

FAR EASTERN POLYCHEM INDUSTRIES LIMITED

(遠東化聚工業股份有限公司)*

(Incorporated in Bermuda with limited liability)

(Stock Code: 8012)

QUARTERLY RESULTS FOR THE THREE MONTHS ENDED 31ST MARCH 2004

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG 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 purposes 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 business relating to four major categories of polyester products in the People’s Republic of China (the “PRC”), namely the production and distribution of bottle-grade polyethylene terephthalate (“PET”) chips, polyester filaments and polyester staple fibers, and the dyeing and finishing of polyester fabrics.
- The Group achieved a turnover of approximately HK\$608 million for the three months ended 31st March 2004, with profit attributable to shareholders of approximately HK\$26 million, representing an increase of 30% and 99%, respectively, as compared to the same three-month period in the previous financial year.
- Earnings per share for the three months ended 31st March 2004 was HK\$0.06 (Earnings per share for the three months ended 31st March 2003 was HK\$0.03).

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 2004 and, for comparison purposes, the audited consolidated balance sheet as at 31st December 2003 and figures for the corresponding period in the previous financial year in respect of the unaudited consolidated income statement, cash flow statement and statement of changes in equity as follows:

(a) Consolidated balance sheet

		As at	
	<i>Note</i>	31st March 2004	31st December 2003
		<i>HK\$'000</i>	<i>HK\$'000</i>
		<i>(Unaudited)</i>	<i>(Audited)</i>
Fixed assets	3	1,316,234	1,349,379
Investment in an associated company		83,828	84,343
Other non-current assets		11,265	11,608
Current Assets			
Cash and bank deposits		160,780	190,912
Trade and notes receivables	4	330,719	221,763
Deposits, prepayments and other receivables		83,073	71,569
Amount due from a related company	11	19,500	19,500
Inventories		436,911	365,493
Total current assets		<u>1,030,983</u>	<u>869,237</u>
Current liabilities			
Trade, other payables and accruals	5	(407,026)	(352,150)
Taxes payable		(2,266)	(13,958)
Dividends payable		(41,030)	—
Short-term bank loans		(247,731)	(123,708)
Long-term bank loans, current portion		(75,200)	(94,000)
Total current liabilities		<u>(773,253)</u>	<u>(583,816)</u>
Net current assets		257,730	285,421
Total assets less current liabilities		1,669,057	1,730,751
Non-current liabilities			
Long-term bank loans, non-current portion		(377,308)	(424,308)
Deferred tax liabilities		(1,200)	(1,200)
Total non-current liabilities		<u>(378,508)</u>	<u>(425,508)</u>
Minority interests		(377)	(395)
		<u>1,290,172</u>	<u>1,304,848</u>
Share capital		410,296	410,296
Reserves		879,876	894,552
Shareholders' equity		<u>1,290,172</u>	<u>1,304,848</u>

(b) Unaudited consolidated income statement

		For the three months ended	
		31st March	
	<i>Note</i>	2004	2003
		<i>HK\$'000</i>	<i>HK\$'000</i>
PET chips		384,704	298,213
Polyester filaments		54,818	49,185
Polyester staple fibers		83,699	80,460
Finished fabrics		85,117	41,028
		<hr/>	<hr/>
Total turnover		608,338	468,886
Cost of sales		(536,817)	(412,816)
		<hr/>	<hr/>
Gross profit		71,521	56,070
Distribution costs		(21,833)	(25,628)
Administrative costs		(16,552)	(14,388)
Other operating income		4,165	2,668
		<hr/>	<hr/>
Profit from operations	6	37,301	18,722
Finance costs, net	7	(6,242)	(3,938)
Share of loss of an associated company		(515)	—
		<hr/>	<hr/>
Profit before tax		30,544	14,784
Income tax expense	8	(4,208)	(1,526)
		<hr/>	<hr/>
Profit after tax		26,336	13,258
Minority interests		18	—
		<hr/>	<hr/>
Profit attributable to shareholders		26,354	13,258
		<hr/> <hr/>	<hr/> <hr/>
Earnings per share (in HK\$)	9		
- Basic and diluted		0.06	0.03
		<hr/> <hr/>	<hr/> <hr/>

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

For the year ended 31st December 2003:

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Reserve fund <i>HK\$'000</i>	Revaluation reserve <i>HK\$'000</i>	Cumulative translation reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
Balance, 1st January 2003	410,296	523,001	86,370	5,645	2,169	292,975	1,320,456
Dividends	—	—	—	—	—	(41,030)	(41,030)
Profit for the three months ended 31st March 2003	—	—	—	—	—	13,258	13,258
Balance, 31st March 2003	410,296	523,001	86,370	5,645	2,169	265,203	1,292,684
Profit appropriation	—	—	16,276	—	—	(16,276)	—
Effect of translation of the financial statements of a foreign subsidiary	—	—	—	—	34	—	34
Profit for the nine months ended 31st December 2003	—	—	—	—	—	12,130	12,130
Balance, 31st December 2003	<u>410,296</u>	<u>523,001</u>	<u>102,646</u>	<u>5,645</u>	<u>2,203</u>	<u>261,057</u>	<u>1,304,848</u>

For the three months ended 31st March 2004:

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Reserve fund <i>HK\$'000</i>	Revaluation reserve <i>HK\$'000</i>	Cumulative translation reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
Balance, 1st January 2004	410,296	523,001	102,646	5,645	2,203	261,057	1,304,848
Dividends	—	—	—	—	—	(41,030)	(41,030)
Profit for the three months ended 31st March 2004	—	—	—	—	—	26,354	26,354
Balance, 31st March 2004	<u>410,296</u>	<u>523,001</u>	<u>102,646</u>	<u>5,645</u>	<u>2,203</u>	<u>246,381</u>	<u>1,290,172</u>

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

For the three months ended
31st March
2004 **2003**
HK\$'000 *HK\$'000*

CASH FLOW FROM OPERATING ACTIVITIES

Cash used in operations	(79,361)	(55,117)
Interest paid	(5,178)	(5,922)
Income tax paid	—	(371)
	<hr/>	<hr/>
Net cash used in operating activities	(84,539)	(61,410)

CASH FLOW FROM INVESTING ACTIVITIES

Advances from related companies	—	218,796
Purchase of fixed assets	(4,232)	(10,507)
Interest received	416	765
	<hr/>	<hr/>
Net cash (used in) from investing activities	(3,816)	209,054

CASH FLOWS FROM FINANCING ACTIVITIES

Proceeds from short-term bank loans	156,701	222,207
Proceeds from long-term bank loans	28,200	46,755
Repayments of short-term bank loans	(32,678)	(254,166)
Repayments of long-term bank loans	(94,000)	—
	<hr/>	<hr/>
Net cash from financing activities	58,223	14,796
	<hr/>	<hr/>
Net (decrease) increase in cash and cash equivalents	(30,132)	162,440
Cash and cash equivalents, beginning of the period	190,912	345,717
	<hr/>	<hr/>
Cash and cash equivalents, end of the period	160,780	508,157
	<hr/> <hr/>	<hr/> <hr/>

(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 and the disclosure requirements of the Rules Governing the Listing of Securities on 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.

The accounting policies and methods of computation used in the preparation of the interim unaudited financial statements are consistent with those used in the annual financial statements as at and for the year ended 31st December 2003.

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) **Fixed assets**

During the three months ended 31st March 2004, additions to fixed assets amounted to HK\$4,377,000 (2003: HK\$10,974,000).

4) **Trade and notes receivables**

	As at	
	31st March 2004 HK\$'000 (Unaudited)	31st December 2003 HK\$'000 (Audited)
Accounts receivable		
Current to 30 days	68,464	85,484
31 to 60 days	24,507	45,186
61 to 90 days	23,222	17,010
Over 90 days	40,663	44,530
	<hr/>	<hr/>
	156,856	192,210
Notes receivable	176,863	29,553
Less: Provision for doubtful debts	(3,000)	—
	<hr/>	<hr/>
	<u>330,719</u>	<u>221,763</u>

Credit policy

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

5) Trade, other payables and accruals

	As at	
	31st March 2004 HK\$'000 (Unaudited)	31st December 2003 HK\$'000 (Audited)
Trade payables		
Current to 30 days	197,754	105,993
31 to 90 days	122,644	167,365
Over 90 days	35,364	23,239
	<u>355,762</u>	<u>296,597</u>
Other payables and accruals	<u>51,264</u>	<u>55,553</u>
	<u>407,026</u>	<u>352,150</u>

6) Profit from operations

The following items have been included in arriving at profit from operations:

	For the three months ended 31st March	
	2004 HK\$'000 (Unaudited)	2003 HK\$'000 (Unaudited)
Cost of inventories	536,817	412,816
Staff costs	19,200	20,936
Depreciation on property, plant and equipment	36,824	34,582
Amortisation of land use rights	699	1,051
Amortisation of deferred assets	343	343
Provision for doubtful debts	3,000	—
Operating lease rentals on property	915	1,109
	<u>600,798</u>	<u>480,837</u>

7) Finance costs, net

	For the three months ended 31st March	
	2004	2003
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interest expenses on borrowings wholly repayable		
within five years	5,178	5,922
Less: Amount capitalized as construction-in-progress	(145)	(467)
Interest income	(416)	(765)
Net foreign currency exchange losses (gains)	965	(1,555)
Other financial expenses	660	803
	<u>6,242</u>	<u>3,938</u>

8) Income tax

The Company is exempted from taxation in Bermuda until 2016. No Hong Kong profits tax was provided as the Group had no assessable profits arising in or deriving from Hong Kong.

Pursuant to the relevant laws and regulations in the PRC, the Company's subsidiaries registered in the PRC are subject to PRC Enterprise Income Tax ("EIT") on the taxable income as reported in their PRC statutory accounts adjusted in accordance with relevant PRC income tax laws. Furthermore, in accordance with the "Law of Enterprise Income Tax for Enterprise with Foreign Investment" in the PRC, Far Eastern Industries (Shanghai) Ltd. ("FEIS"), the Company's major subsidiary in the PRC, is entitled to full exemption from EIT for the first two years and a 50% reduction in EIT for the next three years, commencing from the first profitable year after offsetting all tax losses carried forward from the previous five years. Being registered in a designated high-technology development zone in the PRC, FEIS enjoys a preferable EIT rate of 15%. 2003 was the fifth profitable year for FEIS and accordingly FEIS was subject to EIT at a 50% reduced rate equivalent to 7.5%.

According to the relevant PRC rules and regulations, being qualified as a "High-technology Enterprise" (granted by the relevant local authorities on 20th December 2000), FEIS is entitled to a 50% reduced EIT rate, or subject to EIT at a rate of 10% if the reduced rate is lower than 10%, for an additional term of three years, after the end of the five year period during which FEIS enjoyed the preferential EIT treatment as stated above. The "High-technology Enterprise" status of FEIS is subject to review every year.

9) Earnings per share

The calculation of basic earnings per share for the three months ended 31st March 2004 was based on the unaudited consolidated profit attributable to shareholders of approximately HK\$29,354,000 (2003: HK\$13,258,000) and on the weighted average number of 410,296,000 (2003: 410,296,000) shares in issue during the period.

There were no potentially dilutive ordinary shares in existence during the period.

10) Segmental information

The Company and its subsidiaries operate principally in the production and distribution of PET chips, polyester filaments and polyester staple fibers, and the dyeing and finishing of polyester fabrics and have four reportable segments based on the Company's four strategic business units ("SBU"), namely the Chip SBU, the Filament SBU, the Polyester Staple Fiber SBU and the Dyeing and Finishing SBU which are managed separately.

Business segments

	Chip SBU		Filament SBU		Polyester Staple Fiber SBU		Dyeing and Finishing SBU		Consolidated	
	For the three months ended 31st March									
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
<i>(Unaudited)</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue										
Turnover from external sales	384,704	298,213	54,818	49,185	83,699	80,460	85,117	41,028	608,338	468,886
Results										
Gross profit (loss)	52,839	35,020	(103)	5,878	1,816	9,813	16,969	5,359	71,521	56,070
Unallocated corporate expenses									(34,220)	(37,348)
Profit from operations									37,301	18,722
Finance costs, net									(6,242)	(3,938)
Share of loss of an associated company									(515)	—
Profit before tax									30,544	(4,478)
Income tax expense									(4,208)	(1,526)
Profit after tax									26,336	13,258
Minority interests									18	—
Profit attributable to shareholders									26,354	13,258

11) Related party transactions

During the three months ended 31st March 2004, the technological licence fee paid to Far Eastern Investment (Holdings) Company Limited, a subsidiary of Far Eastern Textile Limited (“FET”), amounted to HK\$2,919,000 (2003: HK\$2,919,000).

Amount due from a related company arose from the conditional disposals of the equity interests of two subsidiaries of the Company to Far EastTone Telecommunications Co., Ltd. (“Far EastTone”), a subsidiary of FET, in 2003. This balance bears interest at the 6-month London Inter-Bank Offer Rate plus 0.4% per annum. Since the date of the aforementioned conditional disposals, the control over the net assets and operations of the two subsidiaries has been effectively transferred to Far EastTone and the Company is indemnified against all liabilities applicable to the operations of these subsidiaries.

12) Commitments

(i) *Capital commitments*

As at 31st March 2004, the Group had the following capital commitments which were not provided for in its accounts:

	As at	
	31st March 2004	31st December 2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Audited)</i>
Authorised and contracted for		
— Acquisition of fixed assets	79,226	71,753

(ii) *Investment commitment*

As at 31st March 2004, the Group had an investment commitment in relation to the acquisition of certain business assets (comprising mainly fixed assets used in the production of polyester polymer) of Dupont Suzhou Polyester Co., Ltd. at a consideration not exceeding HK\$276,900,000. As at the date of this report, the completion of the aforementioned acquisition had yet to take place.

DIVIDEND

The Directors do not recommend the payment of an interim dividend for the three months ended 31st March 2004. The Group did not declare any dividends for the corresponding three-month period in 2003.

On 10th March 2004, the Directors declared a final dividend of HK\$0.10 per ordinary share for the year ended 31st December 2003, totalling approximately HK\$41,030,000.

FINANCIAL PERFORMANCE

The unaudited consolidated turnover of the Group for the three-month period ended 31st March 2004 was approximately HK\$608 million, representing an increase of 30% as compared to the corresponding quarterly period in 2003. Unaudited consolidated gross profit and profit attributable to shareholders of the Group for the three-month period ended 31st March 2004 were approximately HK\$72 million and HK\$26 million respectively, representing increases of 28% and 99%, respectively, as compared to the quarterly period ended 31st March 2003.

BUSINESS REVIEW

The PET chip market showed signs of stabilisation

After a prolonged period of depression in the PET chip market in the PRC in 2003, the market showed signs of stabilisation in the first quarter of 2004. In light of the continuing rise in pure terephthalic acid (“PTA”) and monoethylene glycol (“MEG”) prices, certain polyester producers strategically scaled down their production capacities which immediately alleviated the excessive supply situation in the market. Average selling price of PET chip increased by 25% as compared to the first quarter of 2003 while average purchase costs of PTA and MEG increased by 9% and 28% respectively. The gross profit margin in sales of PET chip in the first quarter of 2004 reached 14%, which was the highest since the third quarter of 2002 and exceeded the gross profit margin of 12% reported for the first quarter of 2003. This also explains the higher profitability level achieved during the current period.

The Group’s Filament Strategic Business Unit (“SBU”) and Polyester Staple Fiber SBU continue to be affected by an excessive supply within the PRC

Excessive supply remains one of the most significant issues in the China polyester industry. Although the demand for polyester filaments and fibers has increased at a considerable rate, the production capacities for these products increased even faster. The excessive supply problem adds pressure to product prices by making it more difficult to pass on the rising raw material costs to customers and as a result a low, or sometimes negative, profit margin arises. To address this problem, the Group is committed to producing more specialty products which generally are less prone to squeeze on margin under adverse market conditions. In addition, the Group will monitor the market situation and make appropriate and timely product shifts to generate better returns.

Re-adjustment to product mix of the Dyeing and Finishing SBU proved successful

As a result of the extensive effort put into research and development, the Group’s Dyeing and Finishing SBU has successfully re-adjusted its product mix and produced more specialty fabrics, such as fabrics for furnitures and curtains. Such products are produced through sophisticated manufacturing processes and subject to stringent quality control systems which typically cannot be offered by other fabric manufacturers in the PRC. Such high value-added specialty products are mainly exported to overseas markets and are well accepted by customers. Accordingly, the Dyeing and Finishing SBU managed to improve its gross profit margin from 13% in the first quarter of 2003 to 20% in the first quarter of 2004.

Distribution costs decreased in line with decrease in export sales

Due to the stabilisation of the PET chip market in the PRC which led to a rebound in product price, the Group sold more products domestically in the PRC during the first quarter of 2004 as compared to the first quarter of 2003. As a result, export sales decreased from 26% of total sales in the first quarter of 2003 to 18% in the first quarter of 2004. This strategy allowed the Group to enjoy better profit margins and save distribution costs. Going forward, the Group will actively adjust its ratio on exports in response to changes in the domestic and overseas markets.

FUTURE PROSPECTS

The acquisition of polymerization facilities from Dupont Suzhou Polyester Company Limited (“DSPC”)

In 2004, the Group obtained all necessary government approvals and fulfilled all conditions, as stated in the acquisition agreement entered into in 2002 in connection with the acquisition of polymerization facilities from DSPC. As at the date of this report, the completion of this acquisition had get to take place. The facilities, which cost approximately US\$33 million, will provide the Group with an additional 100,000 tonnes per year of polymerization production capacity and ease the Group’s production bottleneck in base polymers. Such acquisition provides an important basis for the Group’s future development.

The investment in a joint venture to produce PTA in the PRC

In 2003, the Group formed a joint venture with two connected parties to establish and operate a new PTA plant adjacent to the Group’s existing manufacturing facilities in Pudong, Shanghai. This PTA plant is now under construction and is expected to commence operation by the end of 2005. Since PTA is a fundamental raw material for manufacturing polyester products, this investment will enable the Group to vertically integrate its production process. The Group is confident that it will also improve its production efficiency and, as a result, strengthen its competitiveness.

Expansion of production capacities

Despite the challenging market conditions in the PRC, the Group is now formulating a capital expansion plan to fundamentally upgrade the production facilities of its various SBUs. The plan is expected to take place during the period from late 2004 to 2005. It is believed that the plan will allow the Group to further improve its economies of scale, strengthen its position as one of the industry leaders and eventually generate better returns for its shareholders.

DIRECTORS' INTERESTS IN SECURITIES

At 31st March 2004, the interests and short positions of the Directors and chief executive in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Exchange pursuant to Rule 5.40 of the GEM Listing Rules were as follows:

Associated Corporation

Long positions in common shares of FET (Note)

Name of director	Number of common shares				Total	Approximate percentage of issued share capital
	Personal interests	Family interests	Corporate interests	Other interests		
Mr. Shu-Tong Hsu	66,807,468	Nil	Nil	Nil	66,807,648	1.9%
Mr. Jar-Yi Shih	1,562,152	25,129,017	Nil	Nil	26,691,169	0.7%
Mr. Champion Lee	243	Nil	Nil	Nil	243	0.0%
Mr. Chin-Sen Tu	241	Nil	Nil	Nil	241	0.0%
Mr. Shaw-Y Wang	110,356	Nil	Nil	Nil	110,356	0.0%
Mr. Lih-Teh Chang	20,657	Nil	Nil	Nil	20,657	0.0%

Note: FET is an associated corporation of the Company as FET is the Company's ultimate holding company. As at 31st March 2004, FET had a 64.2% interest in the Company, comprising (i) a direct interest of 11.4%; (ii) an indirect interest of 46.8% through its controlling shareholding in Yuang Ding Investment Corporation; and (iii) an indirect interest (arising by virtue of FET's status as the discretionary object of a discretionary trust) of 6%.

In aggregate, the above interests represented, as at 31st March 2004, approximately 2.6% of the total issued common shares of FET.

Save as disclosed above, none of the Directors or the chief executive had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Exchange pursuant to Rule 5.40 of the GEM Listing Rules.

DIRECTORS' INTERESTS IN CONTRACTS

No contract, commitment or agreement of significance in relation to the Company's business, to which the Company or its subsidiaries was a party and in which any of the Directors had a material interest, either directly or indirectly, subsisted at 31st March 2004 or at any time during the three months ended 31st March 2004.

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 subsidiaries, to subscribe for shares in the Company.

As at 31st March 2004, no options had been granted under the Company's share option scheme.

SUBSTANTIAL SHAREHOLDERS

At 31st March 2004, the following persons (other than the Directors and chief executive of the Company) were the substantial shareholders of the Company who had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

Long positions in Shares

Name	Capacity	Number and class of shares	Approximate percentage of interest
FET (<i>Note 1</i>)	Beneficial Owner	263,400,800 ordinary shares	64.2%
Yuang Ding Investment Corporation ("YDIC")	Beneficial Owner	191,870,160 ordinary shares	46.8%
Everest Textile Co. Ltd. ("Everest Textile") (<i>Note 2</i>)	Beneficial Owner	69,750,000 ordinary shares	17.0%
Everest Investment (Holding) Limited ("Everest Investment")	Beneficial Owner	69,750,000 ordinary shares	17.0%

Notes:

1. FET is interested in approximately 99.99% of the issued share capital of YDIC and is accordingly deemed to have an interest in the Company's shares in which YDIC has an interest. FET owns approximately 89.5% of the issued share capital of Far Eastern Investment (Holdings) Company Limited ("FEIH") and is accordingly taken to be interested in the Company's shares in which FEIH has an interest.
2. Everest Textile is interested in the entire issued share capital of 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.

INTERESTS DISCLOSEABLE UNDER THE SFO

As 31st March 2004, the following persons (other than the substantial shareholders, the Directors and chief executive of the Company) had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

Long positions in Shares

Name	Capacity	Number and class of shares	Approximate percentage of interest
Far Eastern Investment (Holdings) Company Limited (“FEIH”) <i>(Note 1)</i>	Founder of Trust	24,733,040 ordinary shares	6.0%
Glorious Victory Limited <i>(Note 2)</i>	Beneficial Owner	24,733,040 ordinary shares	6.0%
HSBC International Trustee Limited <i>(Note 3)</i>	Trustee	24,733,040 ordinary shares	6.0%

Notes:

1. FEIH, as the founder of The Kai Yuan Trust, is deemed to have an interest in the shares of the Company held by Glorious Victory Limited, the entire share capital of which is held under The Kai Yuan Trust.
2. Glorious Victory Limited is interested in approximately 6% of the entire issued share capital of the Company. The entire issued share capital of Glorious Victory Limited is in turn held under The Kai Yuan Trust.
3. HSBC International Trustee Limited is the trustee of The Kai Yuan Trust and as such is deemed to be interested in the shares of the Company held by Glorious Victory Limited.

Save as disclosed above, the Company had no notice of any interests required to be recorded in the register required to be kept under Section 336 of the SFO as at 31st March 2004.

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 2004, FET produced 183,325 tonnes of polyester polymer, 69,983 tonnes of various types of PET chips (for PET bottles, food and industrial packaging), 64,675 tonnes of polyester staple fibers, 40,801 tonnes of pre-oriented yarn (POY), 17,252 tonnes of draw textured yarn (DTY), 87,605 bales of yarn, 9,205,000 yards of finished fabrics and 80,932,000 pieces of PET preforms. Everest Textile also produced 5,565 tonnes of polyester filaments and 17,721,000 yards of finished fabrics.

Save as disclosed above, as at 31st March 2004, the Directors were not aware of any other business or interest of each Director and management shareholder, and their respective associates, that competes or may compete with the business of the Group.

Notes:

1. As at 31st March 2004, 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, 2004, Mr. Shu-Tong Hsn, 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 5.34 to 5.45 of the GEM Listing Rules throughout the three-month period ended 31st March 2004.

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 reports 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 eighteen times since its formation. The results of the Group for the three months ended 31st March 2004 have been reviewed by the audit committee.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s shares during the three months ended 31st March 2004.

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

Taipei, 10th May 2004