Far Eastern Polychem Industries Limited

ANNUAL REPORT 2000

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The Exchange takes no responsibility for the contents of this annual report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this annual report.

This annual 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 GEM of the Exchange (the "GEM Listing Rules") 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 annual 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 annual report misleading; and (3) all opinions expressed in this annual report 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, *Chief Executive Officer*
Chin-Sen TU, *Chief Accountant and Compliance Officer*

NON-EXECUTIVE DIRECTOR

Shaw-Y WANG

INDEPENDENT NON-EXECUTIVE DIRECTORS

Tak-Lung TSIM
Ying-Ho WONG
Shih-Hung CHAN

QUALIFIED ACCOUNTANT

Shun-Fai LIU, *AHKSA, FCCA*

COMPANY SECRETARY

Shun-Fai LIU, *AHKSA, FCCA*

AUTHORIZED REPRESENTATIVES

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

SPONSOR

The Hongkong and Shanghai Banking Corporation Limited
Level 15
1 Queen's Road Central
Hong Kong

AUDITORS

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

SOLICITORS

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

Bermuda:
Conyers Dill & Pearman
3408, Two Exchange Square
8 Connaught Place
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

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Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

No. 198 Baisha Road
Xinghuo Development Zone
Pudong, Shanghai
The People's Republic of China

PLACE OF BUSINESS IN HONG KONG AND CONTACT INFORMATION

Address:	Unit A, 11th Floor Lippo Leighton Tower 103-109 Leighton Road Causeway Bay Hong Kong
Telephone:	(852) 2839-3700
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E-mail:	fepi@netvigator.com

PLACE OF LISTING, NAME AND CODE OF ITS STOCKS:

The Growth Enterprise Market of the Hong Kong Exchanges and Clearing Limited

Stock Name:	FE Polychem
Stock Code:	8012

ANNOUNCEMENTS AND PUBLICATIONS

All the Company's announcements and publications are published on the internet website designated by the Hong Kong Exchanges and Clearing Limited: http://www.hkgem.com.

Far Eastern Polychem Industries Limited (the "Company") and its subsidiary (together the "Group") is principally engaged in the production and distribution of polyester products in the People's Republic of China (the "PRC"). Currently, the Group's polyester products include bottle-grade polyethylene terephthalate ("PET") chips, polyester filament, and polyester fabrics, which can be further processed into a wide range of end products.

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 PRC. Located in Xinghuo Development Zone, Pudong District, Shanghai, 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. Despite the short history of its operations, the Group is the largest bottle-grade PET chip producer and a major polyester filament producer in the PRC. As proof of its high standards, the Group is the larger of the two producers which have obtained approval to supply bottle-grade PET chips in the PRC for the production of bottles for Coca-Cola China Limited.

As at 31st December, 2000, the Group has a total of 1,368 employees.

The Company commenced listing on The Growth Enterprise Market of the Hong Kong Exchanges and Clearing Limited on 31st January, 2000.

CONSOLIDATED PROFIT AND LOSS ACCOUNTS

	Year ended 31st December,			
	2000	1999	1998	1997
	HK$'000	HK$'000	HK$'000	HK$'000
Turnover	**1,298,649**	1,035,001	29,230	—
Profit (Loss) from operations	**257,954**	181,641	(1,079)	(10,059)
Interest expenses	**(37,816)**	(58,255)	(22,641)	(416)
Profit (loss) before taxation	**220,138**	123,386	(23,720)	(10,475)
Taxation	**—**	—	—	—
Profit (Loss) attributable to shareholders	**220,138**	123,386	(23,720)	(10,475)
Earnings (Loss) per share (in HK$)				
- Basic	**0.55**	0.39	(0.07)	(0.04)
- Diluted	**N/A**	N/A	N/A	N/A
Dividends per share (in HK$)	**0.28**	—	—	—

CONSOLIDATED BALANCE SHEETS

	As at 31st December,			
	2000	1999	1998	1997
	HK$'000	HK$'000	HK$'000	HK$'000
Fixed assets	**1,271,145**	1,203,055	1,134,930	357,050
Deferred assets	**9,524**	10,680	11,613	—
Other long-term assets	**1,684**	1,814	2,371	3,307
Current assets	**748,223**	475,370	695,976	409,015
Current liabilities	**(403,566)**	(476,507)	(335,089)	(169,189)
Net current assets (liabilities)	**344,657**	(1,137)	360,887	239,826
Total assets less current liabilities	**1,627,010**	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	**(385,358)**	(488,146)	(929,587)	—
Deferred taxation	**(1,200)**	(1,200)	—	—
Net assets	**1,240,452**	413,665	283,115	306,884
Share capital	**410,296**	6,302	6,302	6,302
Reserves	**541,233**	318,471	311,307	311,356
Retained profit (Accumulated losses)	**288,923**	88,892	(34,494)	(10,774)
Shareholders' funds	**1,240,452**	413,665	283,115	306,884

Note:

The results of the Group for the year ended 31st December, 1996 and the balance sheet as at the same date were not presented in the above summary as there were no published results prior to 31st December, 1997.

1. INTRODUCTION

It is my pleasure to present you the audited annual results of the Group for the year ended 31st December, 2000.

The year 2000 was an eventful year for the Group. The Group was successfully listed on the Growth Enterprise Market ("GEM") of The Hong Kong Exchanges and Clearing Limited on 31st January, 2000. The listing enabled the Group to improve its production efficiency and to minimize production cost. During the year 2000, the Group also benefited from the fast growing economy in the PRC. PRC's polyester industry bottomed out in 1999 and saw a strong demand growth for polyester products in 2000. The Group was able to respond effectively to the strong growth in demand by applying the right strategies. These include optimizing its production process, rationalizing its product mix, positioning itself as a high value-added polyester product producers, continuing development of new technologies and new products and full implementation of cost-effective measures. The Group's operating results improved significantly as compared to the year ended 31st December, 1999.

2. OPERATING RESULTS

The Group achieved a total turnover of about HK$1,299 million for the year ended 31st December, 2000, an increase of 25% as compared to the year ended 31st December, 1999. Gross profit was approximately HK$291 million and audited profit attributable to shareholders amounted to approximately HK$220 million, representing an increase of 35% and 78%, respectively as compared to the year ended 31st December, 1999. Earnings per share in 2000 amounted to HK$0.55.

The operational efficiency of the Group increased significantly in 2000. The Chip strategic business unit ("SBU"), the filament SBU and the Dyeing and Finishing SBU reached 100%, 90% and 87% of their rated capacities respectively. The following is a summary of the Group's production volume in the year 2000:

	For the year ended 31st December		Percentage
	2000	1999	increase (%)
Polyester chips (tonnes)	**104,700**	96,802	8
Polyester filaments (tonnes)	**28,510**	23,356	22
Finished fabrics (yards)	**35 million**	35 million	0

2. OPERATING RESULTS (Cont'd)

In the year 2000, total sales volume of the Group's polyester products also increased as a result of an increase in production and sales promotion efforts. The following is a summary of the Group's sales volume in the year 2000:

	For the year ended 31st December		Percentage
	2000	1999	increase (%)
Polyester chips (tonnes)	**102,559**	100,743	2
Polyester filaments (tonnes)	**27,414**	22,543	22
Finished fabrics (yards)	**34 million**	32 million	5

In view of such satisfactory operating results, the Directors will recommend the payment of a final dividend of HK$0.28 per share for the year ended 31st December, 2000 at the forthcoming Annual General Meeting.

3. MARKET OVERVIEW

Crude oil prices increased significantly throughout 1999 and 2000, but are expected to stabilize in the near future

As one of the major upstream polyester product producers in the PRC, the Group's operating results are highly susceptible to the volatility of the price of crude oil. The world crude oil prices rose significantly from US$11.3 per barrel during the first quarter of 1999 to US$35 per barrel in the third quarter of 2000. Such increase affected not only the petrochemical industry but also enterprises across all industries. In spite of such difficult situation, the Group was able to maintain its competitiveness throughout 2000 by reducing operating costs and increased its operating efficiency.

The crude oil prices, which fell to a range of around US$26 per barrel to US$31 per barrel during early 2001, is expected to stabilize in the near future. In addition, it is reported that the Organization of Petroleum Exporting Countries ("OPEC") will take measures to stabilize crude oil prices within the range of US$22 to US$28 per barrel. Stable crude oil prices provide a favourable operating environment for the Group, and will also benefit the whole world economy.

Domestic supply of polyester products in the PRC failed to meet the strong demand generated by economic growth

During 2000, as a result of the continued implementation of a series of macro-control policies and measures pertaining to increasing domestic demand and consumption, China's GDP growth reached 8.1%. The strong economic growth led to a strong demand for polyester products, especially for PET packaging resin and polyester fibres, in the PRC. This demand was not fulfilled by domestic polyester producers with the result that the shortfall had to be satisfied by imports. The PRC Government's continuing efforts to impose and enforce anti-smuggling measures has led to a significant decrease in illegal imports, further benefiting domestic producers. The shortfall has led to a relatively inelastic demand for polyester products thereby increasing the bargaining power of domestic producers. The Directors expect the situation to continue in the near future.

4. BUSINESS PERFORMANCE REVIEW

In view of the aforesaid market situation, the Group was able to achieve satisfactory results in 2000 through adopting various effective strategies:

Rationalizing the Group's product mix in order to maximize shareholders' wealth

The Group has been developing a product mix focusing on high value-added specialty products with enhanced profit margins that capture new market trends. The Chip SBU focuses on manufacturing PET chips for producing bottles for carbonated soft drinks, hot drinks, milk and juice and five-gallon bottles that require a greater degree of resistance against pressure and heat than those used in producing mineral water bottles. There are only a limited number of producers in the PRC, which have the ability to produce such specialty bottle-grade PET chips. The Filament SBU focuses on offering high-quality products to foreign buyers with operations in the Eastern China region and the Dyeing and Finishing SBU focuses on high-value added specialty fabrics.

Minimize cost and maximize production efficiency

During 2000, the Group took measures to control purchase cost of raw materials. This is evidenced by the fact that although crude oil prices rose significantly during 2000 as compared to that of 1999, the gross profit margin was maintained at 22%. In addition, the Group also imposed stringent controls over administrative expenses and distribution expenses, which increased 8% and 12%, respectively when compared to 1999, despite the fact that turnover increased by 25%. Moreover, through its successful listing on GEM, the Group's financial structure improved, which contributed to a 35% reduction in financing costs.

The operational efficiency of the Group increased significantly in 2000. The Chip SBU, the filament SBU and the Dyeing and Finishing SBU reached 100%, 90% and 87% of their rated capacities respectively.

Technological advancement

Currently, the Group does not have its own research and development team, but license its technology from the Far Eastern Group, which is not only advanced in the PRC market but also strategically suitable for the Group's development. Such technology enables the Group to produce high quality products, such as specialty bottle-grade PET chips for producing bottles for Coca-Cola China Limited, hot-fill bottles and five-gallon bottles.

In September 2000, FEIS obtained "high-tech enterprise" status from the PRC authorities, qualifying it for additional PRC tax reductions.

Quality assurance throughout the production process

The Group has been maintaining strict quality controls and has adopted an advanced quality control system. As a 31st December, 2000, the Group had a total of approximately 126 employees responsible for quality control in different stages of its production process starting from the receipt of raw materials to the delivery of products. The Group applied during the fourth quarter of 2000 for ISO-9002 certification.

4. BUSINESS PERFORMANCE REVIEW (Cont'd)

Customer services

In order to strengthen customer loyalty, the Group has set up after-sales service teams for each SBU. The sales service teams provide practical and customer advice on technical matters relating to the Group's products. The Group also plans to set up an electronic data interchange system with its major customers, thereby enabling them to check the availability of products and place orders.

Capacity expansion plans in progress

In order to capture the fast growing demand for polyester products in the PRC, the Group is actively looking for mergers and acquisition projects in order to increase its production capacity. In addition, new facilities, such as a PTA silo, a polymer silo and a general-purpose warehouse were built during the year 2000. The construction of a new 41,400 tonnes polyester staple fibre plant was commenced in 2000 and the production is expected to commence during the third quarter of 2001.

5. GROUP LIQUIDITY AND FINANCIAL RESOURCES

As at 31st December, 2000, the Group's cash and cash equivalents amounted to approximately HK$358 million (compared to HK$182 million in 1999) of which 82% were denominated in United States dollars and 18% were denominated in Renminbi.

Also at 31st December, 2000, the Group's borrowings were approximately HK$555 million. (compared to HK$1,107 million in 1999) Approximately 47% of the Group's total borrowings were denominated in Renminbi, 42% in Hong Kong dollars and 11% in United States dollars. Approximately 47% of the Group's total borrowings are at fixed interest rates.

As at 31st December, 2000, the net debt to equity ratio was approximately 45% (compared to 268% in 1999) and the earnings before interest, taxation, depreciation and amortization covered the gross interest expense for the year 9 times (compared to 4.1 times in 1999). The Group's capital expenditure for the year amounted to HK$164 million (compared to HK$144 million in 1999), which were funded primarily by proceeds raised during the listing of the Company on GEM and to the extent required, by borrowings and internally generated cash.

Committed borrowing facilities which are available to Group companies, but not drawn as at 31st December, 2000, amounted to HK$628 million.

6. TREASURY POLICIES AND CAPITAL STRUCTURE

The Group's overall treasury and funding policies are prudent, with a focus on management of risks, and transactions being directly related to the underlying businesses of the Group. Non Hong Kong and non United States dollar denominated assets, in particular Renminbi assets are hedged with the appropriate level of borrowings in Renminbi and bank deposits denominated in United States dollars. When necessary, forward exchange contracts will be used to hedge against foreign currency exposures. As at 31st December, 2000, the Group has no significant exposure under foreign exchange contracts.

7. FUTURE OUTLOOK

The Group is expecting a more favourable environment when China is admitted to the World Trade Organization ("WTO")

As China is expected to join the WTO in 2001, the PRC polyester industry will become more volatile and turbulent. There will be threats as well as opportunities.

The Group will inevitably face competition from foreign producers. However, this will only benefit the Group as this may cause the less efficient producers to lose out in the more competitive environment. With its high quality products, the Directors believe that the Group will be able to compete favourably with foreign imports.

On the other hand, through reducing import tariffs, the Directors expect a lowering of raw material costs as well. As a result, the Group can be more cost-efficient due to the lowering of production costs.

In addition, as the import barriers in foreign countries for downstream polyester products, such as textile and apparel, produced in the PRC will reduce after China joins the WTO, it should help PRC textile producers to increase their exports to such countries. It is also expected that the domestic demand for upstream polyester products in the PRC will also increase.

Therefore, with the appropriate of strategies, the Directors believe that the Group is well positioned to face the new challenges presented by China's WTO entry.

To differentiate the Group's products from low-end commodities

In the year 2000, the Group successfully distinguished itself as a high-end polyester product producer. This is evidenced by the fact that the Group was able to command higher selling prices for its products. In this regard, the Directors believe that hot-fill bottles, which are mainly used as containers for juice and milk, and which have a low penetration rate in the PRC at the moment, has great potential. The Directors believe that the demand for PET chips in producing such hot-fill bottles will increase significantly in the year 2001. As one of the few polyester producers in the PRC that can produce such specialty bottle-grade PET chips, the Group should benefit from the anticipated growth of this market.

New production facilities in manufacturing high value-added non-woven staple fibre and PET preform (including PET sheets) will also be available in October 2001 and 2002, respectively.

To further enhance internal management and increase production efficiency

The Group will also do its best to streamline the production process, and take the necessary measures in order to counteract the potential threat of rising crude oil prices. The profit contributed by the Dyeing and Finishing SBU improved significantly in the second half of 2000, and such trend is expected to continue in 2001. In addition, special attention will be paid to production safety, quality control and cost control. The Directors believe that the Group has already taken necessary measures in mitigating the effects of high crude oil prices on the Group's operating results in 2000. As such, further fluctuation in crude oil prices in 2001 ought not to have a material effect on the Group's operations.

8. CONCLUDING REMARKS

The year 2000 has been a successful year for the Group. The Group achieved satisfactory operating results and the growth potential is tremendous. However, we believe that the performance of the Company's share price did not reflect its fundamentals and true value. This was due to a combination of factors, including poor market sentiment and the relatively illiquidity of the Company's shares. The Directors believe that through the efforts of the Group's management and staff in the years to come, the market will soon realize our potential, and the Company's share price will reflect its true value accordingly.

Finally, on behalf of the Board, I would like to express our heartfelt gratitude to all staff of the Group for their hard work as well as to all shareholders for their kind support over the previous year.

SHU-TONG HSU
Chairman

Hong Kong
29th March, 2001

EXECUTIVE DIRECTORS

Shu-Tong HSU, aged 59, is the Chairman of the Company. He has been serving as Director since 1995. He is also the Chairman of Far Eastern Textile Limited ("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 54, 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. ("Everest Textile") (which had 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.

Champion LEE, aged 53, 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 61, 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 53, 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 since 1989. 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-Yi WANG, aged 61, 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 54, 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, aged 37, 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 57, 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 42, 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 53, 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 fibre 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.

Shun-Fai LIU, aged 30, 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 a fellow member of the Chartered Association of Certified Accountants in the United Kingdom, respectively. He has over eight years' experience in accounting and auditing.

Chen-Yu CHENG, aged 44, 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 ahs over 19 years' experience in corporate legal work.

The Directors have the pleasure of presenting this annual report together with the audited financial statements of Far Eastern Polychem Industries Limited (the "Company") and its subsidiary (together the "Group") for the year ended 31st December, 2000.

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.

SEGMENTAL INFORMATION

The Group's turnover, gross profit and operating results for the year ended 31st December, 2000 are analyzed as follows:

a. By Product Range

	Turnover $'000	Operating results $'000
PET chips	856,278	222,980
Polyester filament	291,003	45,202
Finished fabrics	151,368	22,663
	1,298,649	290,845
Finance cost, other operating expenses, distribution costs and administrative expenses		(70,707)
Profit before tax		220,138

b. By geographical locations*

	Turnover	Contribution to gross profit
PRC	1,136,946	254,630
Overseas		
Asia (excluding PRC)	104,809	23,473
Europe	36,959	8,277
Middle East	19,316	4,326
Others	619	139
	1,298,649	290,845

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

CUSTOMERS AND SUPPLIERS

For the year ended 31st December, 2000, the five largest customers of the Group accounted for approximately 57% of the Group's total sales and the five largest suppliers accounted for approximately 64% of the Group's total purchase. In addition, the largest customer accounted for approximately 31% of the Group's turnover and the largest supplier accounted for approximately 40% of the Group's total purchase.

For the year ended 31st December, 2000, 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 such term is defined in the Rules Governing the Listing of Securities on GEM ("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 7% of the Group's total sales for the year ended 31st December, 2000. 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 5% of the Group's total purchases for the year ended 31st December, 2000.

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 issued share capital) had a beneficial interest in the Group's five largest customers and five largest suppliers.

RESULTS AND APPROPRIATION

Details of the Group's results for the year ended 31st December, 2000 are set out in the consolidated profit and loss account on page 31 of this annual report.

No interim dividend was recommended by the Board of Directors. The Board of Directors recommend a final dividend of $0.28 per share for the year ended 31st December, 2000.

SHARE CAPITAL

Details of share capital of the Company are set out in Note 10 to the accompanying financial statements.

RESERVES AND RETAINED PROFIT (ACCUMULATED LOSSES)

Movements in the reserves and retained profit (accumulated losses) of the Group and the Company during the year 2000 are set out in Note 11 to the accompanying financial statements.

As at 31st December, 2000, the Company's retained profits of HK$288,923,000 were 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 or warrants during the period from 31st January, 2000 (date of listing) and up to the date of this annual report.

PRE-EMPTIVE RIGHTS

There are no provisions for the exercise of any pre-emptive rights under the Company's Bye-laws or the laws of Bermuda.

SUBSIDIARY

Particulars of the Company's subsidiary are set out in Note 23 to the accompanying financial statements.

INTEREST CAPITALIZED

Details of the interest capitalized during the year 2000 are set out in Notes 4 and 17 to the accompanying financial statements.

FIXED ASSETS

Details of movements in fixed assets during the year 2000 are set out in Note 3 to the accompanying financial statements.

BANK LOANS

Particulars of bank loans as at 31st December, 2000 are set out in Notes 12 and 14 to the accompanying financial statements.

PENSION SCHEME

Details of the pension scheme are set out in Note 26 to the accompanying financial statements.

CONTINUING CONNECTED TRANSACTIONS

During the year 2000, the Group entered into 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 such term is defined in the GEM Listing Rules). For this service, Everest Textile (HK) is invoiced intermittently on normal commercial terms, based on terms that would otherwise apply to independent third parties entering into similar transactions with the Group. The amount received by the Company from Everest Textile (HK) for the year ended 31st December, 2000 was approximately HK$87,362,000.

    For the year ending 31st December, 2001, the Company does not expect the amounts received from Everest Textile (HK) to exceed RMB212 million (approximately HK$200.0 million).

CONTINUING CONNECTED TRANSACTIONS (Cont'd)

(2) FEIH and Far Eastern Industries (Shanghai) Ltd. ("FEIS") have entered into a Technological License Agreement dated 11th January, 2000, pursuant to which FEIH has granted a license to FEIS for the use of technological know-how and the provision of technical assistance in relation to polyester products produced by FEIS. The Technological License Agreement is for a term of 10 years and is subject to review by the parties and may be terminated by mutual agreement at the end of every 36-month period from the commencement of the agreement. Pursuant to the terms of the Technological Licence Agreement, FEIH has agreed to procure Far Eastern Textile Limited ("FET") to grant a licence free of charge to the Group to use the trademarks owned by FET and registered in the name of FET in the PRC. The trademark licence terminates upon termination of the Technological Licence Agreement. In addition, FEIH has granted to FEIS a non-exclusive right to use, without consideration, any improvements, developments, inventions, changes or innovations related to technological know-how provided by FEIH which FEIS may develop in the course of its use of such know-how.

The licence fee has been calculated on the basis of the historical research and development expenses of FET and will be payable by FEIS at a rate of US$10 per tonne of polyester polymer produced by FEIS. The amount payable by FEIS to FEIH for the year ended 31st December, 2000 was approximately HK$10,144,000. For the two years ending 31st December, 2001, the total amount payable by FEIS pursuant to the agreement has been capped at US$1.5 million (approximately HK$11.7 million). Caps to be set for the third to tenth years of the term of the agreement shall be determined in due course and are proposed to be approved on an annual basis by independent shareholders if the then proposed caps exceed the higher of HK$10 million or 3 per cent. of the Company's net tangible assets at that time.

(3) As a result of the merger involving the then supplier of MEG to the Group and other third parties, the Group terminated its MEG supply arrangements with such supplier in September 1999. For the three months ended 31st March, 2000, FEIH supplied MEG to the Group and the Group was invoiced on normal commercial terms and at market price. The amount payable by the Group to FEIH in 2000 amounted to HK$43,624,000.

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 course of its business;

— have been entered into (i) on normal commercial terms or (ii) on terms that are fair and reasonable so far as the shareholders of the Company are concerned; and

— have been entered into either (i) in accordance with the terms of the agreements governing such transactions or (ii) (where there is no such agreement) on terms no less favourable to the Group than terms available to third parties.

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, *Chief Executive Officer*
Mr. Chin-Sen Tu, *Chief Accountant and Compliance Officer*

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.

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 the end of the second year. 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, which may be terminated on the same basis as the abovementioned full-time contracts.

(Amounts expressed in Hong Kong dollars unless otherwise stated)

DIRECTORS' INTERESTS IN SECURITIES

As at 31st December, 2000, the following Directors had or were deemed to have interests in the securities of the Company under the provision of the Securities (Disclosure of Interest) Ordinance (the "SDI Ordinance") by virtue of their shareholdings in FET, as recorded in the Register of Directors' Interests required to be maintained by the Company pursuant to Section 29 of the SDI Ordinance:

Shares in FET:

	Number of shares				
Name of director	Personal interests	Family interests	Corporate interests	Other interests	Total
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. Lih-Teh Chang	17,672	Nil	Nil	Nil	17,672

Save as disclosed above, the Company had no notice of any other interests to be recorded under Section 29 of the SDI Ordinance as at 31st December, 2000.

Notes:

FET is regarded as one of the initial management shareholders (as such term is defined in the GEM Listing Rules) of the Company. As at 31st December , 2000, FET had a 58.2% interest (including a direct interest of 11.4% and an indirect interest of 46.8% through its 99.99% shareholding in Yuang Ding Investment Corporation) 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.

DIRECTORS' INTERESTS IN CONTRACTS

No contract, commitment or agreement of significance in relation to the Company's business, to which the Company or its subsidiary was a party and in which any of the Directors had a material interest, either directly or indirectly, subsisted at 31st December, 2000 or at any time during 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 31st December, 2000, no options had been granted under the Company's share option scheme.

(Amounts expressed in Hong Kong dollars unless otherwise stated)

SUBSTANTIAL SHAREHOLDERS

As at 31st December, 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
FET *(Note 1)*	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. *(Note 2)*	69,750,000	17.0%

Saved as disclosed above, the Company had no notice of any interests required to be recorded under Section 16(1) of the SDI Ordinance as at 31st December, 2000.

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. ("Everest Textile") has interests in the entire issued share capital of Everest Investment (Holding) Limited ("Everest Investment") and is accordingly deemed to have an interest in the Company's shares in which Everest Investment is deemed to have an interest.

COMPETING INTERESTS

FET *(Note 1)* and Everest Textile *(Note 2)*, being management shareholders of the Company, are engaged in, and have interests in other companies engaged in, the production and sales of petrochemical, ployester and textile products.

During 2000, FET produced approximately 648,697 tonnes of polyester polymer, 185,142 tonnes of various types of PET chips (for PET bottles, food and industrial packaging), 240,296 tonnes of polyester staple fibre, 214,806 tonnes of POY, 96,953 tonnes of DTY, 451,950 bales of yarn, 11,759,000 yards of finished fabrics and 61.7 million pieces of PET preforms. Everest Textile also produced approximately 38,000 tonnes of polyester filament and 86,000,000 yards of finished fabrics.

Save as disclosed above, as at 31st December, 2000, the Directors were not aware of any other business or interest of each Director or management shareholder, and the respective associates of each, that competes or may compete with the business of the Group.

Notes:

1. As at 31st December, 2000, Mr. Shu-Tong Hsu, Mr. Jar-Yi Shih, Mr. Champion Lee, Mr. Chin-Sen Tu and Mr. Shaw-Y Wang, who were Directors of the Company, were also directors of FET.

2. As at 31st December, 2000, Mr. Jar-Yi Shih and Mr. Chin-Sen Tu were also directors of Everest Textile.

SPONSOR'S INTERESTS

As at 31st December, 2000, associates of the Company's sponsor, HSBC Investment Bank Asia Limited ("HIBA"), 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 HIBA (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 HIBA nor any of its executive directors had any interest in the issued share capital of the Company as at 31st December, 2000.

Pursuant to the sponsor agreement dated 11th January, 2000 ("Sponsor Agreement") entered into between the Company and HIBA, HIBA 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.

Pursuant to a novation agreement between the Company, HIBA and The Hongkong and Shanghai Banking Corporation Limited (of which HIBA is an indirect wholly-owned subsidiary) dated 29th January, 2001, the rights and obligations of HIBA under the Sponsor Agreement have been novated to The Hongkong and Shanghai Banking Corporation Limited effective from 29th January, 2001.

MATERIAL LITIGATION

Neither the Company nor its subsidiary was involved in any material litigation or arbitration in the year 2000.

YEAR 2000 COMPLIANCE RESULTS

The board of Directors is pleased to announce that all accounting and financial applications in the Group were 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 is also 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. The audit committee has met five times since its formation.

SUMMARY OF FINANCIAL INFORMATION

A summary of the Group's financial information is set out on pages 6 and 7 of this annual report.

(Amounts expressed in Hong Kong dollars unless otherwise stated)

BUSINESS OBJECTIVES COMPARISON

For the year ended 31st December, 2000, the business progress of the Group was substantially in line with the information set out in the section headed "Statement of Business Objectives" in the prospectus of the Company dated 20th January, 2000 (the "Prospectus"). Details are as follow:

According to the business objectives stated in the Prospectus	**Actual business progress/change in business objective (if any)**
The annual production of polyester polymer will reach approximately 128,000 tonnes by the end of 2000.	The annual output of polyester polymer reached approximately 131,849 tonnes by the end of 2000.
The annual production of non-textile PET chips will reach approximately 100,000 tonnes by the end of 2000.	The annual output of non-textile PET chips reached approximately 104,700 tonnes by the end of 2000.
The annual production of POY and DTY will both reach approximately 28,000 tonnes by the end of 2000.	The annual output of POY and DTY reached approximately 29,359 tonnes and 23,413 tonnes respectively by the end of 2000. *(Note 1)*
The annual production of finished fabrics will reach 42 million yards by the end of 2000.	The annual output of finished fabrics reached 34.7 million yards by the end of 2000. *(Note 1)*
The Dyeing and Finishing SBU will achieve over 85 per cent. of full capacity by the end of 2000.	The Dyeing and Finishing SBU achieved approximately 87 per cent. of full capacity by the end of 2000.
Commence pre-marketing work for non-woven fibre products by the end of 2000.	Pre-marketing work for non-woven fibre products commenced in June, 2000.
Upgrading of the internal system for providing more management infomation will complete by the end of 2000.	Upgrading of information management system will complete by the end of 2001 *(Note 2)*.
Apply for ISO-9002 certification by the end of 2000.	The Group applied for ISO-9002 certification before the end of 2000.
Construction of the PTA silo, polymer silo and the general purpose warehouse will complete by the end of 2000.	The construction of the PTA silo, polymer silo and general purpose warehouse was completed by the end of 2000.

Notes:

1. The output of DTY and finished fabrics during 2000 fell short of the yearly output stated in the section headed "Statement of Business Objectives" in the Prospectus by 4,587 tonnes and 7.3 million tonnes respectively. The shortfall arose as a result of the Group's strategy to re-adjust product mix among non-textile PET chips, POY, DTY and finished fabrics in order to maximize profits and enhance shareholders' value. The Directors also believe that the shortfall will not materially affect the Group's overall business objectives for the year 2001 and onwards.

2. The upgrading of information management system, which was planned to provide instant access to a wider range of financial and accounting information for financial and cost analysis so as to enable the management to monitor cost more effectively, was delayed. The upgrading is now expected to be completed by the end of 2001. The delay was due to the fact that the Group is still seeking for an appropriate vendor in performing the upgrading. The Directors do not believe the delay will have any material impact on the Group's operations.

USE OF PROCEEDS

During the year ended 31st December, 2000, the Group's use of proceeds from the new shares issued for listing on GEM of the Exchange was substantially in line with the information as set out in the section headed "Summary" in the Prospectus. The proceeds, after deduction of related expenses, amounted to $266,062,000 has been applied as follows:

	Estmated time of Completion	According to the use of proceeds as stated in the Prospectus HK$ million	Amount utilized up to 31st December, 2000 HK$ million
Upgrading of internal management information system (Note 1)	December 2000	10	1
Construction of a polyester non-woven fibre plant	December 2001	156	98
Construction of various storage and ancillary facilities	June 2001	13	7
Construction of a PET preform plant	June 2002	78	10
Development of two additional production facilities, including a polymerization plant and a production unit designed for non-textile and/or industrial-use PET chips. (Note 2)	December 2001	9	9
Total		266	125

Notes:

1. Please refer to Note 2 under the section "Business objectives comparison" for the reason behind the difference in amount planned to be used and the actual amount used.

2. The development of two additional production facilities has already commenced as at 31st December, 2000, and is expected to complete in December, 2001. The balance of the funding required in the development will be satisfied by internally generated cash.

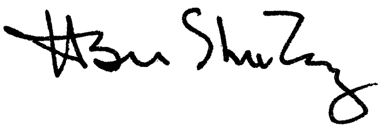
(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

Hong Kong
29th March, 2001

Arthur Andersen & Co
21st Floor Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

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

We have audited the accompanying balance sheets of Far Eastern Polychem Industries Limited (the "Company") and its subsidiary (the "Group") as at 31st December, 2000, and the related consolidated statements of income, recognized gains and losses, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing issued by the International Federation of Accountants. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company and the Group as at 31st December, 2000, and of the results of the Group's operations and its cash flows and the statement of recognized gains and losses for the year then ended in accordance with International Accounting Standards issued by the International Accounting Standards Committee and comply with the disclosure requirements of the Hong Kong Companies Ordinance.

Arthur Andersen & Co.

Hong Kong,
29th March, 2001

CONSOLIDATED BALANCE SHEET

AS AT 31ST DECEMBER, 2000

(Expressed in Hong Kong dollars)

	Note	2000	1999
		$'000	$'000
			(Note 32)
ASSETS			
Non-current assets			
Property, plant and equipment	3	**1,099,410**	1,181,983
Construction-in-progress	4	**171,735**	21,072
Deferred assets	5	**9,524**	10,680
Other long-term assets	6	**1,684**	1,814
		1,282,353	1,215,549
Current assets			
Due from a shareholding company	27(a)	**—**	1,559
Due from a related company	27(b)	**15,784**	44,123
Inventories	7	**165,454**	108,441
Trade receivables	8	**144,592**	71,739
Deposits, prepayments and other receivables		**60,854**	52,010
Prepaid value-added tax		**3,360**	—
Pledged bank deposits		**—**	15,549
Cash and cash equivalents	9	**358,179**	181,949
		748,223	475,370
Total assets		**2,030,576**	1,690,919
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	10	**410,296**	6,302
Reserves	11	**830,156**	407,363
		1,240,452	413,665
Non-current liabilities			
Loans from related companies	27(c)	**—**	225,931
Loans from shareholding companies	27(d)	**—**	85,470
Long-term bank loans	12	**385,358**	488,146
Deferred tax liabilities	13	**1,200**	1,200
		386,558	800,747

CONSOLIDATED BALANCE SHEET (Cont'd)

AS AT 31ST DECEMBER, 2000

(Expressed in Hong Kong dollars)

	Note	2000	1999
		$'000	$'000
			(Note 32)
Current liabilities			
Due to a related company	26(e)	**–**	26,408
Due to a shareholding company	26(a)	**–**	175
Short-term bank loans	14	**169,200**	307,053
Trade and other payables and accruals		**234,366**	123,064
Value-added tax payable		**–**	19,807
		403,566	476,507
Total equity and liabilities		**2,030,576**	1,690,919

Approved by the Board of Directors on 29th March, 2001 and signed on behalf of the Board by:

Jar-Yi SHIH
Deputy Chairman

Chin-Sen TU
Director

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31ST DECEMBER, 2000

(Expressed in Hong Kong dollars)

	Note	2000 $'000	1999 $'000 (Note 32)
Revenue	15	**1,298,649**	1,035,001
Cost of sales		**(1,007,804)**	(819,999)
Gross profit		**290,845**	215,002
Other operating income, net		**18,343**	13,401
Distribution costs		**(17,726)**	(15,797)
Administrative expenses		**(33,508)**	(30,965)
Profit from operations		**257,954**	181,641
Finance cost	16	**(37,816)**	(58,255)
Profit before tax	17	**220,138**	123,386
Taxation	19	**—**	—
Profit attributable to shareholders	20	**220,138**	123,386
Profit appropriation	11(b)	**(20,107)**	—
Retained profit (accumulated losses), beginning of year		**88,892**	(34,494)
Retained profit, end of year		**288,923**	88,892
Earnings per share	22		
- Basic		**0.55**	0.39
- Fully diluted		**N/A**	N/A

The accompanying notes are an integral part of these financial statements.

STATEMENT OF RECOGNIZED GAINS AND LOSSES

FOR THE YEAR ENDED 31ST DECEMBER, 2000

(Expressed in Hong Kong dollars)

	2000	1999
	$'000	$'000
Surplus on revaluation of buildings, net of effect of deferred tax	**—**	5,645
Exchange differences on translation of the financial statements of a foreign entity	**764**	1,519
Net gains not recognized in the income statement	**764**	7,164
Net profit for the year	**220,138**	123,386
Total recognized gains and losses	**220,902**	130,550

The accompanying notes are an integral part of these financial statements.

BALANCE SHEET

AS AT 31ST DECEMBER, 2000

(Expressed in Hong Kong dollars)

	Note	2000 $'000	1999 $'000
ASSETS			
Non-current assets			
Investment in a subsidiary	23	**939,499**	717,771
Current assets			
Deposits, prepayments and other receivables		**679**	266
Cash and cash equivalents	9	**292,220**	152
		292,899	418
Total assets		**1,232,398**	718,189
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	10	**410,296**	6,032
Reserves	11	**820,959**	399,204
		1,231,255	405,236
Non-current liabilities			
Loans from related companies	27(c)	**–**	225,931
Loans from shareholding companies	27(d)	**–**	85,470
		–	311,401
Current liabilities			
Accrual and other current liabilities		**1,143**	1,552
Total equity and liabilities		**1,232,398**	718,189

Approved by the Board of Directors on 29th March, 2001 and signed on behalf of the Board by:

Jar-Yi SHIH
Deputy Chairman

Chin-Sen TU
Director

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31ST DECEMBER, 2000

(Expressed in Hong Kong dollars)

	Note	**2000**	1999
		$'000	$'000
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash generated from operations	25	**263,074**	446,722
Interest paid		**(37,817)**	(54,433)
Net cash from operating activities		**225,257**	392,289
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment		**(174,650)**	(141,724)
Interest received		**21,867**	14,554
Net cash used in investing activities		**(152,783)**	(127,170)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of shares		**266,062**	—
Proceeds from reorganization	10(b)	**62,022**	—
Proceeds from short-term bank loans		**169,200**	53,397
Proceeds from long-term bank loans		**61,100**	14,302
Repayment of long-term bank loans		**(148,339)**	(441,441)
Repayment of short-term bank loans		**(307,053)**	—
Net cash generated from (used in) financing activities		**102,992**	(373,742)
Net increase (decrease) in cash and cash equivalents		**175,466**	(108,623)
Effects on changes of foreign currencies translation		**764**	1,519
Cash and cash equivalents at beginning of year		**181,949**	289,053
Cash and cash equivalents at end of year		**358,179**	181,949

The accompanying notes are an integral part of these financial statements.

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.

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 directors of the Company consider Far Eastern Textile Limited, a company incorporated in Taiwan and listed on the Taiwan Stock Exchange to be the ultimate holding company.

On 31st January, 2000, the Company's shares were listed on The Growth Enterprise Market of Hong Kong Exchanges and Clearing Limited (formerly known as "The Stock Exchange of Hong Kong Limited").

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in preparing the financial statements of the Company and its subsidiary are as follows:

(a) Basis of presentation

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 Hong Kong Exchanges and Clearing Limited ("the GEM Listing Rules").

The financial statements have been prepared under the historical cost convention except for buildings included in property, plant and equipment which have been stated at revalued amount.

(b) Change of accounting policy

During the year ended December 31, 2000, the Company changed its accounting policy with respect to the accounting for investment in subsidiary. In previous periods, the Company had stated investment in subsidiary at cost less provision for impairment. The Company has now decided to account for investment in subsidiary using the equity method. The directors of the Company consider the change will result in a more appropriate presentation of the financial statements.

(c) Principles of consolidation

The consolidated financial statements include those of the Company and its subsidiary.

All significant intercompany balances and transactions, including intercompany profits and unrealized profits and losses are eliminated on consolidation. Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(d) Subsidiary

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

In the Company's financial statements, investment in subsidiary is accounted for using the equity method. An assessment of investment in subsidiary is performed when there is an indication that the asset has been impaired or the impairment losses recognized in prior years no longer exist.

(e) Property, plant and equipment and depreciation

Property, plant and equipment, other than buildings, are stated at cost less accumulated depreciation and accumulated impairment loss. The initial 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.

Expenditures incurred after the property, plant and equipment have been put into operation, such as repair and maintenance and overhaul costs, are recognized as expense in the period in which they are incurred. In situations where it is probable that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of the asset.

Depreciation is calculated using the straight-line method to write off the cost or revalued amount, 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

The useful lives of assets and depreciation method are reviewed periodically.

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

Buildings are stated at valuation less accumulated depreciation and accumulated impairment loss. Valuation by independent valuer is performed at a maximum interval of 3 years or as deemed necessary.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

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

Any increase in buildings valuation is credited to the revaluation reserve in shareholders' equity; any decrease is first offset against an increase on earlier valuation in respect of the same property and is thereafter charged to the income statement. Increase on revaluation directly related to a previous decrease in carrying amount for the same investment that was recognized as an expense is credited to income to the extent that it offsets the previously recorded decrease.

Upon the disposal of revalued property, the realized portion of the revaluation reserve is transferred from the valuation reserve to retained profits.

(f) 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 b/rrowings used to finance these projects during the construction period, to the extent these are regarded as an adjustment to interest costs.

Construction-in-progress is not depreciated until such time as the assets are completed and put into operational use.

(g) Deferred assets

Deferred assets are stated at cost less accumulated amortization. Amortization is calculated using the straight-line method to write-off the cost over 10 years.

(h) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost, calculated on the weighted average basis, comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognized as an expense in the period in which the related revenue is recognized. The amount of any write-down of inventories to net realizable value and all losses of inventories are recognized 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 realizable value, is recognized as a reduction in the amount of inventories recognized 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)

(i) Receivables

Receivables are stated at face value, after provision for doubtful accounts.

(j) Cash and cash equivalents

Cash represents cash on hand and deposits with 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 with original maturities of three months or less and that are subject to an insignificant risk of change in value.

(k) Deferred taxation

Deferred taxation is provided under the balance sheet liability method in respect of significant temporary 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 liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which the deductible temporary difference can be utilized.

(l) Provisions

A provision is recognized when, and only when an enterprise has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(m) Impairment of assets

Property, plant and equipment and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognized in income for items of property, plant and equipment and intangibles carried at cost and treated as a revaluation decrease for buildings that are carried at revalued amount to the extent that the impairment loss does not exceed the amount held in the revaluation surplus for that same building. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit.

Reversal of impairment losses recognized in prior years is recorded when there is an indication that the impairment losses recognized for the asset no longer exist or has decreased. The reversal is recorded in income or as a revaluation increase.

(n) Revenue recognition

Provided it is probable that the economic benefits associated with a transaction will flow to the Company and the revenue and costs, if applicable, can be measured reliably, revenue is recognized on the following bases:

(i) Sale of goods

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

(ii) Processing fee

Processing fee 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.

(iii) Interest income

Interest income is recognized on a time proportion basis that takes into account the effective yield on the assets.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(o) Borrowing costs

Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds, including amortization of discounts or premiums relating to borrowings, amortization of ancillary costs incurred in connection with arranging borrowings and exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

Borrowing costs are expensed as incurred, except when they are directly attributable to the acquisition, construction or production of the production plants that necessarily takes a substantial period of time to get ready for its intended use in which case they are capitalized as part of the cost of that asset.

Capitalization of borrowing costs commences when expenditures for the asset and borrowing costs are being incurred and the activities to prepare the asset for its intended use are in progress. Borrowing costs are capitalized at the weighted average cost of the related borrowings until the asset is ready for its intended use. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded.

(p) Operating leases

Leases are classified as operating leases whenever substantially all the risks and rewards incidental to ownership of the leased assets remain with the lessor.

Lease payments under operating leases are recognized as an expense in the income statement on a straight-line basis over the lease term. Aggregate benefit of incentives on operating leases is recognized as a reduction of rental expense over the lease term on a straight-line basis.

(q) Foreign currency translation

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.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(q) Foreign currency translation (Cont'd)

(i) Foreign currency transaction

Individual companies within the Group maintain their books and records in the primary currencies of their respective country of operation. Transactions in other currencies are translated into the reporting currency at exchange rates prevailing at the time of the transactions. Monetary assets and liabilities denominated in other currencies at the balance sheet date are re-translated at exchange rates prevailing at that date. Non-monetary assets and liabilities in other currencies are translated at historical rates. Exchange differences, other than those capitalized as a component of borrowing costs, are recognized in the income statement in the period in which they arise.

(ii) Foreign entity

The foreign consolidated subsidiary is regarded as foreign entity since it is financially, economically and organizationally autonomous. Its reporting currency is Renminbi. Financial statements of foreign consolidated subsidiary is translated at year-end exchange rate with respect to the balance sheet, and at exchange rates at the dates of the transactions with respect to the income statement. All resulting translation differences are dealt with as movements of cumulative translation adjustments.

(r) Financial instruments

Financial assets and financial liabilities carried on the balance sheet include cash and cash equivalents, trade and other receivable and payable, long-term loans. The accounting policies on recognition and measurement of these items are disclosed in the respective accounting policies.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains, and losses relating to a financial instrument classified as a liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity. Financial instruments are offset when the Company has a legally enforceable right to offset and intends to settle either on a net basis or to realize the asset and settle the liability simultaneously.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(r) Financial instruments (Cont'd)

The Group operates internationally, giving rise to significant exposure to market risks from changes in interest and foreign exchange rates. The Group uses derivative financial instruments to mitigate those risks. The Group's criteria for a derivative instrument to be classified as a hedge includes: (1) the hedge transaction is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk, (2) the effectiveness of the hedge can be reliably measured, (3) there is adequate documentation of the hedging relationships as the inception of the hedge, (4) for cash flow hedges, the forecasted transaction that is subject of the hedges must be highly probable . When an anticipated future transaction is hedged and the underlying position has not been recognized in the financial statements, any change in the fair value of the hedging instrument is not recognized in the income statement for the period but recorded directly in equity.

(s) Business segment

For management purposes, the Group is organized on a world-wide basis into three major operating businesses. The divisions are the basis upon which the Group reports its primary segment information. Financial information on business and geographical segments is presented in Note 31.

3. PROPERTY, PLANT AND EQUIPMENT

Movements of property, plant and equipment were as follows:

	2000						1999
	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	124,678	258,363	866,143	14,865	7,706	1,271,755	295,387
Additions	—	—	—	—	—	—	874
Transfer from construction-in-progress	—	3,963	6,225	1,383	1,695	13,266	968,667
Disposals	—	—	(25)	(44)	(7)	(76)	(18)
Revaluation	—	—	—	—	—	—	6,845
Differences arising from foreign currency translation	133	268	922	16	9	1,348	—
End of year	124,811	262,594	873,265	16,220	9,403	1,286,293	1,271,755
Representing							
At cost	124,811	3,963	873,265	16,220	9,403	1,027,662	1,013,124
At professional valuation	—	258,631	—	—	—	258,631	258,631
	124,811	262,594	873,265	16,220	9,403	1,286,293	1,271,755

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

	2000						1999
	Land use rights $'000	Buildings $'000	Machinery and equipment $'000	Furniture, fixtures and office equipment $'000	Motor vehicles $'000	Total $'000	Total $'000
Accumulated depreciation							
Beginning of year	7,464	10,119	67,828	2,819	1,542	89,772	6,226
Charge for the year	2,497	11,441	78,518	2,835	1,401	96,692	83,549
Disposals	—	—	(2)	(13)	(3)	(18)	(3)
Revaluation	—	342	—	—	—	342	—
Differences arising from foreign currency translation	8	11	72	3	1	95	—
End of year	9,969	21,913	146,416	5,644	2,941	186,883	89,772
Net book value							
Beginning of year	117,214	248,244	798,315	12,046	6,164	1,181,983	289,161
End of year	114,842	240,681	726,849	10,576	6,462	1,099,410	1,181,983

Land use rights comprise land use fees paid for the right to use the land where the Group's factory buildings in Shanghai, the People's Republic of China (the "PRC") are located.

The Group's buildings were appraised by Sallmanns (Far East) Limited, an independent professional property valuers, in November 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.

Approximately $41 million (1999: $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 30.

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 $234,178,000 (1999: $241,399,000).

(Amounts expressed in Hong Kong dollars unless otherwise stated)

4. CONSTRUCTION-IN-PROGRESS

	2000	1999
	$'000	$'000
Cost of construction, plant and equipment and other direct cost	**169,750**	18,328
Borrowing costs capitalized — interest expense	**1,985**	2,744
	171,735	21,072
Average capitalization rate	**6.32%**	6.14%

5. DEFERRED ASSETS

Deferred assets mainly represented a non-refundable payment made to Shanghai Feng Xian Power Supply Bureau for the construction of the bureau's own facilities for the supply of electricity power to Far Eastern Industries (Shanghai) Limited ("FEIS"), the Company's subsidiary operating in PRC. The facilities so constructed belonged to the bureau and would not be transferred to the Company.

	2000	1999
	$'000	$'000
Cost		
Beginning of year	**11,650**	11,613
Addition	**12**	37
End of year	**11,662**	11,650
Accumulated amortization		
Beginning of year	**(970)**	—
Charge for the year	**(1,168)**	(970)
End of year	**(2,138)**	(970)
Net book value		
End of year	**9,524**	10,680
Beginning of year	**10,680**	11,613

The amortization of deferred asset was included as administrative expenses in the income statement.

6. OTHER LONG-TERM ASSETS

	2000	1999
	$'000	$'000
Deposits for reservation of land use rights	**1,652**	1,652
Others	**32**	162
	1,684	1,814

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 August 2001 and March 2002, respectively. Such deposits will form part of the purchase consideration should the Group exercise the option3 to purchase the above land use rights before the expiration of the relevant reservation periods. The deposits are not otherwise refundable. The Group is currently applying for an extension of the expiration of the relevant reservation periods. The directors of the Company 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 have the land use rights to these two plots of land.

7. INVENTORIES

	2000	1999
	$'000	$'000
Raw materials	**66,022**	54,673
Work-in-progress	**15,303**	8,104
Finished goods	**72,004**	31,498
Consumables and supplies	**15,547**	16,129
	168,876	110,404
Less: Inventory provision	**(3,422)**	(1,963)
	165,454	108,441

Out of the total, finished goods of approximately $4,643,000 (1999: $2,631,000) were stated at net realizable value.

(Amounts expressed in Hong Kong dollars unless otherwise stated)

8. TRADE RECEIVABLES

	2000	1999
	$'000	$'000
Accounts receivable	**99,752**	68,175
Notes receivable	**44,840**	3,564
	144,592	71,739

9. CASH AND CASH EQUIVALENTS

	Group		**Company**	
	2000	1999	**2000**	1999
	$'000	$'000	**$'000**	$'000
Bank deposits	**358,179**	181,866	**292,200**	69
Deposits with a related financial institution	**—**	83	**—**	83
	358,179	181,949	**292,200**	152

10. SHARE CAPITAL

The details of share capital were as follows:

	Number of shares		**Amount**	
	2000	1999	**2000**	1999
	$'000	$'000	**$'000**	$'000
Authorized:				
Ordinary shares of US$10 each	**—**	81.5	**—**	6,302
Ordinary shares of $1 each	**1,500,000**	—	**1,500,000**	—
Issued and fully paid:				
Ordinary shares of US$10 each	**—**	81.5	**—**	6,302
Ordinary shares of $1 each	**410,296**	—	**410,296**	—
			410,296	6,302

10. SHARE CAPITAL (Cont'd)

Movement in share capital during the year were as follows:

	Number of shares		Amount	
	2000	1999	**2000**	1999
	$'000	$'000	**$'000**	$'000
Balance, beginning of year	**81.5**	81.5	**6,302**	6,302
Issuance of shares to a company *(Note b)*	**319.1**	—	**24,821**	—
Capitalization of loan from a shareholding company *(Note c)*	**79.8**	—	**6,206**	—
Capitalization of contributed surplus *(Note d)*	**4,019.6**	—	**312,643**	—
Share split and currency re-denomination of shares *(Note e)*	**344,250.0**	—	**(1,222)**	—
Issuance of shares to the public	**61,546.0**	—	**61,546**	—
Balance, end of year	**410,296.0**	81.5	**410,296**	6,302

Pursuant to a shareholders' resolution passed on 11th January, 2000:

(a) the Company increased its authorized 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;

(b) 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;

(c) a loan from a shareholding company amounting to $70 million was capitalized 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 capitalized over the total par value of share issued amounting to $64 million was credited to the Company's share premium account;

10. SHARE CAPITAL (Cont'd)

(d) the contributed surplus of the Company amounting to approximately $310,825,000 was capitalized 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; and

(e) the Company effected a 1-to-77.5 share split for the shares and the then authorized 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. The exchange difference arising from the re-denomination of currency amounted to approximately $1,222,000.

On 31st January, 2000, the Company issued 61,456,000 new shares publicly on the Growth Enterprise Market of Hong Kong Exchanges and Clearing Limited, with a par value of $1 each.

(Amounts expressed in Hong Kong dollars unless otherwise stated)

11. RESERVES

Group

	Contributed surplus $'000	Share premium $'000	Reserves fund $'000	Revaluation reserve $'000	(Accumulated losses) Retained profit $'000	Cumulative translation adjustments $'000	Total $'000
Balance as at 1st January, 1999	310,825	—	—	—	(34,494)	482	276,813
Revaluation of property, plant and equipment	—	—	—	6,845	—	—	6,845
Effect of revaluation of property, plant and equipment on deferred taxation	—	—	—	(1,200)	—	—	(1,200)
Profit for the year	—	—	—	—	123,386	—	123,386
Translation change for the year	—	—	—	—	—	1,519	1,519
Balance as at 31st December, 1999	310,825	—	—	5,645	88,892	2,001	407,363
Issuance of shares	—	481,430	—	—	—	—	481,430
Expenditure on issuance of shares	—	(22,153)	—	—	—	—	(22,153)
Capitalization of a loan from a shareholding company	—	63,724	—	—	—	—	63,724
Capitalization of contributed surplus	(310,825)	—	—	—	—	(1,818)	(312,643)
Appropriation to statutory reserve fund	—	—	20,107	—	(20,107)	—	—
Currency re-denomination of shares	—	—	—	—	—	1,222	1,222
Deferred item on forward contracts for hedging purposes	—	—	—	—	—	(9,689)	(9,689)
Profit for the year	—	—	—	—	220,138	—	220,138
Translation change for the year	—	—	—	—	—	764	764
Balance as at 31st December, 2000	**—**	**523,001**	**20,107**	**5,645**	**288,923**	**(7,520)**	**830,156**

11. RESERVES (Cont'd)

Company

	Contributed surplus $'000	Share premium $'000	(Accumulated losses) Retained profit $'000	Cumulative translation adjustments $'000	Total $'000
Balance as at 1st January, 1999					
— As previously reported	310,825	—	(5,476)	(478)	304,871
— Cumulative effect on prior year adjustment *(Note 24)*	—	—	(29,018)	—	(29,018)
Restated balance as at 1st January, 1999	310,825	—	(34,494)	(478)	275,853
(Loss) profit for the year					
— As previously reported	—	—	(18,903)	—	(18,903)
— Cumulative effect on prior year adjustment *(Note 24)*	—	—	142,289	—	142,289
Translation change for the year	—	—	—	(35)	(35)
Balance as at 31st December, 1999	310,825	—	88,892	(513)	399,204
Issuance of shares	—	481,430	—	—	481,430
Expenditure on issuance of shares	—	(22,153)	—	—	(22,153)
Capitalization of a loan from a shareholding company	—	63,724	—	—	63,724
Capitalization of contributed surplus	(310,825)	—	—	(1,818)	(312,643)
Currency re-denomination of shares	—	—	—	1,222	1,222
Deferred item on forward contracts for hedging purposes	—	—	—	(9,689)	(9,689)
Profit for the year	—	—	220,138	—	220,138
Translation change for the year	—	—	—	(274)	(274)
Balance as at 31st December, 2000	**—**	**523,001**	**309,030**	**(11,072)**	**820,959**

11. RESERVES (Cont'd)

(a) Contributed surplus

The contributed surplus resulted from the waiving of loans 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 made 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 realizable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

(b) PRC statutory reserves

PRC laws and regulations require wholly-owned foreign enterprises to provide for certain statutory funds, namely, reserve fund and staff and workers' bonus and welfare fund, which are appropriated from profit after tax (based on local statutory accounts of the Company's PRC subsidiary) but before dividend distribution. FEIS is required to allocate at least 10% of its profit after tax to the reserve fund until the balance of such fund has reached 50% of its registered capital. Appropriation to the staff and workers' bonus and welfare fund is at the discretion of FEIS's directors. The reserve fund can only be used, upon approval by the relevant PRC authority, to offset accumulated losses or increase capital. The staff and workers' bonus and welfare fund can only be used for special bonuses or collective welfare of FEIS's employees, and assets acquired through this fund shall not be taken as FEIS's assets.

For the year ended 31st December, 2000, the directors of FEIS resolved to appropriate $20,107,000 (1999: nil) to the reserve fund.

12. LONG-TERM BANK LOANS

Details of the long-term bank loans were as follows:

	2000	1999
	$'000	$'000
Amounts repayable within a period		
— not exceeding one year	**—**	—
— more than one year but not exceeding two years	**91,180**	—
— more than two years but not exceeding five years	**294,178**	30,048
— more than five years	**—**	458,098
	385,358	488,146

The Group's long-term bank loans were granted by third party banks, bore interests at HIBOR plus 0.475%, LIBOR plus 0.425% and LIBOR plus 5.94% per annum and were guaranteed by the Company and stand-by letters of credit amounting to approximately US$12.3 million.

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13. DEFERRED TAXATION

Component of deferred tax liabilities was as follows:

	2000 $'000	1999 $'000
Effect on revaluation of property, plant and equipment	1,200	1,200

14. SHORT-TERM BANK LOANS

The Group's short-term bank loans were granted by third party banks, bore interests at 5.58% to 6.71% per annum and were secured by land and buildings, stand-by letters of credit and letters of guarantees of the Company.

15. REVENUE

	2000 $'000	1999 $'000
Sales of goods	1,159,200	876,356
Processing fee	139,449	158,645
	1,298,649	1,035,001

16. FINANCE COST

	2000 $'000	1999 $'000
Interest expense on		
— Bank loans and overdrafts	39,557	64,758
— Other loans	244	—
Less : Amount capitalized in construction-in-progress	(1,985)	(6,503)
	37,816	58,255

(Amounts expressed in Hong Kong dollars unless otherwise stated)

17. PROFIT BEFORE TAX

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

	2000 $'000	1999 $'000
After crediting —		
Interest income from		
— bank deposits	9,824	13,292
— deposits with a related financial institution	12,043	1,262
Service fee income from the ultimate holding company	—	497
Exchange gains, net	—	25
After charging —		
Depreciation	96,988	81,051
Amortization	1,168	2,471
Inventory provision	1,459	1,963
Interest expense on loans from related companies	244	1,102
Interest expense on		
— bank loans wholly repayable within five years	39,557	49,191
— bank loans wholly repayable after five years	—	15,567
Less: Amount capitalized as construction-in-progress	(1,985)	(6,503)
	37,572	58,255
Exchange loss, net	4,673	—
Operating lease rental in respect of		
— rented premises	1,184	1,512
— raw material storage facilities	—	46
Staff costs	41,645	29,347
Contribution to retirement plan	2,597	818
Auditors' remuneration	493	758

18. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

(a) Details of emoluments paid to the directors of the Company are as follows:

	2000 $'000	1999 $'000
Fees	1,164	—
Other emoluments		
— Basic salaries and allowances	—	—
— Discretionary bonuses	—	—
	1,164	—

The number of directors whose remuneration falls within the following bands are as follows:

	2000 $'000	1999 $'000
Nil - $1,000,000	5	—
$1,000,000 - $2,000,000	—	—
	5	—

No directors waived any emoluments. No incentive payment for joining the Group or compensation for loss of office was paid or payable to any directors during the year.

Under the arrangements currently in force, the aggregate amount of fees and other emoluments payable to the directors of the Company for the year ending 31st December, 2001 is estimated to be approximately $1,164,000.

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

	2000 $'000	1999 $'000
Basic salaries and allowances	3,039	3,200
Number of directors	—	—
Number of employees	5	5
	5	5

18. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS (Cont'd)

The annual emoluments paid during the year to all of the five highest paid individuals (including directors and other employees) fell within the band of Nil - $1,000,000.

(c) During the year, no emoluments were paid to the five highest paid individuals (including directors and employees) as an inducement to join; or upon joining the Group, or as compensation for loss of office.

19. 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 PRC, FEIS is entitled to exemption from PRC enterprise income tax ("EIT") 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 the year ended 31st December, 2000 is the second profit-making year of FEIS after offsetting previous years' losses, no provision of EIT has been provided accordingly.

According to relevant PRC rules and regulations, being qualified as a "High-technology Enterprise" (granted by relevant local authorities on 20th December, 2000) and residing in a designated High-technology Zone, FEIS is entitled to an extended preferential EIT rate by a 50% reduction for the next three years, after the five years of preferential EIT enjoyment ends. The "High-technology Enterprise" status is subject to review every two years.

FEIS 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.

There was no significant unprovided deferred taxation as at 31st December, 2000.

Aggregate deferred tax relating to items charged to equity:

	2000 $'000	1999 $'000
Deferred tax relating to revaluation of buildings	—	1,200

20. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit attributable to shareholders included a profit of approximately $220,138,000 (1999: profit of $123,386,000) dealt with in the financial statements of the Company.

21. DIVIDENDS

On 29th March, 2001, the Board of Directors declared a final dividend of $0.28 per ordinary share, totaling approximately $114,883,000.

22. EARNINGS PER SHARE

The calculation of basic earnings per share for the year ended 31st December, 2000 was based on the consolidated profit attributable to shareholders of approximately $220,138,000 (1999: $123,386,000) and on the weighted average number of ordinary shares in issue during the year and adjusted for a 1-to-77.5 share split. The number of shares used in the computation was as follows:

	2000 $'000	1999 $'000
Adjusted weighted average number of ordinary shares	402,591,000	317,833,700

Diluted earnings per share for the year ended 31st December, 2000 were not presented because there were no potentially dilutive ordinary shares in existence during the financial year.

23. INVESTMENT IN A SUBSIDIARY

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

	2000 $'000	1999 $'000
Investment in unlisted shares, at cost	604,500	604,500
Share of post-acquisition profit before tax	334,999	113,271
Taxation	—	—
	939,499	717,771

No taxation was shared as the Company's subsidiary was exempted from taxation for the current year (Note 19).

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

(Amounts expressed in Hong Kong dollars unless otherwise stated)

23. INVESTMENT IN A SUBSIDIARY (Cont'd)

As at 31st December, 2000, 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-owned foreign 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.

24. PRIOR YEAR ADJUSTMENT

During the year, the Company changed its accounting policy with respect to investment in subsidiary (Note 2(b)) as to give a more appropriate presentation of the financial statements of the Company. This change in accounting policy has been accounted for retrospectively. The comparative statements for 1999 have been restated to conform to the changed policy. The effect of the change is to increase the profit of the Company for the year ended 31st December, 2000 by approximately $221,728,000 (1999: $142,289,000). Beginning retained profit for the year ended 31st December, 1999 has been increased by approximately $29,018,000 which is the amount of the adjustment relating to periods prior to 1999.

25. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Reconciliation from profit before tax to cash generated from operations:

	2000 $'000	1999 $'000
CASH FLOWS FROM OPERATING ACTIVITIES:		
Profit before tax	220,138	123,386
Adjustments for:		
Depreciation	95,044	81,052
Amortization	3,112	2,494
Inventory provision	1,459	1,963
Interest expenses	37,817	58,255
Interest income	(21,867)	(14,554)
Operating profit before working capital changes	335,703	252,596
Increase in inventories	(58,472)	(2,747)
Increase in accounts receivable	(72,853)	(93,818)
Decrease in other current assets	17,695	209,594
Increase in accounts payable	104,813	37,426
(Decrease) Increase in other current liabilities	(39,901)	43,671
Repayment of loans from related parties	(23,911)	—
Cash generated from operations	263,074	446,722

26. RETIREMENT BENEFIT

All of the full-time PRC employees of FEIS 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. FEIS 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 for its Hong Kong employees a defined contribution provident fund scheme, which is managed by an independent trustee. The Group and its Hong Kong employees make monthly contributions to the fund at the lower of 5% of the employees' basic salaries and $1,000. The employees are entitled to 100% of their contribution, plus the Group's contribution and the accrued interest thereon upon retirement or leaving the Group.

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

27. RELATED PARTY TRANSACTIONS

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.

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

(a) Balances and transactions with a shareholding company

Transactions with this shareholding company are summarized below:

	2000 $'000	1999 $'000
Purchase of raw materials	—	1,455
Processing fee income	1,528	158,645

Transactions with this shareholding company have ceased after the Company's 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 summarized below:

	2000 $'000	1999 $'000
Processing fee income	87,362	83,187

27. RELATED PARTY TRANSACTIONS (Cont'd)

(c) Loans from related companies

(i) In February 2000, the Company wholly repaid the $217 million loan from a related company controlled and owned by the chairman of the Company. The loan from this related company were non-interest bearing except for an amount of approximately $15 million which bore interest at six-month Singapore Inter-Bank Offer Rate plus 1% per annum.

Pursuant to the Company's reorganization and as mentioned in Note 10(b), the non-interest bearing portion of the loan from this related company of approximately $202 million were applied 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) In February, the Company wholly repaid the $9 million loan from another related company under the control of the Company's ultimate holding company.

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

	2000 $'000	1999 $'000
Interest expenses	244	1,102

(d) Loans from shareholding companies

Loans from shareholding companies were unsecured and non-interest bearing. As mentioned in Note 10(c), out of these loans, approximately $70 million was capitalized 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 10(b), 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. Remaining portion of the loan was fully repaid in February 2000.

(e) Balances and transactions with a related company

Transactions with the above company are summarized below:

	2000 $'000	1999 $'000
Purchase of raw materials	43,624	47,544
Technological license fee paid	10,144	—

The purchase of raw materials and determination of technological license fee were performed under normal commercial terms and consideration. The purchase of raw materials ceased after March 2000.

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27. RELATED PARTY TRANSACTIONS (Cont'd)

(f) Interest income received from a related financial institution

Interest income earned from the deposit with a related financial institution was as follows:

	2000 $'000	1999 $'000
Interest income	12,043	1,262

The interest income was earned at market rate.

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.

28. FINANCIAL INSTRUMENTS

(a) The carrying amounts of the Company's cash and cash equivalents, short-term bank deposits over three months and trade payable approximate their fair values because of the short maturity of these instruments. As of 31st December, 2000, the estimated fair values of long-term loans including current portions were approximately $385,358,000 (1999: $488,146,000) based on current market interest rates for comparable instruments. As of the same date, the book value of these liabilities was approximately $385,358,000 (1999: $488,146,000).

(b) During the year, the Company entered into certain foreign exchange forward contracts to buy approximately EURO 28 million (1999: Nil) at various rates totaling approximately $199 million (1999 : Nil). These contracts were entered into to hedge against currency fluctuations for certain property, plant and equipment purchases made in 2000.

29. COMMITMENTS AND CONTINGENT LIABILITIES

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

(a) Capital commitments

As at 31st December, 2000, the Group had authorized and contracted capital expenditures of approximately $49,657,000 (1999: $8,861,000) for acquisition of property, plant and equipment.

29. COMMITMENTS AND CONTINGENT LIABILITIES (Cont'd)

(b) Operating lease commitments

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

	2000	1999
	$'000	$'000
Land and buildings		
— not later than one year	746	—
— later than one year and not later than five years	249	3,464
— later than five year	—	2,597
	995	6,061

(c) Contingent liabilities

As at 31st December, 2000, the Group did not have any significant contingent liabilities.

30. 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 pledge of the Group's land and buildings, with a net book value of approximately $41 million as at 31st December, 2000 (1999: $166 million).

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

	2000	1999
	$'000	$'000
Aggregate amount of banking facilities	1,217,970	1,874,007
Less: Amount utilized	(589,955)	(846,857)
Unused facilities	628,015	1,027,150

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31. 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, 2000:

	Chip SBU	Filament SBU	Dyeing and Finishing SBU	Total
	$'000	$'000	$'000	$'000
Revenue				
Turnover from external sales	856,279	291,005	151,365	1,298,649
Result				
Gross profit	222,980	45,203	22,662	290,845
Unallocated corporate expenses				(32,891)
Profit from operations				257,954
Finance cost				(37,816)
Profit before tax				220,138
Taxation				—
Profit for the year				220,138
Other information				
Segment assets	663,331	347,161	503,224	1,513,716
Unallocated corporate assets				516,860
Total assets				2,030,576
Segment liabilities	189,794	172,154	332,315	694,263
Unallocated corporate liabilities				95,861
Total liabilities				790,124
Capital expenditure	85,109	5,257	73,465	163,831
Depreciation and amortization	35,223	30,865	32,068	98,156
Non-cash expenses other than depreciation and amortization	—	—	1,459	1,459

31. SEGMENTAL INFORMATION (Cont'd)

For the year ended 31st December, 1999:

	Chip SBU	Filament SBU	Dyeing and Finishing SBU	Total
	$'000	$'000	$'000	$'000
				(Note 32)
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				(33,361)
Profit from operations				181,641
Finance cost				(58,255)
Profit before tax				123,386
Taxation				—
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
Capital expenditure	51,009	59,340	34,079	144,428
Depreciation and amortization	62,851	16,966	3,705	83,522
Non-cash expenses other than depreciation and amortization	—	—	1,963	1,963

(Amounts expressed in Hong Kong dollars unless otherwise stated)

31. SEGMENTAL INFORMATION (Cont'd)

Geographical analysis of sales is as follows:

	2000 $'000	1999 $'000
The PRC	1,136,946	866,128
Europe	36,959	79,982
Others	124,744	88,891
	1,298,649	1,035,001

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

32. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to current year presentation.

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Far Eastern Polychem Industries Limited (the "Company") will be held at Willow Room, 17/F, The Mandarin Oriental Hotel, 5 Connaught Road Central, Hong Kong on 30th May, 2001 (Wednesday) at 2:00 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, 2000.

2. To re-elect retiring directors, to ratify a bonus payment to executive directors and to authorise the board of directors to divide amongst the executive and non-executive directors of the Company an amount of not exceeding HK$804,000 and HK$360,000 respectively, as remuneration to such directors, as the board sees fit.

3. To declare a final dividend for the year ended 31st December, 2000.

4. To re-appoint auditors and to authorize the board of directors to fix their remuneration.

5. As special business to consider and, if thought fit, pass with or without modifications, the following resolutions as Ordinary Resolutions:

   "**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 or securities convertible into such shares or warrants or similar rights to subscribe for any shares in the Company 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 (a) shall authorize 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 or agreed conditionally or unconditionally to be allotted (Whether pursuant to an option or otherwise) by the directors of the Company pursuant to the approval in paragraph (a), otherwise than pursuant to the shares of the Company issued as a result of a Rights Issue (as hereinafter defined) or pursuant to the exercise of options under the Share Option Scheme 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 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 earlier of:

   (i) the conclusion of the next annual general meeting of the Company;

   (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 of Bermuda 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 an offer of shares open for a period fixed by the directors of the Company to holders of shares of the Company on the register on a fixed record date in proportion to their holdings of such shares (subject to such exclusions or other arrangements as the directors as the directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions, or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in any territory outside Hong Kong)."

By Order of the Board of Directors
SHUN-FAI LIU
Secretary

Hong Kong
29th March, 2001

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

Notes:

1. A member entitled to attend and vote at the meeting convened by the above notice entitled to appoint not more than two proxies to attend and vote in his stead. A proxy need not be a member of the Company.

2. To be valid, this 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 that power of attorney of other 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.

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

4. The register of members of the Company will be closed from 25th May, 2001 to 30th May, 2001, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the final dividend payable on 7th June, 2001 to be approved at the meeting and 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 4:00 p.m. on 24th May, 2001.

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