



FAR EASTERN POLYCHEM INDUSTRIES LIMITED

(遠東化聚工業股份有限公司)*

QUARTERLY RESULTS FOR THE THREE MONTHS ENDED 30th SEPTEMBER, 2000

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** For identification only*

This 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 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 report 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 report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

QUARTERLY RESULTS HIGHLIGHTS

- 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 Group achieved a turnover of approximately HK\$985,742,000 for the nine months ended 30th September, 2000, with profit attributable to shareholders of approximately HK\$165,016,000, representing an increase of 33% and 72%, respectively, as compared to the same period in the previous financial year.
- The Group achieved a turnover of approximately HK\$357,363,000 for the three months ended 30th September, 2000, with profit attributable to shareholders of approximately HK\$74,909,000, representing an increase of 38% and 148%, respectively, as compared to the same period in the previous financial year.
- Earnings per share for the nine months ended 30th September, 2000 was HK\$0.41.

INTERIM FINANCIAL STATEMENTS

The directors of the Company (the “Directors”) have the pleasure of presenting the unaudited financial statements of the Group for the nine months ended 30th September, 2000 and the comparative figures as at 31st December, 1999 for the consolidated balance sheet and for the corresponding period last year for the consolidated profit and loss account as follow:

(a) Consolidated balance sheet

		As at	
	<i>Notes</i>	30th September, 2000	31st December, 1999
		<i>HK\$'000</i>	<i>HK\$'000</i>
		<i>(Unaudited)</i>	<i>(Audited)</i>
Fixed assets		1,165,526	1,203,055
Deferred assets		9,816	10,680
Other long-term assets		1,700	1,814
Current assets		771,227	475,370
Current liabilities		(339,532)	(476,507)
Net current assets (liabilities)		431,695	(1,137)
Total assets less current liabilities		1,608,737	1,214,412
Loans from related companies		—	(225,931)
Loans from shareholding companies		—	(85,470)
Long-term bank loan		(425,248)	(488,146)
Deferred taxation		(1,200)	(1,200)
Net assets		1,182,289	413,665
Share capital		410,296	6,302
Reserves	1	771,993	407,363
Shareholders' funds		1,182,289	413,665

(b) Consolidated profit and loss account

		For the nine months ended 30th September		For the three months ended 30th September	
	<i>Notes</i>	2000	1999	2000	1999
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		<i>(Unaudited)</i>	<i>(Audited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
PET chips		653,946	480,546	232,193	172,343
Polyester filaments		229,950	145,167	77,790	55,635
Finished fabrics		101,846	116,189	47,380	30,123
		<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total turnover	2	985,742	741,902	357,363	258,101
Cost of sales		<u>(770,499)</u>	<u>(577,483)</u>	<u>(265,869)</u>	<u>(203,789)</u>
Gross profit		215,243	164,419	91,494	54,312
Other operating (expenses) income		(3,832)	(1,095)	(3,968)	315
Distribution costs		(10,999)	(11,236)	(3,828)	(5,829)
Administrative costs		<u>(20,768)</u>	<u>(22,090)</u>	<u>(6,538)</u>	<u>(6,345)</u>
Profit from operations		179,644	129,998	77,160	42,453
Finance cost, net		<u>(14,628)</u>	<u>(33,953)</u>	<u>(2,251)</u>	<u>(12,197)</u>
Profit before tax		165,016	96,045	74,909	30,256
Income tax expense	3	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Profit attributable to shareholders		<u>165,016</u>	<u>96,045</u>	<u>74,909</u>	<u>30,256</u>
Earnings per share (in HK\$)	4				
- Basic		<u>0.41</u>	<u>0.30</u>	<u>0.18</u>	<u>0.10</u>
- Fully diluted		<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

(c) Unaudited consolidated cash flow statement**For the nine months ended 30th September**

	2000	1999
	<i>HK\$'000</i>	<i>HK\$'000</i>
CASH FLOW FROM		
OPERATING ACTIVITIES	231,283	345,613
Interest paid	(30,747)	(49,937)
Net cash from operating activities	<u>200,536</u>	<u>295,676</u>
CASH FLOW FROM		
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(33,584)	(122,395)
Interest received	16,119	12,939
Net cash used in investing activities	<u>(17,465)</u>	<u>(109,456)</u>
CASH FLOWS FROM		
FINANCING ACTIVITIES		
Proceeds from issue of shares	266,062	—
Proceeds from short-term bank loans	98,700	369,165
Proceeds from long-term bank loans	61,100	—
Repayment of short-term bank loans	(246,280)	(248,160)
Repayment of long-term bank loans	(123,998)	(417,412)
Net cash from (used in) financing activities	<u>55,584</u>	<u>(296,407)</u>
Net increase (decrease) in cash and cash equivalents	238,655	(110,187)
Effects on changes of foreign currencies translation	174	2,195
Cash and cash equivalents, beginning of period	<u>181,949</u>	<u>289,053</u>
Cash and cash equivalents, end of period	<u><u>420,778</u></u>	<u><u>181,061</u></u>

Notes:

1) Movements in reserves are as follow:

(a)

	Contributed surplus HK\$'000	(Accumulated losses) Retained profit HK\$'000	Cumulative translation adjustments HK\$'000	Total HK\$'000
Balance, 1st January, 1999	310,825	(34,494)	482	276,813
Profit for the six month period ended 30th June, 1999	—	65,789	—	65,789
Translation change for the six month period ended 30th June, 1999	—	—	1,391	1,391
	<u>310,825</u>	<u>(34,494)</u>	<u>1,391</u>	<u>276,813</u>
Balance, 30th June, 1999	310,825	31,295	1,873	343,993
Profit for the three month period ended 30th September, 1999	—	30,256	—	30,256
Translation change for the three month period ended 30th September, 1999	—	—	804	804
	<u>310,825</u>	<u>31,295</u>	<u>1,873</u>	<u>343,993</u>
Balance, 30th September, 1999	<u><u>310,825</u></u>	<u><u>61,551</u></u>	<u><u>2,677</u></u>	<u><u>375,053</u></u>

(b)

	Contributed surplus HK\$'000	Share premium HK\$'000	Staff welfare fund and reserve HK\$'000	Revaluation reserve HK\$'000	(Accumulated	Cumulative translation adjustments HK\$'000	Total HK\$'000
					losses) Retained profit HK\$'000		
Balance, 1st January, 1999	310,825	—	—	—	(34,494)	482	276,813
Profit for the year 1999	—	—	—	—	123,386	—	123,386
Translation change for the year 1999	—	—	—	—	—	1,519	1,519
Revaluation of property, plant and equipment	—	—	—	6,845	—	—	6,845
Effect of the revaluation of property, plant and equipment on deferred taxation	—	—	—	(1,200)	—	—	(1,200)
Balance, 31st December, 1999	310,825	—	—	5,645	88,892	2,001	407,363
Issue of ordinary shares	—	481,430	—	—	—	—	481,430
Expenditure on issue of shares	—	(21,973)	—	—	—	—	(21,973)
Capitalization of a loan from a shareholding company	—	63,724	—	—	—	(1,818)	61,906
Capitalization of contributed surplus for the issuance of 4,019,580 new shares	(310,825)	—	—	—	—	—	(310,825)
Profit appropriation	—	—	20,107	—	(20,107)	—	—
Redenomination of shares from US\$10 to HK\$1	—	—	—	—	—	1,222	1,222
Profit for the six month period ended 30th June, 2000	—	—	—	—	90,106	—	90,106
Translation change for the six month period ended 30th June, 2000	—	—	—	—	—	768	768
Deferred exchange gain on forward contracts for hedging purpose	—	—	—	—	—	519	519
Balance, 30th June, 2000	—	523,181	20,107	5,645	158,891	2,692	710,516
Additional expenditure on issue of shares	—	(180)	—	—	—	—	(180)
Profit for the three month period ended 30th September, 2000	—	—	—	—	74,909	—	74,909
Translation change for the three month period ended 30th September, 2000	—	—	—	—	—	2	2
Deferred exchange loss on forward contracts for hedging purpose	—	—	—	—	—	(13,254)	(13,254)
Balance, 30th September, 2000	—	523,001	20,107	5,645	233,800	(10,560)	771,993

2) Turnover

Turnover comprises (a) sale of goods which are recognized when goods are delivered and title has passed to customers. The sales amount recognized excludes value-added or other sales taxes and is after deduction of any trade discounts; (b) processing fee which is recognized when the processing activities are completed and goods are delivered. The processing fee recognized excludes value-added or other taxes and is after deduction of any trade discounts.

3) Taxation

The Company was incorporated under the laws of Bermuda and, under current Bermuda law, is not subject to tax on income or capital gains. The Company has received an undertaking from the Ministry of Finance of Bermuda pursuant to the provisions of the Exempted Undertakings Tax Protection Act, 1966, as amended, that in the event that Bermuda enacts any legislation imposing tax computed on profits or income, including any dividend or capital gains withholding tax, or computed on any capital asset, gain or appreciation, or any tax in the nature of estate duty or inheritance tax, then the imposition of any such tax shall not be applicable to the Company or to any of its operations or the shares, debentures or other obligations of the Company, until 28th March, 2016.

The Company's subsidiary, as a wholly foreign owned enterprise, is subject to PRC enterprise income tax on the taxable income as reported in its statutory financial statements adjusted in accordance with relevant income tax laws. The applicable enterprise income tax rate under local treatment is 15%. And local income tax rate is 3%. However, there is no assurance that the Company's subsidiary will continue to enjoy the reduced enterprise income tax rate of 15 % in the future. Furthermore, according to "Income Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises", the Company's subsidiary is entitled to full exemption from the enterprise income tax for the first two profit-making years and a 50% reduction in enterprise income tax for the following three years, commencing from the first profitable year after off-setting all tax losses carried forward from previous years. For this purpose, income tax losses can be carried forward for five years. Local income tax is exempted until year 2000. As 1999 is the first profit-making year of the Company's subsidiary after off-setting previous years' losses, no provision of PRC enterprise income tax or local income tax has been provided accordingly.

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

There was no significant unprovided deferred taxation for the nine months ended 30th September, 2000 because there were no significant temporary differences.

4) Earnings per share

The calculation of basic earnings per share for the nine months ended 30th September, 1999 and for the three months ended 30th September, 1999 was based on the audited consolidated profit attributable to shareholders and unaudited consolidated profit attributable to shareholders of approximately HK\$96,045,000 and HK\$30,256,000, respectively, and on the weighted average number of ordinary shares in issue during the nine months and the three months ended 30th September, 1999 and adjusted retroactively to the period for the issuance of shares in connection with the capitalization of the contributed surplus of the Company and a 1-to-77.5 share split. The number of shares used in the computation was 317,833,700 for both periods.

The calculation of the earnings per share for the nine months ended 30th September, 2000 was based on the unaudited consolidated profit attributable to shareholders of approximately HK\$165,016,000 and the weighted average number of 400,022,411 shares in issue during the period.

The calculation of the earnings per share for the three months ended 30th September, 2000 was based on the unaudited consolidated profit attributable to shareholders of approximately HK\$74,909,000 and the weighted average number of 410,296,000 shares in issue during the period.

Fully diluted earnings per share were not presented because there were no dilutive potential ordinary shares in existence during the periods.

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the nine months ended 30th September, 2000.

The Group did not declare any dividends for the corresponding nine month period in 1999, the half-yearly period ended 30th June, 2000 and the corresponding half-yearly period in 1999, the quarterly period ended 31st March, 2000 and the corresponding quarterly period in 1999.

FINANCIAL PERFORMANCE

The unaudited consolidated turnover of the Group for the nine-month period ended 30th September, 2000 was approximately HK\$985,742,000, representing a 33% increase as compared to the corresponding nine-month period in 1999. Unaudited consolidated gross profit and profit attributable to shareholders of the Group for the nine-month period ended 30th September, 2000 was approximately HK\$215,243,000 and HK\$165,016,000 respectively, representing a 31% and a 72% increase respectively as compared to the nine-month period ended 30th September, 1999.

The unaudited consolidated turnover of the Group for the three-month period ended 30th September, 2000 was approximately HK\$357,363,000, representing a 38% increase as compared to the corresponding quarterly period in 1999. Unaudited consolidated gross profit and profit attributable to shareholders of the Group for the three-month period ended 30th

September, 2000 was approximately HK\$91,494,000 and HK\$74,909,000 respectively, representing a 68% and a 148% increase respectively as compared to the quarterly period ended 30th September, 1999.

BUSINESS REVIEW

High crude oil prices raised grave concerns over the profitability of enterprises across all industries, however, the effect on the Group's profitability was limited

During the third quarter of 2000, the continuously rising crude oil prices, driven to 10-year highs by supply worries and political tensions in the Middle East, raised grave concerns over the profitability of enterprises across all industries.

In counteracting such adverse conditions, the Group took various measures in reducing operating costs and increased its operating efficiency. Consumption of raw materials, labor and energy was reduced through optimizing processes and facilities. Moreover, the Group continued to improve on production efficiency. During the nine months ended 30th September, 2000, the actual production capacities for the Chip strategic business unit ("SBU") and the filament SBU approached 100% and 90% of their rated capacities respectively. Gross margin, as a result, improved significantly from 21% in the second quarter of 2000 to 26% in the third quarter of 2000.

On the other hand, the Group's financing structure improved tremendously through its successful listing on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited. Debt-to-equity ratio reduced from 268% on 31st December, 1999 to 50% on 30th September, 2000. Reduction in financing costs contributed to the significant improvement in the Group's results.

PET chips and polyester filament products enjoyed improving gross margins

During the third quarter of 2000, the demand for PET chips and polyester filaments continued to outstrip the production capacity in the PRC significantly. As one of the predominant leaders in the PRC bottle-grade PET chips market and a major polyester filament producer in the PRC, together with its consistently high quality products, the Group was able to command higher selling prices for its high value-added PET chips and polyester filament products.

The Group is also continuously performing researches in producing better PET chips for high value-added products with high profit margins such as hot-filled bottles. Hot-filled bottles are mainly used as containers for juice and milk, the market of which has great potential with low penetration rate in the PRC.

FUTURE PROSPECTS

FEIS is now entitled to additional PRC tax exemption through obtaining “high-tech enterprise” status in Pudong District, Shanghai

Previously, FEIS was entitled to full exemption from the enterprise income tax for the first two profit-making years and a 50% reduction in enterprise income tax for the following three years, commencing from the first profitable year after off-setting all tax losses carried forward from previous years. Local income tax is exempted until year 2000.

FEIS has just obtained a “high-tech enterprise” status in Pudong District, Shanghai during the third quarter of 2000. As a result, FEIS is now entitled to additional PRC tax exemption of 33% reduction in enterprise income tax from the sixth to eighth profit-making years. Such exemption will continue from the ninth profit-making year onwards as long as the export ratio of FEIS exceeds 70%. Local income tax will be reduced from a statutory rate of 3% to 1.5% during the tax exemption period starting from year 2001 onwards.

Operational re-engineering in place

With its advanced testing equipment and instruments, the Group is maintaining strict quality control standards within its operations. The Group is actively planning to apply for ISO-9002 certification in 2000, with a view to obtain the certification by the second half of 2001.

Moreover, the Group is re-engineering its operations within the dyeing and finishing SBU, with a view to increase its operational efficiency and hence improve its profit contribution to the Group.

New product lines expected in 2001

In the third quarter of 2001, the Group will be able to produce certain high value-added product used in a variety of packaging. In addition, the construction of a new non-woven fibre plant with a total annual capacity of 41,400 tonnes will be completed in October 2001. This plant will focus on production of high value-added polyester non-woven fibre products with non-textile applications. Such products are of high-tech nature and will contribute higher margins to the Group than the traditional textile products.

DIRECTORS' INTERESTS IN SECURITIES

As at 30th September, 2000, the following Directors had or were deemed to have interests in the securities of the Company under the Securities (Disclosure of Interest) Ordinance (the “SDI Ordinance”) by holding shares in Far Eastern Textile Limited (“FET”), as recorded in the register maintained by the Company pursuant to Section 29 of the SDI Ordinance:

Shares in FET:

Name of director	Number of shares				Total
	Personal interests	Family interests	Corporate interests	Other interests	
Mr. Shu-Tong Hsu	57,148,611	Nil	Nil	Nil	57,148,611
Mr. Jar-Yi Shih	1,336,302	Nil	Nil	Nil	1,336,302
Mr. Champion Lee	210	Nil	Nil	Nil	210
Mr. Chin-Sen Tu	208	Nil	Nil	Nil	208
Mr. Shaw-Y Wang	94,402	Nil	Nil	Nil	94,402
Mr. Li-Teh Chang	17,672	Nil	Nil	Nil	17,672

Notes:

FET is regarded as the initial management shareholder (as defined in the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited) of the Company. As at 30th September, 2000, FET had a 58.2% (including a direct interest of 11.4% and an indirect interest of 46.8% through 99.99% shareholding in Yuang Ding Investment Corporation) interest in the Company.

In aggregate, the above interests represented, as at the date of this report, approximately 1.9% of the total issued common shares of FET.

Save as disclosed above, the Company had no notice of any other interests to be recorded under Section 29 of the SDI Ordinance.

DIRECTORS' INTERESTS IN CONTRACTS

No contract, commitment or agreement of significance in relation to the Group's business, to which the Company or its subsidiary was a party and in which any of the Company's directors had a material interest, either directly or indirectly, subsisted as at 30th September, 2000 or at any time during the nine months ended 30th September, 2000.

DIRECTORS' RIGHTS TO PURCHASE SHARES OR DEBENTURES

The Company has a share option scheme 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.

As at 30th September, 2000, no options had been granted under the Company's share option scheme.

SUBSTANTIAL SHAREHOLDERS

As at 30th September, 2000, according to the register required to be maintained under section 16(1) of the SDI Ordinance, the Company had been notified of the following (not being

Directors or chief executive of the Company) interests being 10% or more of the issued share capital of the Company:

Name	Number of issued shares	Percentage shareholding
Far Eastern Textile Limited (<i>Note 1</i>)	238,667,760	58.2%
Yuang Ding Investment Corporation	191,870,160	46.8%
Everest Investment (Holding) Limited	69,750,000	17.0%
Everest Textile Co., Ltd. (<i>Note 2</i>)	69,750,000	17.0%

Saved as disclosed above, the Company had no notice of any interests required to be notified under Section 16(1) of the SDI Ordinance as at the date of this report.

Notes:

1. FET has interests in 99.99% of the entire issued share capital of Yuang Ding Investment Corporation (“YDIC”) and is accordingly deemed to have an interest in the Company’s shares in which YDIC is deemed to have an interest.
2. Everest Textile Co., Ltd. has interests in the entire issued share capital of Everest Investment (Holding) Limited and is accordingly deemed to have an interest in the Company’s shares in which Everest Investment (Holding) Limited is deemed to have an interest.

COMPETING INTERESTS

FET and Everest Textile Co., Ltd. (“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 nine months ended 30th September, 2000, FET produced approximately 513,000 tonnes of polyester polymer, 138,000 tonnes of various types of PET chips (for PET bottles, food and industrial packaging), 178,000 tonnes of polyester staple fibre, 161,000 tonnes of POY, 73,600 tonnes of DTY, 345,000 bails of yarn, 9,100,000 yards of finished fabrics and 138,000,000 million pieces of PET preforms. Everest Textile also produced approximately 29,000 tonnes of polyester filament and 69,000,000 yards of finished fabrics.

Notes:

1. As at 30th September, 2000, Mr. Shu-Tong Hsu, Mr. Jar-Yi Shih, Mr. Champion Lee, Mr. Chin-Sen Tu and Mr. Shaw-Y Wang, who are Directors, were also directors of FET.
2. As at 30th September, 2000, Mr. Jar-Yi Shih and Mr. Chin-Sen Tu were also directors of Everest Textile.

Save as disclosed above, as at 30th September, 2000, the Directors were not aware of any business or interest of each Director and management shareholder and the respective associates of each that compete or may compete with the business of the Group and any other conflicts of interest which any such person has or may have with the Group.

SPONSOR'S INTERESTS

As at 30th September, 2000, associates of the Company's sponsor, HSBC Investment Bank Asia Limited ("HSBC Investment Bank Asia"), were interested in a total of 11,182,000 shares of HK\$1.00 each in the issued share capital of the Company. As at that date, employees of HSBC (as referred to in Note 3 to rule 6.35 of the GEM Listing Rules) who were involved in providing advice to the Company were interested in a total of 22,000 shares in the issued share capital of the Company. None of HSBC Investment Bank Asia nor any of its executive directors had any interest in the issued share capital of the Company as at 30th September, 2000.

Pursuant to the sponsor agreement dated 11th January, 2000 entered into between the Company and HSBC, HSBC is entitled to 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

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 had no material adverse impact on the business operations of the Group.

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 Group'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. The audit committee has met four times since its formation.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor its subsidiary has purchased, sold or redeemed any of the Company's shares during the period from 31st January, 2000 (date of listing) to 30th June, 2000.

By Order of the Board
Far Eastern Polychem Industries Limited
Shu-Tong Hsu
Chairman

Hong Kong, 7th November, 2000