financial statements.

As at 31st December, 1999, approximately $285,933,000 of the Company's reserves was available for distribution to its shareholders.

PURCHASE, SALE OR REDEMPTION OF SHARES AND WARRANTS

Neither the Company nor its subsidiary has purchased, sold or redeemed any of the Company's listed shares and warrants during the year ended 31st December, 1999 and up to the date of this report.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Bye-laws and the laws of Bermuda.

SUBSIDIARY

Particulars of the Company's subsidiary are set out in Note 22 to the accompanying financial statements.

FIXED ASSETS

Details of movements in fixed assets during the year are set out in Note 10 to the accompanying financial statements.

BANK LOANS

Particulars of bank loans as at 31st December, 1999 are set out in Notes 19 and 21 to the accompanying financial statements.

PENSION SCHEME

Details of the pension scheme are set out in Note 24 to the accompanying financial statements.

CONTINUING CONNECTED TRANSACTIONS

During 1999, the Group had the following continuing connected transactions.

(1) The Group performed the dyeing and finishing of yarn and unfinished fabrics for Everest Textile (HK), a subsidiary of Everest Textile (a substantial shareholder and an initial management shareholder of the Company as defined in the GEM Listing Rules). For this service, Everest Textile (HK) is invoiced intermittently on normal commercial terms, based upon terms that otherwise apply to independent third parties having similar transactions with the Group. The amount received by the Group from Everest Textile (HK) for the year ended 31st December, 1999 was approximately HK$83.2 million.

(2) As a result of the merger involving the then supplier of monoethylene glycol ("MEG") to the Group and other third parties, the Group terminated its MEG supply arrangements with such supplier in September 1999. Since October 1999, the Group has been sourcing MEG from FEIH (a company which is approximately 99.9% owned by FET) and this will continue until March 2000. The Group will, depending on the negotiations with suppliers, enter into a long-term supply agreement with one third party supplier in June 2000. For the supply of MEG by FEIH, the Group is invoiced on normal commercial terms and at market price. The amount payable by the Group to FEIH in 1999 amounted to US$5.2 million (approximately HK$40,456,000).

The independent non-executive directors of the Company have reviewed the above transactions and confirmed that the above transactions (during the period(s) where they constituted connected transactions under the GEM Listing Rules, where applicable):

— have been entered into by the Group in the ordinary and usual course of its business;

— have been entered into (i) on normal commercial terms or (ii) on terms no less favourable to the Group than terms available to third parties; and

— have been entered into in accordance with the terms of the agreements governing such transactions and on terms that are fair and reasonable so far as the shareholders of the Company are concerned.

DIRECTORS

The Directors who held office during the year and up to the date of this report were:

Executive directors

Mr. Shu-Tong Hsu, *Chairman*
Mr. Jar-Yi Shih, *Deputy Chairman*
Mr. Champion Lee, *Chief Financial Officer*
Mr. Lih-Teh Chang
Mr. Chin-Sen Tu, *Chief Accountant*

Non-executive directors

Mr. Shaw-Y Wang
Mr. Tak-Lung Tsim, Dominic
Mr. Ying-Ho Wong, Kennedy
Mr. Shih-Hung Chan

In accordance with the Bye-laws of the Company, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not greater than one-third) will retire from office by rotation provided that no Director holding office as chairman and/or managing director shall be subject to retirement by rotation, or be taken into account in determining the number of Directors to retire. The Directors to retire in every year will be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot. The non-executive Directors have been appointed until such time as they resign or retire.

There are no provisions relating to retirement of Directors upon reaching any age limit.

DIRECTORS' SERVICE CONTRACTS

Each of Mr. Lih-Teh Chang and Mr. Chin-Sen Tu has entered into a full-time service contract with the Company for a term of two years from 31st January, 2000, which may be terminated by either party thereto giving to the other not less than six calendar months' prior notice in writing (which notice period shall not expire until at least the end of the term of the contract if notice is given by the relevant Director). In addition, each of Mr. Shu-Tong Hsu, Mr. Jar-Yi Shih and Mr. Champion Lee has entered into a part-time service contract with the Company for a term of two years from 31st January, 2000, which may be terminated on the same basis as the abovementioned full-time contracts.

DIRECTORS' INTERESTS IN SECURITIES

As at 31st December, 1999, the Company had no notice of any interests to be recorded under Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") as the Company was not listed on The Stock Exchange of Hong Kong Limited as at that date.

DIRECTORS' INTERESTS IN CONTRACTS

No contract, commitment or agreement of significance in relation to the Group's business, to which the Company or any of its subsidiaries was a party and in which any of the Company's directors had a material interest, either directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' RIGHTS TO PURCHASE SHARES OR DEBENTURES

The Company has a share option scheme conditionally approved by a resolution passed by the shareholders of the Company on 11th January, 2000, under which it may grant options to full-time employees, including executive directors of the Company or of its subsidiary, to subscribe for shares in the Company.

During the year and up to the date of this report, the Company did not grant any options under the Company's share option scheme.

SUBSTANTIAL SHAREHOLDERS

As at 31st December, 1999, the Company had no notice of any interests to be recorded under Section 16(1) of the SDI Ordinance as the Company was not listed on The Stock Exchange of Hong Kong Limited.

COMPETING INTERESTS

FET and Everest Textile, being management shareholders of the Company, are engaged in, and have interests in other companies engaged in, the production and sales of petrochemical, polyester and textile products. During the year ended 31st December, 1999, FET produced approximately 542,000 tonnes of polyester polymer, 105,000 tonnes of various types of PET chips (for PET bottles, food and industrial packaging), 235,000 tonnes of polyester staple fibre, 181,000 tonnes of POY, 92,200 tonnes of DTY, 430,000 bails of yarn, 12,000,000 yards of finished fabrics and 189 million pieces of PET preforms. Everest Textile also produced approximately 40,213 tonnes of polyester filament and 84,000,000 yards of finished fabrics.

Notes:

1. As at 31st December, 1999, Mr. Shu-Tong Hsu, Mr. Jar-Yi Shih, Mr. Champion Lee, Mr. Chin-Sen Tu, Mr. Shaw-Y Wang and Mr. Lih-Teh Chang, directors of the Company, held 51,025,546 shares 1,193,127 shares, 788 shares, 186 shares, 84,288 shares and 13,167 shares of FET, respectively. In aggregate, the aforementioned interests represented approximatily 1.9 per cent. of the total issued common shares of FET as at 31st December, 1999. Mr. Shu-Tong Hsu, Mr. Jar-Yi Shih, Mr. Champion Lee, Mr. Chin-Sen Tu and Mr. Shaw-Y Wang are directors of FET.

2. Mr. Jar-Yi Shih and Mr. Chin-Sen Tu are directors of Everest Textile (HK).

SPONSOR'S INTERESTS

As at 31st December, 1999, the Company's sponsor, HSBC Investment Bank Asia Limited ("HSBC"), its associates, its directors or employees (as referred to in Note 3 to rule 6.35 of the GEM Listing Rules), involved in providing advice to the Company, had no interest in the share capital of the Company.

Pursuant to the agreement dated 11th January, 2000 entered into between the Company and HSBC, HSBC will receive a fee for acting as the Company's retained sponsor for the period from 12th January, 2000 to 31st December, 2002.

YEAR 2000 COMPLIANCE RESULTS

The Board is pleased to announce that all accounting and financial applications in the Group were fully Year 2000 compliant and therefore the Year 2000 compliance issue did not create any material adverse impact on the business operations in all functional areas of the Group.

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference based upon the guidelines published by the Hong Kong Society of Accountants. The primary duties of the audit committee are to review the Company's annual report and accounts, half-year reports and quarterly reports and to provide advice and comments thereon to the board of Directors. The audit committee will also be responsible for reviewing and supervising the Company's financial reporting and internal control procedures. The audit committee comprises three non-executive Directors, namely Mr. Shaw-Y Wang, Mr. Ying-Ho Wong, Kennedy, and Mr. Shih-Hung Chan.

SUMMARY OF FINANCIAL INFORMATION

A summary of the Group's financial information is set out on page 5 and page 6 of this Annual Report.

AUDITORS

The accompanying financial statements were audited by Messrs. Arthur Andersen & Co.. A resolution for their re-appointment as auditors for the ensuing year is to be proposed at the forthcoming annual general meeting.

There were no changes of auditors of the Company over the past three years.

On behalf of the Board of Directors,
SHU-TONG HSU
Chairman

Taipei
14th March, 2000

ARTHUR ANDERSEN

Arthur Andersen & Co.
Certified Public Accountants
21st Floor, Edinburgh Tower
The Landmark
15 Quenn's Road Central
Central
Hong Kong

Auditors' Report to the Shareholders of
FAR EASTERN POLYCHEM INDUSTRIES LIMITED
(Incorporated in Bermuda with limited liability)

We have audited the financial statements of on pages 23 to 50 which have been prepared in accordance with International Accounting Standards.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with International Standards on Auditing issued by the International Federation of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the company and of the group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the company and of the group as at 31st December, 1999 and of the profit and cash flows of the group for the year then ended, and have been properly prepared in accordance with International Accounting Standards and the disclosure requirements of the Hong Kong Companies Ordinance.

ARTHUR ANDERSEN & CO.

Hong Kong, 14th March, 2000.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the Year ended 31st December, 1999

(Expressed in Hong Kong dollars)

	Note	**1999** **$'000**	1998 $'000
Turnover	3	1,035,001	29,230
Cost of sales		(819,999)	(42,576)
Gross profit (loss)		215,002	(13,346)
Other operating (expenses) income, net		(1,153)	3,176
Distribution costs		(15,797)	(367)
Administrative expenses		(30,965)	(20,064)
Profit (Loss) from operations		167,087	(30,601)
Finance (cost) income	4	(43,701)	6,881
Profit (Loss) before tax	5	123,386	(23,720)
Income tax expense	7	—	—
Profit (Loss) attributable to shareholders	8	123,386	(23,720)
ACCUMULATED LOSSES, beginning of year	18	(34,494)	(10,774)
RETAINED PROFIT (ACCUMULATED LOSSES), end of year	18	88,892	(34,494)
Dividends		—	—
Earnings (Loss) per share	9		
- Basic		0.39	(0.07)
- Fully diluted		N/A	N/A

CONSOLIDATED BALANCE SHEET

As at 31st December, 1999

(Expressed in Hong Kong dollars)

	Note	**1999**	1998
		$'000	$'000
ASSETS			
Non-current assets			
Property, plant and equipment	10	1,181,983	289,161
Construction-in-progress	11	21,072	845,769
Deferred assets	12	10,680	11,613
Other long-term assets	13	1,814	2,371
		1,215,549	1,148,914
Current assets			
Due from a shareholding company	25(a)	1,559	58
Due from a related company	25(b)	44,123	115
Inventories	14	108,441	107,657
Accounts receivable		71,739	23,430
Deposits, prepayments and other receivables		52,010	21,500
Pledged bank deposits	15	15,549	254,163
Cash and cash equivalents	16	181,949	289,053
		475,370	695,976
Total assets		1,690,919	1,844,890
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	17	6,302	6,302
Reserves	18	407,363	276,813
		413,665	283,115
Non-current liabilities			
Loans from related companies	25(c)	225,931	211,849
Loans from shareholding companies	25(d)	85,470	85,250
Long-term bank loans	19	488,146	929,587
Deferred taxation	20	1,200	—
		800,747	1,226,686

As at 31st December, 1999

(Expressed in Hong Kong dollars)

	Note	**1999**	1998
		$'000	$'000
Current liabilities			
Due to a shareholding company	25(a)	175	2,095
Due to related companies	25(e)	26,408	—
Short-term bank loans	21	307,053	253,656
Accounts payable		69,095	56,157
Accruals and other current liabilities		53,969	28,455
Value-added tax payable (recoverable)		19,807	(5,274)
		476,507	335,089
Total equity and liabilities		1,690,919	1,844,890

Approved by the Board of Directors on 14th March, 2000:

JAR-YI SHIH
Deputy Chairman

CHIN-SEN TU
Director

BALANCE SHEET

As at 31st December, 1999

(Expressed in Hong Kong dollars)

	Note	1999 $'000	1998 $'000
ASSETS			
Non-current assets			
Investment in a subsidiary	22	604,500	604,500
Current assets			
Prepayments		266	132
Cash and cash equivalents	16	152	4,134
		418	4,266
Total assets		604,918	608,766
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	17	6,032	6,032
Reserves	18	285,933	304,871
		291,965	310,903
Non-current liabilities			
Loans from related companies	25(c)	225,931	212,393
Loans from shareholding companies	25(d)	85,470	85,470
		311,401	297,863
Current liabilities			
Accrual and other current liabilities		1,552	—
Total equity and liabilities		604,918	608,766

Approved by the Board of Directors on 14th March, 2000:

JAR-YI SHIH
Deputy Chairman

CHIN-SEN TU
Director

CONSOLIDATED CASH FLOW STATEMENT

For the Year ended 31st December, 1999

(Expressed in Hong Kong dollars)

	Note	**1999**	1998
		$'000	$'000
Cash generated from (used in) operations	23	446,722	(149,756)
Interest paid		(54,433)	(23,375)
Net cash from (used in) operating activities		392,289	(173,131)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment		(141,724)	(781,392)
Interest received		14,554	30,256
Net cash used in investing activities		(127,170)	(751,136)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from short-term bank loans		53,397	125,824
Proceeds from long-term bank loans		14,302	710,224
Repayment of long-term bank loans		(441,441)	—
Net cash (used in) from financing activities		(373,742)	836,048
Net decrease in cash and cash equivalents		(108,623)	(88,219)
Effects on changes of foreign currencies translation		1,519	(49)
Cash and cash equivalents at beginning of year		289,053	377,321
Cash and cash equivalents at end of year		181,949	289,053

(Amounts expressed in Hong Kong dollars unless otherwise stated)

1. ORGANISATION AND OPERATIONS

Far Eastern Polychem Industries Limited ("the Company") was incorporated in Bermuda on 13th April, 1995 as an exempted company under the Companies Act 1981 of Bermuda. Pursuant to a resolution passed by the shareholders of the Company and with effect from 17th September, 1999, the Company changed its name from Far Eastern Asia (Holding) Limited to its current name.

The Company is an investment holding company. Its subsidiary is principally engaged in the production and distribution of polyethylene terephthalate ("PET") chip and polyester filament, and dyeing and finishing of polyester textile products.

The Company's parent and ultimately parent companies are Yuang Ding Investment Corporation, a company incorporated in Taiwan and Far Eastern Textile Limited, a company incorporated in Taiwan and listed on the Taiwan Stock Exchange, respectively.

As described in Note 28(i), on 31st January, 2000, the Company listed its shares on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.

2. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared in accordance with International Accounting Standards ("IAS") issued by the International Accounting Standards Committee, the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited ("the GEM Listing Rules"). Principal accounting policies are summarised below:

a. Basis of presentation

The consolidated financial statements include the financial statements of the Company and its subsidiary (together "the Group"). Significant intra-group transactions and balances have been eliminated on consolidation.

b. Subsidiary

A subsidiary is a company in which the Company has the power to govern its financial and operating policies so as to obtain benefits from its activities.

In the books of the Company, investment in a subsidiary is carried at cost less provision for permanent diminution in value where considered necessary by the directors. The result of the subsidiary is accounted for to the extent of dividends received and receivable.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

c. Revenue recognition

Revenue is recognised on the following bases:

(i) Sales of goods

Revenue is recognised when the significant risks and rewards of ownership of goods have been transferred to the buyer. The revenue recognised excludes value-added or other sales taxes and is after deduction of any trade discounts.

(ii) Processing fee

Processing fee is recognised when the processing activities are completed and goods are delivered. The processing fee recognised excludes value-added or other taxes and is after deduction of any trade discounts.

(iii) Interest income

Interest income from bank deposits is recognised on a time proportion basis that take into account the effective yield on the assets.

d. Property, plant and equipment and depreciation

Property, plant and equipment, except for buildings, are stated at cost less accumulated depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after the property, plant and equipment have been put into operation is recognised as an expense in the period in which it is incurred. In situations where it is probable that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalised as an additional cost of the property, plant and equipment.

Depreciation is calculated using the straight-line method to write off the cost, after taking into account the estimated residual value, of each asset over its expected useful life. The expected useful lives are as follows:

Land use rights	the shorter of 50 years or the remaining operating period of the company's subsidiary
Buildings	20 years
Machinery and equipment	10 years
Furniture, fixtures and office equipment	5 years
Motor vehicles	5 years

When assets are sold or retired, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposals is included in the profit and loss account.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

d. Property, plant and equipment and depreciation (Cont'd)

Buildings are stated at valuation. Valuation by independent valuers is performed annually.

Any increase in buildings valuation is credited to the revaluation reserve; any decrease is first offset against any increase on earlier valuation in respect of the same property and is thereafter charged to operating profit. All other decreases are charged to the profit and loss account.

Upon the disposal of a revalued property, the relevant portion of the revaluation reserve realized in respect of previous valuation is released from the valuation reserve directly to retained profit.

e. Construction-in-progress

Construction-in-progress represents plant under construction and machinery pending installation and is stated at cost. This includes cost of construction, plant and equipment and other direct costs plus borrowing costs which include interest charges and exchange differences arising from foreign currency borrowings used to finance these projects during the construction period, to the extent these are regarded as an adjustment to interest costs.

No provision for depreciation is made on construction-in-progress until such time as the relevant assets are completed and put into operational use.

f. Deferred assets

Deferred assets are stated at cost less accumulated amortisation. Deferred assets are amortised over a period of ten years on a straight-line basis.

g. Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, calculated on the weighted average basis, comprises materials and, where applicable, direct labour and an appropriate proportion of all production overhead expenditure. Net realisable value is determined on the basis of estimated selling prices less the estimated costs of completion and related selling and distribution expenses. Provision is made for obsolete, slow-moving or defective items where appropriate.

When inventories are sold, carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Consumables and supplies are stated at cost calculated on the weighted average basis less any provision for obsolescence.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

h. Deferred taxation

Deferred taxation is provided under the balance sheet liability method in respect of significant temporary differences arising from differences between the tax base of an asset or liability and its carrying amount in the balance sheet. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deferred tax asset can be utilised.

i. Borrowing costs

Borrowing costs are expensed as incurred except that borrowing costs directly attributable to the construction of the production plants that necessarily takes a substantial period of time to get ready for its intended use are capitalised as part of the cost of these plants. Borrowing costs are capitalised at the weighted average cost of the related borrowings up to the date of completion of those plants.

j. Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Rental payments under operating leases are charged to the profit and loss account on a straight-line basis over the period of the relevant leases.

k. Foreign currency translation

Individual companies within the Group maintain their books and records in the primary currencies of their respective countries ("functional currencies").

In the financial statements of individual companies, transactions in other currencies during the year are translated into the respective functional currencies at the applicable rates of exchange in effect at the time of the transactions. Monetary assets and liabilities denominated in other currencies at the balance sheet date are translated into the respective functional currencies at the applicable rates of exchange in effect at the balance sheet date; non-monetary assets and liabilities denominated in other currencies are translated at historical rates. All exchange differences are dealt with in the individual companies' profit and loss account.

The Group prepares consolidated financial statements in Hong Kong dollars. For the purpose of consolidation, all of the assets and liabilities of the subsidiary with functional currencies other than Hong Kong dollars are translated into Hong Kong dollars at the applicable rates of exchange in effect at the balance sheet date; all of the income and expense items of the subsidiary with functional currencies other than Hong Kong dollars are translated into Hong Kong dollars at the applicable average rates of exchange prevailing during the year. Exchange differences arising from such translations are dealt with as movements of cumulative translation adjustments.

(Amounts expressed in Hong Kong dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

l. Cash and cash equivalents

Cash represents cash in hand and deposits with any banks or other financial institutions which are repayable on demand.

Cash equivalents represent short-term, highly liquid investments which are readily convertible into known amounts of cash and which are within three months of maturity when acquired, less advances from banks repayable within three months from dates of the advances.

m. Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

3. TURNOVER

Turnover comprised:

	1999	1998
	$'000	$'000
Sales of goods	876,356	29,172
Processing fee	158,645	58
Total turnover	1,035,001	29,230

4. FINANCE (COST) INCOME

	1999	1998
	$'000	$'000
Interest income		
- Bank deposits	13,292	25,695
- Others	1,262	4,561
	14,554	30,256
Interest expenses on		
- Bank loans and overdrafts	(63,656)	(59,375)
- Other loans	(1,102)	(734)
Less : Amount capitalised in construction-in-progress	6,503	36,734
	(58,255)	(23,375)
	(43,701)	6,881

5. PROFIT (LOSS) BEFORE TAX

Profit (Loss) before tax was determined after crediting and charging the following:

	1999 **$'000**	1998 $'000
After crediting -		
Interest income from		
- bank deposits	13,292	25,695
- deposits with a related financial institution (Note 25(f))	1,262	4,561
Service fee income from the ultimate holding company (Note 25(g))	497	2,310
Exchange gain, net	25	2,026
Less: Amount capitalised as construction-in-progress	—	(442)
	25	1,584
After charging -		
Depreciation	81,051	1,019
Amortisation	2,471	2,493
Inventory provision	1,963	—
Interest expenses on loans from related companies	1,102	734
Interest expenses on		
- bank loans wholly repayable within five years	49,191	9,042
- bank loans wholly repayable after five years	15,567	50,333
Less: Amount capitalised as construction-in-progress	(6,503)	(36,734)
	58,255	22,641
Operating lease rental in respect of		
- rented premises	1,512	1,600
- raw material storage facilities	46	280
Staff costs	29,347	22,595
Contribution to retirement plan	818	235
Auditors' remuneration	758	78

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6. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

a. During the year, no emoluments were paid to the directors of the Group. Under the agreement presently in force, the aggregate amount of emoluments of the directors of the Group payable for the year ending 31st December, 2000, including performance bonuses is estimated to be approximately $4.5 million.

b. Details of emoluments of the five highest paid individuals (including directors and other employees) were:

	1999	1998
	$'000	$'000
Basic salaries and allowances	3,200	3,178

During the year, no emolument of the five highest paid individuals (including directors and other employees) was incurred as inducement to join or upon joining the Group or as compensation for loss of office.

Analysis of emoluments of the five highest paid individuals (including directors and other employees) by number of individuals and emolument ranges was as follows:

	1999	1998
- Nil to $1,000,000	5	5

None (1998 - None) of the highest paid individuals were directors of the Group.

7. TAXATION

The Company is exempted from taxation in Bermuda until 2016. No Hong Kong profits tax was provided as no assessable profits was earned in or derived from Hong Kong.

Pursuant to the relevant laws and regulations in the People's Republic of China (the "PRC"), the Company's subsidiary operating in the PRC are entitled to exemption from PRC income tax for the first two years starting from their first profit-making year, followed by a 50% reduction for the next three years, commencing from the first profitable year after offsetting all tax losses carried forward from previous years. For this purpose, income tax losses can be carried forward for five years. As 1999 is the first profit-making year of the Company's PRC subsidiary after offsetting previous years' losses, accordingly no provision of PRC enterprise income tax has been provided.

There was no significant unprovided deferred taxation as at 31st December, 1999.

The Company's subsidiary operating in the PRC is also subject to value-added tax ("VAT"), the principal indirect PRC tax which is charged on the selling price at a general rate of 17%. An input credit is available whereby input VAT previously paid on purchases of semi-finished products or raw materials can be used to offset the output VAT on sales to determine the net VAT payable.

(Amounts expressed in Hong Kong dollars unless otherwise stated)

8. PROFIT (LOSS) ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit attributable to shareholders included a loss of approximately $18,903,000 (1998 - loss $3,771,000) dealt with in the financial statements of the Company.

9. EARNINGS (LOSS) PER SHARE

The calculation of basic earnings per share for the year ended 31st December, 1999 was based on the consolidated profit attributable to shareholders of approximately $123,386,000 and on the weighted average number of ordinary shares in issue during the year and adjusted retroactively for the issuance of shares in connection with the capitalisation of the contributed surplus of the Company (Note 28(e)) and a 1-to-77.5 share split (Note 28(f)). The number of shares used in the computation was as follows:

	1999	1998
Adjusted weighted average number of ordinary shares	317,833,700	317,833,700

Diluted earnings per share for the year ended 31st December, 1999 were not presented because there were no potential dilutive ordinary shares in existence during the year ended 31st December, 1999.

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10. PROPERTY, PLANT AND EQUIPMENT

Movements of property, plant and equipment (consolidated) were as follows:

	1999						1998
	Land use rights $'000	**Buildings $'000**	**Machinery and equipment $'000**	**Furniture, fixtures and office equipment $'000**	**Motor vehicles $'000**	**Total $'000**	Total $'000
Cost/ Valuation							
Beginning of year	123,804	1,249	160,420	5,702	4,212	295,387	128,589
Additions	874	—	—	—	—	874	5,477
Transfer from construction-in-progress	—	250,269	705,723	9,181	3,494	968,667	161,321
Disposals	—	—	—	(18)	—	(18)	—
Revaluation	—	6,845	—	—	—	6,845	—
End of year	124,678	258,363	866,143	14,865	7,706	1,271,755	295,387
Accumulated Depreciation							
Beginning of year	4,970	56	11	748	441	6,226	2,714
Charge for the year	2,494	10,063	67,817	2,074	1,101	83,549	3,512
Disposals	—	—	—	(3)	—	(3)	—
End of year	7,464	10,119	67,828	2,819	1,542	89,772	6,226
Net book value							
Beginning of year	118,834	1,193	160,409	4,954	3,771	289,161	125,875
End of year	117,214	248,244	798,315	12,046	6,164	1,181,983	289,161

10. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

Land use rights comprise land use fees paid for the right to use the land where the Group's factory buildings in Shanghai, the PRC are located.

The Group's buildings as at 31st December, 1999 were appraised by Sallmanns (Far East) Limited, an independent professional property valuers, in 1999. These properties were appraised on the open market basis and carried in the balance sheet at market value. As a result of the appraisal, an increase in value of the Group's buildings by approximately $6,845,000 as at 31st December, 1999 was credited to the revaluation reserve, together with the relevant deferred taxation impact (Note 20).

Approximately $166 million of the Group's land and buildings were mortgaged as collateral to support the Group's banking facilities which are detailed in Note 27.

As of year end, the amount of buildings that would have been included in the financial statements had the assets been carried at cost less accumulated depreciation was approximately $241,399,000 (1998- $1,193,000).

11. CONSTRUCTION-IN-PROGRESS

	1999	1998
	$'000	$'000
Cost of construction, plant and equipment and other direct cost	18,328	809,477
Borrowing costs capitalised		
- interest expense	2,744	36,734
- foreign exchange gain	—	(442)
	21,072	845,769

12. DEFERRED ASSETS

	1999	1998
	$'000	$'000
Cost	11,650	11,613
Less: Accumulated amortisation	(970)	—
	10,680	11,613

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13. OTHER LONG-TERM ASSETS

	1999	1998
	$'000	$'000
Deposits for reservation of land use rights	1,652	1,647
Others	162	724
	1,814	2,371

The Group paid deposits for the reservation of land use rights in respect of two plots of land located in Shanghai, the PRC for periods up to November 2001 and March 2002, respectively. Such deposits will form part of the purchase consideration should the Group exercise the options to purchase the above land use rights before the expiration of the relevant reservation periods. The deposits are not otherwise refundable. The directors of the Group expect that the above land use rights will be purchased before the expiration of the relevant reservation periods at an anticipated consideration of $65 million in addition to the above deposits for the Group's expansion purposes. The Group does not currently has legal title to these two plots of land.

14. INVENTORIES

	1999	1998
	$'000	$'000
Raw materials	54,673	53,261
Work-in-progress	8,104	14,488
Finished goods	31,498	33,224
Consumables and supplies	16,129	6,684
	110,404	107,657
Less: Inventory provision	(1,963)	—
	108,441	107,657

Out of the total, finished goods of approximately $2,631,000 (1998 - Nil) are stated at net realisable value.

15. PLEDGED BANK DEPOSITS

These bank deposits served as pledges for certain of the Group's short-term bank loans (Note 21).

16. CASH AND CASH EQUIVALENTS

	Group		Company	
	1999	1998	**1999**	1998
	$'000	$'000	**$'000**	$'000
Bank deposits	181,866	285,966	69	1,041
Deposits with a related financial institution (Note 25(f))	83	3,087	83	3,093
	181,949	289,053	152	4,134

17. SHARE CAPITAL

	1999	1998
	$'000	$'000
Authorised, issued and fully paid:		
81,500 ordinary shares of US$10 each	6,302	6,302

Refer to Note 28 for changes subsequent to 31st December, 1999.

18. RESERVES

Group

	1999					1998
	Contributed surplus	**Revaluation reserve**	**(Accumulated losses) Retained profit**	**Cumulative translation adjustments**	**Total**	Total
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	$'000
Balance, beginning of year	310,825	—	(34,494)	482	276,813	300,582
Revaluation of property, plant and equipment	—	6,845	—	—	6,845	—
Effect of the revaluation of property, plant and equipment on deferred taxation (Note 10)	—	(1,200)	—	—	(1,200)	—
Profit (Loss) for the year	—	—	123,386	—	123,386	(23,720)
Translation change for the year	—	—	—	1,519	1,519	(49)
Balance, end of year	310,825	5,645	88,892	2,001	407,363	276,813

18. RESERVES (Cont'd)

Company

	1999				1998
	Contributed surplus $'000	**Accumulated losses $'000**	**Cumulative translation adjustments $'000**	**Total $'000**	Total $'000
Balance, beginning of year	310,825	(5,476)	(478)	304,871	308,652
Loss for the year	—	(18,903)	—	(18,903)	(3,781)
Translation change for the year	—	—	(35)	(35)	—
Balance, end of year	310,825	(24,379)	(513)	285,933	304,871

The contributed surplus resulted from the waiving of loans and donation of capital by two shareholding companies of the Company for the purpose of improving the capital structure of the Company.

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if (i) it is, or would after the payment be, unable to pay its liabilities as they become due; or (ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts, if any.

19. LONG-TERM BANK LOANS

Details of the long-term bank loans, which were guaranteed by the Company, a shareholding company of the Company and a related company, were as follows:

	1999 $'000	1998 $'000
Amounts repayable within a period		
— not exceeding one year	—	—
— more than one year but not exceeding two years	—	—
— more than two years but not exceeding five years	30,048	—
— more than five years	458,098	929,587
	488,146	929,587

20. DEFERRED TAXATION

Component of deferred tax liabilities was as follows:

	1999 **$'000**	1998 $'000
Effect on revaluation of property, plant and equipment (Note 10)	1,200	—

21. SHORT-TERM BANK LOANS

The Group's short-term bank loans are granted by third party banks, bear interest at 5.85% to 6.93% per annum and are secured by certain of the Group's bank deposits (Note 15).

22. INVESTMENT IN A SUBSIDIARY

In the Company's balance sheet, investment in a subsidiary comprised:

	1999 **$'000**	1998 $'000
Investment at cost		
— unlisted shares	604,500	604,500

The Company's directors were of the opinion that the underlying value of the subsidiary was not less than the Company's carrying value of the subsidiary as of year end.

As at 31st December, 1999, the Company had the following subsidiary:

Name	**Country of establishment/ operation**	**Registered capital**	**Attributable equity interest held directly**	**Principal activities**
Far Eastern Industries (Shanghai) Ltd. ("FEIS")	The PRC	US$78,000,000	100%	Production and distribution of PET chip and polyester filament, and dyeing and finishing of polyester textile products.

FEIS was established on 25th September, 1996 as a wholly foreign owned enterprise in the PRC to be operated for 50 years up to 24th September, 2046. The operation period can further be extended subject to approvals by its board of directors and the relevant government authorities which originally approved the establishment of FEIS.

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23. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Reconciliation from profit (loss) before tax to cash generated from (used in) operations:

	1999	1998
	$'000	$'000
CASH FLOWS FROM OPERATING ACTIVITIES:		
Profit (Loss) before tax	123,386	(23,720)
Adjustments for:		
Depreciation	81,052	1,641
Amortisation	2,494	1,871
Inventory provision	1,963	—
Interest expenses	58,255	23,375
Interest income	(14,554)	(30,256)
Operating profit (loss) before working capital changes	252,596	(27,089)
Increase in inventories	(2,747)	(107,657)
Increase in accounts receivable	(93,818)	(23,488)
Decrease (Increase) in other current assets	209,594	(32,534)
Increase in accounts payable	37,426	55,971
Increase (Decrease) in other current liabilities	43,671	(14,959)
Cash generated from (used in) operations	446,722	(149,756)

24. RETIREMENT BENEFIT

All of the full-time PRC employees of the Company's subsidiary are entitled to an annual pension equal to their basic salaries at their retirement dates. The PRC government is responsible for the pension liabilities to these retired staff. The Company's subsidiary is required to make annual contributions to the state-sponsored retirement plan at a rate of 25.5% of the employees' salaries.

The Group provides no other retirement nor termination benefits than those described above.

25. RELATED PARTY TRANSACTIONS

During the year, the Group had the following material transactions with related parties:

a. Balances and transactions with a shareholding company

The amounts due from and to a shareholding company, which is under significant influence of the Company's ultimate holding company, represented trade receivables and payables resulting from the transactions below and were unsecured, non-interest bearing and repayable according to the normal trading terms of FEIS.

Transactions with this shareholding company are summarised below:

	1999	1998
	$'000	$'000
Purchase of raw materials	—	4,511
Processing fee income	158,645	58

The directors have confirmed that there will be no such transactions with this shareholding company after its listing on 31st January, 2000.

b. Balances and transactions with a related company

The amount due from a related company, whose holding company is the Company's 20% shareholder and is under significant influence of the Company's ultimate holding company, represented trade receivables and was unsecured, non-interest bearing and repayable according to the normal trading terms of FEIS.

Transactions with the above company are summarised below:

	1999	1998
	$'000	$'000
Processing fee income	83,187	—

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25. RELATED PARTY TRANSACTIONS (Cont'd)

c. Loans from related companies

Out of the total loans from related companies which approximated to $226 million as at 31st December, 1999:

(i) $217 million was from a related company controlled and owned by the chairman of the Company. The amount was unsecured, had no fixed repayment date and were renewable every one year successively unless either party gives written notice of termination. The loans from this related company are non-interest bearing except for an amount of approximately $15 million which bears interest at six-month Singapore Inter-Bank Offer Rate plus 1% per annum.

As at 31st December, 1999, management of the Company did not intend to repay the above loans within the next 12 months. However, pursuant to the Company's reorganisation and as mentioned in Note 28(c), the non-interest bearing loan from this related company of approximately $202 million was applied subsequent to 31st December, 1999, by way of set-off and certain other arrangements, as consideration for the issuance of new shares of the Company with a par value of US$10 each to a company.

(ii) $9 million was from another related company under the control of the Company's ultimate holding company. The amount was also unsecured, had no fixed repayment date and was renewable every one year successively unless either party gives written notice of termination. It bears interest at six-month Singapore Inter-Bank Offer Rate plus 1% per annum.

Interest expenses on the above loans from related companies are summarised below:

	1999	1998
	$'000	$'000
Interest expenses	1,102	734

d. Loans from shareholding companies

Loans from shareholding companies were unsecured, non-interest bearing, had no fixed repayment date and were renewable every one year successively unless either party gives written notice of termination. As mentioned in Note 28(d), subsequent to 31st December, 1999, out of these loans, approximately $70 million was capitalised as consideration in full for the issuance of a total of 79,784 new shares of the Company with a par value of US$10 each. As mentioned in Note 28(c), subsequent to 31st December, 1999, approximately $16 million of the above loans was applied, by way of set-off and certain other arrangements, as consideration for the issuance of new shares of the Company with par value of US$10 each to a company.

25. RELATED PARTY TRANSACTIONS (Cont'd)

e. Balances and transactions with related companies

Majority portion represented amount due to a related company, which is the Company's 20% shareholder and is under significant influence of the Company's ultimate holding company, represented trade payables and was unsecured, non-interest bearing and repayable according to the normal trading terms of FEIS.

Transactions with the above company are summarised below:

	1999	1998
	$'000	$'000
Purchase of raw materials	40,300	—

f. Deposits with a related financial institution

The deposits with a related financial institution, which is under the significant influence of the Company's ultimate holding company, carry interest at market rates and can be withdrawn on demand. Interest income earned from such deposits are as follows:

	1999	1998
	$'000	$'000
Interest income	1,262	4,561

In the opinion of the directors of the Company, the above related party transactions were carried out in the usual course of business of the Group and on normal commercial terms.

g. Transactions with the ultimately holding company

A service fee income was received from the ultimate holding company for market research performed by the Group and the service fee income was determined at the discretion of the management of Company's ultimate holding company. Details were as follows:

	1999	1998
	$'000	$'000
Service fee income	497	2,310

Had the Group not performed such market research for its ultimate holding company and not received such service fee income, the Company's loss/profit for the years ended 31st December, 1998 and 1999 would have been increased/decreased by the above amount.

25. RELATED PARTY TRANSACTIONS (Cont'd)

h. The Group's long-term bank loans were guaranteed by the Company, a shareholding company of the Company and a related company. The Group intends to arrange for the corporate guarantees provided by the latter two parties to be released and replaced by a guarantee provided by the Company after its listing on 31st January, 2000.

26. COMMITMENTS AND CONTINGENT LIABILITIES

The Group had the following significant commitments which were not provided for:

a. Capital commitments

As at 31st December, 1999, the Group had authorised and contracted capital expenditures of approximately $8,861,000 (1998 - $4,417,000) for acquisition of property, plant and equipment.

b. Operating lease commitments

Total future minimum lease payments under non-cancellable operating leases are as follows:

	1999	1998
	$'000	$'000
Land and buildings		
— not later than one year	—	—
— later than one year and not later than five years	3,464	—
— later than five year	2,597	4,072
	6,061	4,072

c. Contingent liabilities

As at 31st December, 1999, the Group did not have any significant contingent liabilities.

27. BANKING FACILITIES AND PLEDGE OF ASSETS

The Group had certain banking facilities from several banks for loans and trade financing. These facilities were secured by:

a. pledges of the Group's bank deposits of approximately $15.5 million as at 31st December, 1999; and

b. pledged of the Group's certain land and buildings, with a net book value of approximately $166 million as at 31st December, 1999;

c. corporate guarantee provided by the Company, a shareholding company of the Company and a related company. The Group intends to arrange for the corporate guarantees provided by the latter two parties to be released and replaced by a guarantee provided by the Company after its listing. Refer to Note 28 (a) for changes subsequent to 31st December, 1999.

Details of the banking facilities of the Group were as follows:

	1999	1998
	$'000	$'000
Aggregate amount of banking facilities	1,874,007	1,454,843
Less: Amount utilised	(846,857)	(1,236,168)
Unused facilities	1,027,150	218,675

28. SUBSEQUENT EVENTS

The following transactions took place subsequent to 31st December, 1999 and up to the date of this report:

a. the Company issued guarantees for FEIS in an aggregate amount of approximately $1,537 million in favour of certain banks in connection with the banking facilities granted by these banks to FEIS subsequent to 31st December, 1999;

b. pursuant to a resolution of shareholders passed on 11th January, 2000, the Company increased its authorised share capital from US$815,000 to US$193,548,390 by the creation of 19,273,339 new shares of US$10 each. Such shares rank pari passu in all respects with the existing shares;

c. pursuant to a resolution of shareholders passed on the 11th January, 2000, 319,136 of the newly created shares with a par value of US$10 each were issued to a company for an aggregate consideration of approximately $280 million of which approximately $62 million was settled in cash. The remaining portion of the consideration was satisfied, by way of set-off of two non-interest bearing loans of approximately $202 million and $16 million, respectively from a related company, which is controlled and owned by the chairman of the Company, and a shareholding company through certain arrangements. The excess of the consideration over the par value of the new shares issued amounting to approximately $254 million was credited to the Company's share premium account;

28. SUBSEQUENT EVENTS (Cont'd)

d. pursuant to a resolution of shareholders passed on the 11th January, 2000, a loan from a shareholding company amounting to $70 million was capitalised as consideration in full for the issuance of 79,784 new shares of the Company with a par value of US$10 each. The excess of the loan amount capitalised over the total par value of share issued amounting to $64 million was credited to the Company's share premium account;

e. pursuant to a resolution of shareholders passed on the 11th January, 2000, the contributed surplus of the Company amounting to approximately $310,816,000 was capitalised as consideration in full for the issuance of 4,019,580 new shares of the Company with a par value of US$10 each to the shareholding companies of the Company in proportion to the amount of loans they previously waived or the amount of the capital donation they previously made;

f. pursuant to a resolution of shareholders passed on the 11th January, 2000, the Company effected a 1-to-77.5 share split for the shares and the then authorised and issued share capital of 19,354,839 and 4,500,000 shares of US$10 each were converted into 1,500,000,000 and 348,750,000 shares, respectively, with a re-denominated par value of $1 each;

g. FEIS entered into a Technological Licence Agreement (the "Agreement") with a subsidiary of the Company's ultimate holding company (the "Licensor") with effect from 1st January, 2000 for a term of ten years. Under the Agreement, FEIS would pay to the Licensor a fee of US$10 per tonne of polyester polymer manufactured by FEIS using the know-how and technological services provided by the Licensor. FEIS and the Licensor agreed that the maximum aggregate fee payable under the Agreement would not exceed $11.7 million for each of the two years ending 31st December, 2001.

   Pursuant to the Agreement, the Licensor also agreed to procure a licence free of charge to be granted by the ultimate holding company of the Company to the Company's subsidiary to use certain trademarks owned by and registered in the name of the ultimate holding company in the PRC. The trademark licence terminates upon termination of the Agreement;

h. pursuant to a resolution of shareholders passed on the 11th January, 2000, the Company conditionally approved a share option scheme under which the board of directors may, at its discretion, offer full-time employees, including executive directors of the Company or of any of its subsidiaries, options to subscribe a certain number of new shares of the Company as the board may determine at an exercise price determined in accordance with the provisions of the share option scheme; and

i. on 31st January, 2000, the Company listed its shares on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.

29. SEGMENTAL INFORMATION

The Company and its subsidiary operate principally in the production and distribution of PET chips and polyester filament, and dyeing and finishing of polyester textile products and have three reportable segments based on the Company's three strategic business units ("SBUs"), namely the Chip SBU, the Filament SBU and the Dyeing and Finishing SBU, which are managed separately.

	For the year ended 31st December, 1999			
	Chip SBU '000	Filament SBU '000	Dyeing and Finishing SBU '000	Total '000
Revenue				
Turnover from external sales	778,851	210,239	45,911	1,035,001
Result				
Gross profit	177,210	21,963	15,829	215,002
Unallocated corporate expenses				(47,915)
Profit from operations				167,087
Interest expenses, net				(43,701)
Profit before taxation				123,386
Income tax expense				—
Profit for the year				123,386
Other information				
Segment assets	564,639	360,543	463,851	1,389,033
Unallocated corporate assets				301,886
Total assets				1,690,919
Segment liabilities	276,572	216,183	293,267	786,022
Unallocated corporate liabilities				491,232
Total liabilities				1,277,254

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29. SEGMENTAL INFORMATION (Cont'd)

Geographical analysis of sales is as follows:

	1999	1998
	$'000	$'000
The PRC	866,128	9,949
Europe	79,982	18,917
Others	88,891	364
	1,035,001	29,230

Substantially all of the Group's assets are located in the PRC.

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Far Eastern Polychem Industries Limited (the "Company") will be held at Kublai Khan Room, 4/F Mandarin Orienal Hotel, 5 Connaught Road Central on Friday, 2nd June, 2000 at 3:00 p.m. for the following purposes:

1. To receive and consider the audited consolidated financial statements of the Company and its subsidiary and the reports of the directors and auditors for the year ended 31st December, 1999.

2. To re-elect retiring director, to ratify bonus payment to executive directors and to authorise the board of directors to fix the directors' remuneration.

3. To re-appoint auditors and to authorise the board of directors to fix their remuneration.

4. As special business to consider and, if thought fit, pass with or without modifications, the following resolution as Ordinary Resolution:

   "THAT

   (a) subject to paragraph (c), the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company, securities convertible into such shares, or warrants or similar rights to subscribe for any shares in the Company or such convertible securities and to make or grant offers, agreements and options which might require the exercise of such power be and is hereby generally and unconditionally approved;

   (b) the approval in paragraph (a) shall authorise the directors of the Company during the Relevant Period to make or grant offers, agreements and options which would or might require the exercise of such power after the end of the Relevant Period;

   (c) the aggregate nominal amount of share capital allotted, issued or dealt with or agreed conditionally or unconditionally to be allotted, issued or dealt with (whether pursuant to an option or otherwise) by the directors of the Company pursuant to the approval in paragraph (a) (otherwise than pursuant to a Rights Issue (as hereinafter defined) or pursuant to the exercise of options under the Share Option Scheme of the Company or similar arrangement, or any scrip dividend or similar arrangement providing for the allotment of shares of the Company in lieu of the whole or part of the dividend on the shares of the Company in accordance with the Company's Bye-laws) shall not exceed 20 per cent. of the aggregate nominal amount of the share capital of the Company in issue as at the date of the passing of this Resolution and the said approval shall be limited accordingly; and

   (d) for the purposes of this Resolution:

   "Relevant Period" means the period form the passing of this Resolution until whichever is the earliest of:

   (i) the conclusion of the next annual general meeting of the Company following the passing of this Resolution;

   (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Bye-laws of the Company or any applicable laws to be held; or

(iii) revocation or variation of the authority given under this Resolution by ordinary resolution of the shareholders of the Company in general meeting.

"Rights Issue" means the allotment, issue or grant of shares in the capital of the Company or other securities of the Company pursuant to an offer made to all the shareholders of the Company (excluding for such purpose any shareholder who is resident in a place where such offer is not permitted under the law of that place) and, where appropriate, to holders of other equity securities of the Company entitled to such offer by reference to a fixed record date and pro rata (apart from fractional entitlements) to their then existing holdings of shares in the capital of the Company or such other equity securities."

By Order of the Board
Shun Fai Liu
Secretary

30th March, 2000
Hong Kong

Notes:

1. A member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint another person as his proxy to attend and vote in his stead. A proxy need not be a member of the Company.

2. To be valid, the form of proxy, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of such power or authority, must be deposited at the principal office of the Company at Unit A, 11th Floor, Lippo Leighton Tower, 103-109 Leighton Road, Causeway Bay, Hong Kong not less than 48 hours before the time appointed for holding the said meeting or any adjournment thereof.

3. A form of proxy for the meeting is enclosed with the annual report.

4. The register of members of the Company will be closed form Friday, 26th May, 2000 to Friday, 2nd June, 2000, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the right to attend and vote at the meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's Share Registrar in Hong Kong, Central Registration Hong Kong Limited, Shops 1712-1716, 17th Floor, Hopewell Central, 183 Queen's Road East, Hong Kong not later than 4:00p.m. on Thursday, 25th May, 2000.

5. With reference to the Ordinary Resolution sought in item 4 of this notice, the directors wish to state that they have no immediate plans to issue any new shares of the Company.