

# **FAR EASTERN POLYCHEM INDUSTRIES LIMITED**

## **(遠東化聚工業股份有限公司)\***

### **QUARTERLY RESULTS FOR THE NINE MONTHS ENDED 30TH SEPTEMBER, 2001**

#### **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE HONG KONG EXCHANGES AND CLEARING LIMITED (THE “EXCHANGE”)**

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*\* For identification only*

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*This report, for which the directors (the “Directors”) of Far Eastern Polychem Industries Limited (the “Company”) 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 the Company. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

## **QUARTERLY RESULTS HIGHLIGHTS**

- The Company and its subsidiary (together the “Group”) are principally engaged in the production and distribution of two major categories of polyester products in the People’s Republic of China (the “PRC”), namely bottle-grade polyethylene terephthalate (“PET”) chips and polyester filament, and the dyeing and finishing of polyester fabrics.
- The Group achieved a turnover of approximately HK\$ 1,037,802,000 for the nine months ended 30th September, 2001, with profit attributable to shareholders of approximately HK\$ 180,360,000, representing an increase of 5% and 9%, respectively, as compared to the same nine-month period in the previous financial year.
- The Group achieved a turnover of approximately HK\$ 373,918,000 for the three months ended 30th September, 2001, with profit attributable to shareholders of approximately HK\$ 53,953,000, representing an increase of 5% and a decrease of 28%, respectively, as compared to the same three month period in the previous financial year.
- Earnings per share for the nine months ended 30th September, 2001 was HK\$0.44 (Earnings per share for the nine months ended 30th September, 2000 was HK\$ 0.41).

## INTERIM FINANCIAL STATEMENTS (UNAUDITED)

The Directors have the pleasure of presenting the unaudited consolidated balance sheet for the Group as at 30th September, 2001, with the comparative figures as at 31st December, 2000; the unaudited consolidated profit and loss account for the Group for three months and nine months ended 30th September, 2001, with the comparative figures for the same period last year; and the unaudited consolidated cash flow statement for the Group for the nine months ended 30th September, 2001 with the comparative figures for the same period last year, as follows:

### (a) Consolidated balance sheet

		As at	
	Note	30th September, 2001	31st December, 2000
		HK\$'000	HK\$'000
		(Unaudited)	(Audited)
Fixed assets		1,442,648	1,271,145
Deferred assets		10,167	9,524
Other long-term assets		3,064	1,684
Current assets		789,324	748,223
Current liabilities		(614,652)	(403,566)
Net current assets		174,672	344,657
Total assets less current liabilities		1,630,551	1,627,010
Long-term bank loans		(323,116)	(385,358)
Deferred taxation		(1,200)	(1,200)
Net assets		1,306,235	1,240,452
Share capital		410,296	410,296
Reserves	1	895,939	830,156
Shareholders' funds		1,306,235	1,240,452

**(b) Unaudited consolidated profit and loss account**

	<i>Notes</i>	<b>For the nine months ended 30th September</b>		<b>For the three months ended 30th September</b>	
		<b>2001</b>	<b>2000</b>	<b>2001</b>	<b>2000</b>
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
			<i>(Note 5)</i>		<i>(Note 5)</i>
PET chips		712,598	653,946	261,808	232,193
Polyester filaments		144,960	229,950	46,729	77,790
Finished fabrics		178,276	101,846	63,413	47,380
Polyester staple fibers		1,968	—	1,968	—
		<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total turnover	2	1,037,802	985,742	373,918	357,363
Cost of sales		<u>(794,561)</u>	<u>(770,499)</u>	<u>(292,536)</u>	<u>(265,869)</u>
Gross profit		243,241	215,243	81,562	91,494
Other operating income		15,444	12,287	4,773	2,692
Distribution costs		(20,133)	(10,999)	(8,567)	(3,828)
Administrative costs		<u>(26,852)</u>	<u>(20,768)</u>	<u>(13,574)</u>	<u>(6,538)</u>
Profit from operations		211,700	195,763	64,194	83,820
Finance cost, net		<u>(15,973)</u>	<u>(30,747)</u>	<u>(5,119)</u>	<u>(8,911)</u>
Profit before tax		195,727	165,016	59,075	74,909
Income tax expense	3	<u>(15,367)</u>	<u>—</u>	<u>(5,122)</u>	<u>—</u>
Profit attributable to shareholders		<u>180,360</u>	<u>165,016</u>	<u>53,953</u>	<u>74,909</u>
Earnings per share (in HK\$)	4				
— Basic		<u>0.44</u>	<u>0.41</u>	<u>0.13</u>	<u>0.18</u>
— Fully diluted		<u>NA</u>	<u>NA</u>	<u>NA</u>	<u>NA</u>

**(c) Unaudited consolidated cash flow statements**

	<b>For the nine months ended</b>	
	<b>30th September, 2001</b>	<b>30th September, 2000</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
		<i>(Note 5)</i>
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>	300,684	169,261
Interest paid	(27,171)	(30,747)
Net cash from operating activities	<u>273,513</u>	<u>138,514</u>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(255,535)	(33,584)
Interest received	11,527	16,119
Net cash used in investing activities	<u>(244,008)</u>	<u>(17,465)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issue of shares	—	266,062
Proceeds from reorganization	—	62,022
Proceeds from short-term bank loans	462,480	98,700
Proceeds from long-term bank loans	—	61,100
Repayment of short-term bank loans	(300,800)	(246,280)
Repayment of long-term bank loans	(62,242)	(123,998)
Dividends paid	(114,883)	—
Net cash (used in) from financing activities	<u>(15,445)</u>	<u>117,606</u>
Net increase in cash and cash equivalents	14,060	238,655
Effects on changes of foreign currencies translation	305	174
Cash and cash equivalents, beginning of the period	<u>358,179</u>	<u>181,949</u>
Cash and cash equivalents, end of the period	<u><u>372,544</u></u>	<u><u>420,778</u></u>

Notes:

1) Movements in reserves are as follows:

(a) For the nine months ended 30th September, 2000:—

	Contributed surplus <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Staff welfare fund and reserve fund <i>HK\$'000</i>	Revaluation reserve <i>HK\$'000</i>	(Accumulated losses) Retained profit <i>HK\$'000</i>	Cumulative translation adjustments <i>HK\$'000</i>	Total <i>HK\$'000</i>
Balance, 1st January, 2000	310,825	—	—	5,645	88,892	2,001	407,363
Issue of ordinary shares	—	481,430	—	—	—	—	481,430
Expenditure on issue of shares	—	(21,973)	—	—	—	—	(21,973)
Capitalization of a loan from a shareholding company	—	63,724	—	—	—	—	63,724
Capitalization of contributed surplus for the issuance of 4,019,580 new shares	(310,825)	—	—	—	—	(1,818)	(312,643)
Profit appropriation	—	—	20,107	—	(20,107)	—	—
Redenomination of shares from US\$10 to HK\$1	—	—	—	—	—	1,222	1,222
Profit for six months ended 30th June, 2000	—	—	—	—	90,106	—	90,106
Translation change for the six months ended 30th June, 2000	—	—	—	—	—	768	768
Deferred exchange gain on forward contracts for hedging purpose	—	—	—	—	—	519	519
Balance, 30th June, 2000	—	523,181	20,107	5,645	158,891	2,692	710,516
Additional expenditure on issue of shares	—	(180)	—	—	—	—	(180)
Profit for the three months ended 30th September, 2000	—	—	—	—	74,909	—	74,909
Deferred item on forward contracts for hedging purpose	—	—	—	—	—	(13,254)	(13,254)
Translation change for the nine months ended 30th September, 2000	—	—	—	—	—	2	2
Balance, 30th September, 2000	—	523,001	20,107	5,645	233,800	(10,560)	771,993

(b) For the nine months ended 30th September, 2001

	Share premium <i>HK\$'000</i>	Staff welfare fund and reserve <i>HK\$'000</i>	Revaluation reserve <i>HK\$'000</i>	Retained profit <i>HK\$'000</i>	Cumulative translation adjustments <i>HK\$'000</i>	Total <i>HK\$'000</i>
Balance, 1st January, 2001	523,001	20,107	5,645	288,923	(7,520)	830,156
Profit appropriation	—	32,542	—	(32,542)	—	—
Dividends declared	—	—	—	(114,883)	—	(114,883)
Profit for six months ended 30th June, 2001	—	—	—	126,407	—	126,407
Translation change for the three month period ended 30th June, 2001	—	—	—	—	307	307
Balance, 30th June, 2001	523,001	52,649	5,645	267,905	(7,213)	841,987
Profit for the three months ended 30th September, 2001	—	—	—	53,953	—	53,953
Translation change for the three month period ended 30th September, 2001	—	—	—	—	(1)	(1)
Balance, 30th September, 2001	<u>523,001</u>	<u>52,649</u>	<u>5,645</u>	<u>321,858</u>	<u>(7,214)</u>	<u>895,939</u>

## 2) Turnover

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

## 3) Taxation

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

The Company's subsidiary, Far Eastern Industries (Shanghai) Limited ("FEIS"), as a wholly foreign owned enterprise, is subject to PRC enterprise income tax ("EIT") on the taxable income as reported in its statutory financial statements adjusted in accordance with relevant income tax laws. The applicable EIT rate under local treatment is 15% and local income tax rate is 3%. However, there is no assurance that FEIS will continue to enjoy the reduced EIT rate of 15% in the future. Furthermore, according to "Income Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises", FEIS is entitled to full exemption from EIT for the first two profit-making years and a 50% reduction in EIT for the following three years, commencing from the first profitable year after off-setting all tax losses carried forward from previous years. For this purpose, income tax losses can be carried forward for five years. As 1999 was the first profit-making year of FEIS after off-setting previous years' losses, a provision for EIT at a rate of 7.5% has been made for the nine months ended 30th September, 2001.

According to relevant PRC rules and regulations, FEIS, as a "High-technology Enterprise" and residing in a designated high-technology zone, is entitled to an extended preferential EIT rate comprising a 50% reduction, for the next three years following the expiration of the aforesaid five year period of preferential EIT enjoyment. The "High-technology Enterprise" status of FEIS is subject to review every two years.

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

There was no significant unprovided deferred taxation for the nine months ended 30th September, 2001 because there were no significant temporary differences.

#### **4) Earnings per share**

The calculation of the earnings per share for the nine months ended 30th September, 2001 and 30th September, 2000, respectively was based on the unaudited consolidated profit attributable to shareholders of approximately HK\$180,360,000 and HK\$ 165,016,000 respectively and the weighted average number of 410,296,000 shares and 400,022,411 shares in issue respectively, during both periods.

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

#### **5) Certain comparative figures have been reclassified to conform to current period presentation.**

### **INTERIM DIVIDEND**

The Directors do not recommend the payment of an interim dividend for the nine months ended 30th September, 2001.

The Group did not declare any dividends for the corresponding nine-month period in 2000, the quarterly periods ended 30th September, 2001 and 31st March, 2001 and the corresponding quarterly periods in 2000.



## **FINANCIAL PERFORMANCE**

The unaudited consolidated turnover of the Group for the nine-month period 30th September, 2001 was approximately HK\$1,037,802,000, representing a 5% increase as compared to the corresponding nine-month period in 2000. Unaudited consolidated gross profit and profit attributable to shareholders of the Group for the nine-month period ended 30th September, 2001 was approximately HK\$ 243,241,000 and HK\$180,360,000 respectively, representing a 13% and a 9% increase respectively as compared to the nine-month period ended 30th September, 2000.

The unaudited consolidated turnover of the Group for the three-month period 30th September, 2001 was approximately HK\$373,918,000, representing a 5% increase as compared to the corresponding quarterly period in 2000. Unaudited consolidated gross profit and profit attributable to shareholders of the Group for the three-month period ended 30th September, 2001 was approximately HK\$ 81,562,000 and HK\$53,953,000 respectively, representing a 11% and a 28% decrease respectively as compared to the quarterly period ended 30th September, 2000. Please refer to the section “Business Review” for reasons behind the decline in gross profit and net profit during the third quarter of 2001.

## **BUSINESS REVIEW**

The petrochemical industry was hit hard by the global economic slowdown. The continuing deterioration in consumer confidence, together with an increase in production capacities led to a decline in selling prices of the Group’s major petrochemical products, PET chips, polyester filaments and finished fabrics. The Group’s performance during the third quarter of 2001 was inevitably affected by such adverse market conditions. The Directors believe that the adjustment process within the petrochemical industry, which came earlier than expected, has just begun.

### **The PET chips market in the PRC was sluggish during the third quarter of 2001**

The increase in production capacities in the PRC has led to a continuing decline in selling prices of PET chips during the third quarter of 2001. The effect of such decline in selling prices was mitigated by the simultaneous decrease in our feedstock costs. Accordingly, the gross profit margin for PET chips during the third quarter of 2001 only decreased slightly when compared to the same quarterly period of 2000. And as more PET chips were sold, there was still growth, although a slowing growth, in the gross profit for the Chip Strategic Business Unit (“SBU”) during the third quarter of 2001 when compared to the same quarterly period in 2000.

As the Group will have increased PET chips production capacity in the fourth quarter of 2001, in order to mitigate its impact on the PRC market, the Group has recently started to export its PET chips with Europe and South East Asia being the main target markets. The Directors anticipate sustained pressure on the selling prices of PET chips over the fourth quarter of 2001 and into the early part of 2002, in particular given that PET chips production capacity in the PRC will continue to increase.

## **Demand for polyester filaments and finished fabrics remained weak**

As the downturn in the global economy severely affected the export of PRC textile products, the demand for polyester filaments and finished fabrics remained weak during the third quarter of 2001. The Filament and Dyeing and Finishing SBU faced intense competition as the market contracted rapidly. Cost-cutting measures implemented by the Group were inadequate to offset the effect of inefficiencies caused by low production volume.

Under such circumstances, the Directors believe that many of the small-scale, inefficient producers will close down under such severe conditions, whereas the large-scale, efficient producers, including the Group, will survive and be better positioned when the market picks up again. The Directors remain confident that the filament and fabric market will pick up quickly as soon as the global economy, in particular, that of the United States recovers.

## **Increase in administrative, production overhead and selling expenses during the third quarter of 2001**

During the three months ended 30th September, 2001, there were substantial increases in the Group's administrative, production overhead and selling expenses. Administrative and production overhead expenses mainly included additional staff costs and raw material costs used during the extensive testing for the start-up of the new polyester staple-fiber plant. Such expenses were of a one-off nature that will not recur in the fourth quarter of 2001. In addition, selling expenses also increased as the Group started to bear sales transportation costs in view of the weakening business conditions.

## **FUTURE OUTLOOK**

### **Selling prices of the Group's petrochemical products will continue to decline**

The Directors do not expect a quick turnaround in the near future amid the global economy slowdown. The terrorist attacks in the United States are expected to affect the Group's performance in the fourth quarter of 2001, and hence, the Directors expect a slowing growth, or even a negative growth in the Group's net profit. The selling prices of the Group's petrochemical products will continue to decline. However, towards early 2002, the Directors expect the negative effect on the Group's gross profit margin will be partially offset by the lowering of our feedstock costs due to (1) a reduction in import duties from the present rate of 14% - 16% to a rate of lower than 10%, expected on the PRC's will entry into the World Trade Organization ("WTO") next year and (2) the costs of the Group's major raw materials, purified terephthalic acid ("PTA") and mono-ethylene glycol ("MEG"), declining throughout 2002 due to global oversupply.

## **The Group has planned extreme measures in view of the market downturn**

The Directors have already planned tight cost cutting measures in view of the adverse market conditions, such as stringent cost controls and efficient inventory and accounts receivable management. Moreover, the Group will continue to focus on selling high value-added products with higher gross profit margins. Taken together with the correct product mix among PET chips, polyester filaments, finished fabrics and polyester staple fibers, the Group is hopeful that such measures can minimize the effect of the market downturn.

## **The new polyester staple fiber plant will operate at full capacity during the fourth quarter of 2001**

The new polyester staple fiber plant started to operate during the third quarter of 2001, and will reach maximum capacity during the fourth quarter of 2001. Based on the current conditions and assuming no material further decline, the Directors are still optimistic that value-added non-textile staple-fibers will contribute a profit during the fourth quarter of 2001 and the year 2002.

## **DIRECTORS' INTERESTS IN SECURITIES**

As at 30th September, 2001, the following Directors had or were deemed to have interests in the securities of the Company under the Securities (Disclosure of Interest) Ordinance (the "SDI Ordinance") by virtue of their shareholdings in Far Eastern Textile Limited ("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:**

<b>Name of director</b>	<b>Number of shares</b>				<b>Total</b>
	<b>Personal interests</b>	<b>Family interests</b>	<b>Corporate interests</b>	<b>Other interests</b>	
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 30th September, 2001.

*Notes:*

FET is a management shareholder (as such term is defined in the GEM Listing Rules) of the Company. As at 30th September, 2001, FET had a 58.2% interest in the Company (comprising a direct interest of 11.4% and indirect interests of 46.8% by virtue of its controlling shareholding in Yuang Ding Investment Corporation).

In aggregate, the above interests represented, as at the date of this announcement, 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 30th September, 2001 or at any time during the nine months ended 30th September, 2001.

## **DIRECTORS' RIGHTS TO PURCHASE SHARES OR DEBENTURES**

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

As at 30th September, 2001, no options had been granted under the Company's share option scheme.

## **SUBSTANTIAL SHAREHOLDERS**

As at 30th September, 2001, 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:

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

Save 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 30th September, 2001.

*Notes:*

1. FET is interested 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, polyester and textile products.

During the nine months ended 30th September, 2001, FET produced approximately 539,019 tonnes of polyester polymer, 175,078 tonnes of various types of PET chips (for PET bottles, food and industrial packaging), 165,660 tonnes of polyester staple fibre, 152,765 tonnes of POY, 67,125 tonnes of DTY, 309,602 bales of yarn, 7,037,000 yards of finished fabrics and 64,100,000 million pieces of PET preforms. Everest Textile also produced approximately 23,010 tonnes of polyester filament and 51,988,000 yards of finished fabrics.

Save as disclosed above, as at 30th September, 2001, the Directors were not aware of any other business or interest of each Director and management shareholder, and the respective associates of each, that competes or may compete with the business of the Group.

*Notes:*

1. As at 30th September, 2001, 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 30th September, 2001, Mr. Shu-Tong Hsu and Mr. Jar-Yi Shih were also directors of Everest Textile.

## **SPONSOR'S INTERESTS**

As notified by the Company's retained sponsor, The Hongkong and Shanghai Banking Corporation Limited ("HSBC") and their associates (as defined in Note 3 to Rule 6.35 of the GEM Listing Rules) held a total of 11,182,000 shares of HK\$1.00 each in the issued share capital of the Company as at 30th September, 2001. As at that date, employees of HSBC (as referred to in Note 3 to rule 6.35 of the GEM Listing Rules) who were involved in providing advice to the Company were interested in a total of 20,000 shares in the issued share capital of the Company.

Pursuant to the sponsor agreement dated 11th January, 2000 ("Sponsor Agreement") entered into between the Company and HSBC Investment Bank Asia Limited ("HIBA") and the novation agreement dated 29th January, 2001 entered into between the Company, HIBA and HSBC, HSBC will receive a fee for acting as the Company's retained sponsor for the period from 12th January, 2000 to 31st December, 2002.

Save for the above, HSBC has no other interest in the Company as at 30th September, 2001.

## **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-yearly 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 eight times since its formation.

## **PURCHASE, SALE OR REDEMPTION OF SHARES**

Neither the Company nor its subsidiary has purchased, sold or redeemed any of the Company's shares during the period from 31st January, 2000 (date of listing) to 30th September, 2001.

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

Taipei, 5th November, 2001