



FAR EASTERN POLYCHEM INDUSTRIES LIMITED
(遠東化聚工業股份有限公司)*

(Incorporated in Bermuda with limited liability)

**QUARTERLY RESULTS FOR THE
THREE MONTHS ENDED 31ST MARCH, 2003**

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

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

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

* *For identification only*

The Exchange takes no responsibility for the contents of this 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 report.

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

QUARTERLY RESULTS HIGHLIGHTS

- Far Eastern Polychem Industries Limited (the “Company”) and its subsidiaries (together the “Group”) are principally engaged in the production and distribution of four major categories of polyester products in the People’s Republic of China (the “PRC”), namely bottle-grade polyethylene terephthalate (“PET”) chips, polyester filament and polyester staple fiber, and the dyeing and finishing of polyester fabrics.
- The Group achieved a turnover of approximately HK\$ 468,886,000 for the three months ended 31st March, 2003, with profit attributable to shareholders of approximately HK\$ 13,258,000, representing an increase of 13% and a decrease of 58%, respectively, as compared to the same three-month period in the previous financial year.
- Earnings per share for the three months ended 31st March, 2003 was HK\$ 0.03 (Earnings per share for the three months ended 31st March, 2002 was HK\$ 0.08).

QUARTERLY FINANCIAL STATEMENTS (UNAUDITED)

The directors of the Company (the “Directors”) have the pleasure of presenting the unaudited consolidated financial statements of the Group for the three months ended 31st March, 2003 and the comparative figures as at 31st December, 2002 for the audited consolidated balance sheet and for the corresponding period of last year for the unaudited consolidated profit and loss account, statement of changes in equity and cash flow statements and as follows:

(a) Consolidated balance sheet

| | | As at | |
|--|--------------|-----------------------------|--------------------------------|
| | <i>Notes</i> | 31st March, 2003 | 31st December, 2002 |
| | | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | | <i>(Unaudited)</i> | <i>(Audited)</i> |
| Fixed Assets | | 1,403,152 | 1,428,749 |
| Other non-current assets | | 14,377 | 11,517 |
| Current Assets | | | |
| Cash at bank and in hand | | 508,157 | 345,717 |
| Trade receivables | 3 | 164,887 | 214,828 |
| Inventories | | 404,181 | 313,312 |
| Other current assets | | 78,758 | 51,704 |
| Total current assets | | <u>1,155,983</u> | <u>925,561</u> |
| Current liabilities | | | |
| Trade payables | 4 | (573,107) | (379,207) |
| Short-term bank loans | | (147,172) | (179,131) |
| Long-term bank loans, current portion | | (140,060) | (46,060) |
| Dividends payable | | (41,040) | |
| Income tax payable | | — | (14,279) |
| Total current liabilities | | <u>(901,379)</u> | <u>(618,677)</u> |
| Net current assets | | 245,604 | 306,884 |
| Total assets less current liabilities | | 1,672,133 | 1,747,150 |
| Non-current liabilities | | | |
| Long-term bank loans, less current portion | | (378,249) | (425,494) |
| Deferred tax liabilities | | (1,200) | (1,200) |
| Net assets | | <u>1,292,684</u> | <u>1,320,456</u> |
| Share capital | | 410,296 | 410,296 |
| Reserves | | 882,388 | 910,160 |
| Shareholders' equity | | <u>1,292,684</u> | <u>1,320,456</u> |

(b) Unaudited consolidated profit and loss account

| | | For the three months ended | |
|-------------------------------------|-------|----------------------------|-------------|
| | | 31st March | |
| | Notes | 2002 | 2001 |
| | | HK\$'000 | HK\$'000 |
| | | (Unaudited) | (Unaudited) |
| PET chips | | 298,213 | 285,269 |
| Polyester filaments | | 49,185 | 37,966 |
| Polyester staple fibers | | 41,028 | 50,037 |
| Finished fabrics | | 80,460 | 41,164 |
| Total turnover | 5 | 468,886 | 414,436 |
| Cost of sales | 6 | (412,816) | (347,457) |
| Gross profit | | 56,070 | 66,979 |
| Other operating income | 7 | 2,668 | 2,816 |
| Distribution costs | 8 | (25,628) | (22,582) |
| Administrative costs | 9 | (14,388) | (7,898) |
| Profit from operations | | 18,722 | 39,315 |
| Finance cost, net | 10 | (3,938) | (5,426) |
| Profit before tax | | 14,784 | 33,889 |
| Income tax expense | 11 | (1,526) | (2,532) |
| Profit attributable to shareholders | | 13,258 | 31,357 |
| Earnings per share (in HK\$) | 12 | | |
| — Basic | | 0.03 | 0.08 |
| — Fully diluted | | NA | NA |

(c) **Unaudited consolidated statements of changes in equity**

For the year ended 31st December, 2002:

| | Share capital <i>HK\$'000</i> | 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, 2002 | 410,296 | 523,001 | 52,649 | 5,645 | 346,748 | 2,169 | 1,340,508 |
| Profit appropriation | — | — | 33,721 | — | (33,721) | — | — |
| Dividends declared | — | — | — | — | (102,574) | — | (102,574) |
| Profit for the three months ended 31st March, 2002 | — | — | — | — | 31,357 | — | 31,357 |
| Balance, 31st March, 2002 | 410,296 | 523,001 | 86,370 | 5,645 | 241,810 | 2,169 | 1,269,291 |
| Profit for the nine months ended 31st December, 2002 | — | — | — | — | 51,165 | — | 51,165 |
| Balance, 31st December, 2002 | <u>410,296</u> | <u>523,001</u> | <u>86,370</u> | <u>5,645</u> | <u>292,975</u> | <u>2,169</u> | <u>1,320,456</u> |

For the three months ended 31st March, 2003:

| | Share capital <i>HK\$'000</i> | 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, 2003 | 410,296 | 523,001 | 86,370 | 5,645 | 292,975 | 2,169 | 1,320,456 |
| Dividends declared | — | — | — | — | (41,030) | — | (41,030) |
| Profit for the three months ended 31st March, 2003 | — | — | — | — | 13,258 | — | 13,258 |
| Balance, 31st March, 2003 | <u>410,296</u> | <u>523,001</u> | <u>86,370</u> | <u>5,645</u> | <u>265,203</u> | <u>2,169</u> | <u>1,292,684</u> |

(d) Unaudited consolidated cash flow statements

| | For the three months ended | |
|--|----------------------------|-----------|
| | 31st March, | |
| | 2003 | 2002 |
| | HK\$'000 | HK\$'000 |
| CASH FLOW FROM OPERATING ACTIVITIES | 31,356 | 63,875 |
| Interest paid | (5,922) | (7,538) |
| Income taxes paid | (371) | (8,568) |
| Net cash from operating activities | 25,063 | 47,769 |
| CASH FLOW FROM INVESTING ACTIVITIES | | |
| Investment in a subsidiary | (86,473) | — |
| Advances from related companies | 218,796 | — |
| Purchase of property, plant and equipment | (10,507) | (47,158) |
| Interest received | 765 | 1,437 |
| Net cash used from (in) investing activities | 122,581 | (45,721) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from short-term bank loans | 222,207 | 239,610 |
| Proceeds from long-term bank loans | 46,755 | 212,440 |
| Repayment of short-term bank loans | (254,166) | (292,732) |
| Repayment of long-term bank loans | — | (137,240) |
| Net cash used in financing activities | 14,796 | 22,078 |
| Net increase in cash and cash equivalents | 162,440 | 24,126 |
| Cash and cash equivalents, beginning of the period | 345,717 | 347,511 |
| Cash and cash equivalents, end of the period | 508,157 | 371,637 |

(e) **Notes to the unaudited consolidated financial statements**

1) **Basis of presentation**

The unaudited financial statements have been prepared in accordance with International Financial Reporting Standards, as published by the International Accounting Standards Board, effective as at 31st March, 2003, the disclosure requirements of the Rules Governing the Listing of Securities of The GEM of the Exchange.

The unaudited financial statements have been prepared under the historical cost convention except for buildings included in fixed assets, which have been stated at revalued amount.

2) **Principles of consolidation**

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

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

3) **Trade receivables**

| | As at | |
|----------------------------|-----------------------------|--------------------------------|
| | 31st March, 2003 | 31st December, 2002 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | <i>(Unaudited)</i> | <i>(Audited)</i> |
| Accounts receivable | | |
| Current to 30 days | 84,329 | 65,553 |
| 31 to 60 days | 20,951 | 33,007 |
| Over 60 days | 17,410 | 45,505 |
| | <hr/> | <hr/> |
| | 122,690 | 144,065 |
| Notes receivable | 42,197 | 70,763 |
| | <hr/> | <hr/> |
| | <u>164,887</u> | <u>214,828</u> |

Credit policy

The Group adopted a prudent approach in granting credit to customers. No credit terms were granted to PRC customers except for those with sound financial background and good repayment histories, for which the Group would grant credit terms ranging from 7 days to 60 days. For overseas customers, the Group grant credit terms of 90 to 120 days. In addition, a predetermined maximum credit limit has been set for each customer.

4) **Trade payables**

| | As at | |
|------------------------------------|-----------------------------|--------------------------------|
| | 31st March, 2003 | 31st December, 2002 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | <i>(Unaudited)</i> | <i>(Audited)</i> |
| Trade payables | | |
| Current to 30 days | 111,740 | 236,856 |
| 31 to 60 days | 91,028 | 9,037 |
| Over 60 days | 115,618 | 46,879 |
| | <u>318,386</u> | <u>292,772</u> |
| Other payables and accruals | 254,721 | 86,435 |
| | <u>573,107</u> | <u>379,207</u> |

5) **Turnover**

Turnover comprises sale of goods which are recognized when delivery has taken place and transfer of risks and rewards has been completed. The sales amount recognized excludes value-added or other sales taxes and is after deduction of any trade discounts.

6) **Cost of sales**

| | For the three months ended 31st March | |
|---|--|--------------------|
| | 2003 | 2002 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | <i>(Unaudited)</i> | <i>(Unaudited)</i> |
| Depreciation on fixed assets | 32,542 | 31,300 |
| Amortization of land use rights and deferred assets | 763 | 2,331 |
| Cost of inventories | 397,518 | 272,106 |
| Personnel expenses | 9,606 | 7,345 |
| Others | (27,613) | 34,375 |
| | <u>412,816</u> | <u>347,457</u> |

7) **Other operating income**

| | For the three months ended 31st March | |
|-------------------------------------|--|--------------------|
| | 2003 | 2002 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | <i>(Unaudited)</i> | <i>(Unaudited)</i> |
| Gain on disposal of scrap materials | 2,634 | 2,560 |
| Other operating income | 34 | 256 |
| | <u>2,668</u> | <u>2,816</u> |

8) **Distribution costs**

| | For the three months ended 31st March | |
|-------------------------|--|--------------------|
| | 2003 | 2002 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | <i>(Unaudited)</i> | <i>(Unaudited)</i> |
| Personnel expenses | 4,719 | 2,055 |
| Transportation expenses | 15,523 | 19,182 |
| Others | 5,386 | 1,345 |
| | <u>25,628</u> | <u>22,582</u> |

9) **Administrative costs**

| | For the three months ended 31st March | |
|--------------------------------------|--|--------------------|
| | 2003 | 2002 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | <i>(Unaudited)</i> | <i>(Unaudited)</i> |
| Depreciation on fixed assets | 2,040 | 1,238 |
| Amortization of land use rights | 631 | 242 |
| Personnel expenses | 6,316 | 2,880 |
| Directors' fees | 291 | 291 |
| Traveling and entertainment expenses | 650 | 598 |
| Consulting and legal fees | 441 | 558 |
| Others | 4,019 | 2,091 |
| | <u>14,388</u> | <u>7,898</u> |

10) **Finance cost, net**

| | For the three months ended 31st March | |
|--|--|--------------------|
| | 2003 | 2002 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | <i>(Unaudited)</i> | <i>(Unaudited)</i> |
| Interest income | (765) | (1,437) |
| Interest expense on borrowings | 5,922 | 6,940 |
| Less: Amount capitalized as construction-in-progress | (467) | (598) |
| Net foreign currency exchange (gain) loss | (1,555) | 281 |
| Others | 803 | 240 |
| | <u>3,938</u> | <u>5,426</u> |

11) **Income tax expense**

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 2003 was the fifth 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 three months ended 31st March, 2003.

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 three months ended 31st March, 2003 because there were no significant temporary differences.

12) **Earnings per share**

The calculation of the earnings per share for the three months ended 31st March, 2003 and 31st March, 2002, respectively was based on the unaudited consolidated profit attributable to shareholders of approximately HK\$ 13,258,000 and HK\$ 31,357,000 respectively and the weighted average number of 410,296,000 shares in issue during both periods.

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

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the three months ended 31st March, 2003.

The Group did not declare any dividends for the corresponding three-month period in 2002.

FINANCIAL PERFORMANCE

The unaudited consolidated turnover of the Group for the three-month period 31st March, 2003 was approximately HK\$ 468,886,000, representing an increase of 13% as compared to the corresponding quarterly period in 2002. Unaudited consolidated gross profit and profit attributable to shareholders of the Group for the three-month period ended 31st March, 2003 was approximately HK\$ 56,070,000 and HK\$ 13,258,000 respectively, representing a decrease of 16% and 58%, respectively as compared to the quarterly period ended 31st March, 2002.

BUSINESS REVIEW

Although the unit selling prices of PET chips rebounded sharply, the Group's profitability was affected by the continuously high raw material costs

Although the unit selling prices of the Group's major products, in particular, PET chips rose sharply by 19% during the first quarter of 2003, as compared to the same quarterly period of 2002, the escalating crude oil costs resulted from the Gulf War, together with the production bottlenecks of various upstream petrochemical products, unit costs of the Group's major raw materials, purified terephthalic acid ("PTA") and mono ethylene glycol ("MEG") increased by 50% and 56% respectively during the first quarter of 2003 when compared to the same quarterly period of 2002. The Group's profitability was inevitably affected accordingly. Gross profit rate declined from 16% during the first quarter of 2002 to 12% in the first quarter of 2003.

Performance of the Group's other product lines continues to improve

As the Group continues to focus on high value-added, specialty products, such as sea-island and quick-dry filaments and fabrics and conjugate fibers, the performance of the Group's other product lines continues to improve. Gross margins improved remarkably for the filament, staple fiber and fabrics strategic business units ("SBU"). Such improvements in performance serve to offset the effect of escalating raw material costs during the first quarter of 2003.

Selling expenses increased in line with the increase in turnover but administrative expenses increased significantly due to additional expenses incurred in relation to new specialty products introduced

Selling expenses increased by 13% during the first quarter of 2003, when compared to the same quarterly period of 2002. The rate of increase was in line with the rate of increase in turnover. On the other hand, administrative expenses increased by 82% during the first quarter of 2003 when compared with the same quarterly period in 2002. This is mainly due to the increased personnel, research and development and depreciation expenses incurred in relation to new specialty products introduced by the Group since the middle of 2002.

FUTURE PROSPECTS

PTA and MEG costs declined sharply in April 2003, but the Directors expect the polyester market to become volatile in the second half of 2003.

Although the PTA and MEG costs declined sharply in April 2003, however, as the production bottlenecks for certain upstream petrochemical products will exist in the near future, the Directors expect the polyester market to become volatile in the second half of 2003. As the unit selling prices for most of the Group's products will stabilize in the near future, the Group's profitability in the short term will depend heavily on the trends of raw material costs.

Establishment of a joint venture to engage in the production of PTA in the PRC

Pursuant to a joint venture agreement entered into between the Company, Ding Yuang International Investment Corporation and Oriental Union Chemical Corporation, both are connected parties to the Company as defined under the GEM Listing Rules, the Company will contribute approximately USD 11.09 million (approximately HK\$ 86.5 million) which represents approximately 10.9% equity interest in joint venture in the PRC which will engaged in the production of PTA in the PRC. Currently, the demand for PTA in the PRC amounted to approximately 6 million tones per year. Approximately two-third of which was satisfied by imports. Due to the continuing economic growth in the PRC, it is expected that the demand for PTA will continue to grow at a rate of 20% per annum. The Directors expect the demand for PTA in the PRC will continue to outstrip its supply in the long term. The production facilities will be completed in early 2006, and the annual capacity will amount to approximately 500,000 tonnes. The Group is expected to consume half of the joint venture's output and the remaining output will be sold domestically.

As one the Group's major raw materials, fluctuations in PTA prices would significantly affect the Group's profitability. The Directors, including the independent non-executive directors of the Company, believe the establishment of the joint venture will effectively enable the Group to obtain a more stable and reliable source of raw materials, and therefore a potential raw material cost saving. In addition, it will also enable the Group to benefit by capturing the expanding PTA market in the PRC.

The Group will continue its capital expansion plan

Amid fierce competition, the Directors are optimistic about the future of the PRC polyester industry as the economy continues to grow at fast pace. In addition to integrating the Group's products vertically by participating in a joint venture, which will produce PTA, the Group will also expand its capacities for the existing products. Additional finished fabrics capacities of 5 million yards will be in place by mid-2003. New polyester filament and staple fiber production lines amounting to annual capacities of 43,000 tonnes and 60,000 tonnes, respectively, will complete in 2004. And by mid-2005, the Group's annual polymerization capacity will reach 612,000 tonnes. By the year 2006, the Group will become a fully integrated polyester producer in the PRC, producing a wide range of polyester products.

DIRECTORS' INTERESTS IN SECURITIES

As at 31st March, 2003, 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") (an associated corporation within the meaning of the SDI Ordinance), as recorded in the Register of Directors' Interests maintained by the Company pursuant to Section 29 of the SDI Ordinance:

Common shares in FET:

| Name of director | Number of shares | | | | Total |
|-------------------|--------------------|------------------|---------------------|-----------------|------------|
| | Personal interests | Family interests | Corporate interests | Other interests | |
| Mr. Shu-Tong Hsu | 57,148,611 | Nil | Nil | Nil | 57,148,611 |
| Mr. Jar-Yi Shih | 1,336,302 | Nil | Nil | Nil | 1,336,302 |
| Mr. Champion Lee | 210 | Nil | Nil | Nil | 210 |
| Mr. Chin-Sen Tu | 208 | Nil | Nil | Nil | 208 |
| Mr. Shaw-Y Wang | 94,402 | Nil | Nil | Nil | 94,402 |
| Mr. 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 March, 2003.

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 March, 2003, 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 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 31st March, 2003 or at any time during the three months ended 31st March, 2003.

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 31st March, 2003, no options had been granted under the Company's share option scheme.

SUBSTANTIAL SHAREHOLDERS

As at 31st March, 2003, according to the register required to be maintained under section 16(1) of the SDI Ordinance, the Company had been notified of the following interests (not being Directors or chief executives of the Company) in 10% or more of the issued share capital of the Company:

| Name | Number of issued shares | Percentage shareholding |
|--|--------------------------------|--------------------------------|
| 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 31st March, 2002.

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, polyester and textile products.

During the three months ended 31st March, 2003, FET produced approximately 163,259 tonnes of polyester polymer, 59,297 tonnes of various types of PET chips (for PET bottles, food and industrial packaging), 52,378 tonnes of polyester staple fibre, 40,979 tonnes of POY, 1,753 tonnes of DTY, 87,368 bales of yarn, 8,416,053 yards of finished fabrics and 77 million pieces of PET preforms. Everest Textile also produced approximately 5,641 tonnes of polyester filament and 11,980,308 yards of finished fabrics.

Save as disclosed above, as at 31st March, 2003, 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 31st March, 2003, 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 March, 2003, Mr. Jar-Yi Shih and Mr. Chin-Sen Tu were also directors of Everest Textile.

CORPORATE GOVERNANCE

In the opinion of the Directors, the Company has complied with the “Board Practices and Procedures” as set out in Rules 5.28 to 5.39 of the GEM Listing Rules throughout the period.

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 fourteenth 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 31st March, 2003.

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

Taipei, 13th May, 2003