**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

**If you are in doubt** as to any aspect of this offer, you should consult a licensed securities dealer, a bank manager, solicitor, professional accountant, or other professional adviser.

**If you have sold or transferred** all your shares in Far Eastern Polychem Industries Limited, you should at once hand this document and the accompanying forms to the purchaser or transferee or to the bank or licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser.



Far Eastern Polychem Industries Limited

**遠鼎投資股份有限公司**
**Yuang Ding Investment Corporation**
*(incorporated in Taiwan with limited liability)*

**遠東化聚工業股份有限公司***
**Far Eastern Polychem Industries Limited**
*(incorporated in Bermuda with limited liability)*
**(Stock Code: 8012)**

# PROPOSED PRIVATISATION OF FAR EASTERN POLYCHEM INDUSTRIES LIMITED BY WAY OF A SCHEME OF ARRANGEMENT (UNDER SECTION 99 OF THE COMPANIES ACT) AT THE CANCELLATION PRICE OF HK$2.20 PER SCHEME SHARE AND SHARE REPURCHASE UNDER SHARE REPURCHASE CODE

**Financial Adviser to Far Eastern Polychem Industries Limited**

**BNP PARIBAS PEREGRINE**

**Independent financial adviser to**
**Far Eastern Polychem Industries Limited**

**SOMERLEY LIMITED**

A letter from the Board (as defined herein) is set out on page 7 of this document. An explanatory statement regarding the Proposal (as defined herein) is set out on pages 39 to 51 of this document. A letter from the Independent Board Committee (as defined herein) containing its advice to the Independent Shareholders (as defined herein) in relation to the Proposal is set out on pages 12 to 13 of this document. A letter from Somerley Limited containing its advice to the Independent Board Committee in relation to the Proposal is set out on pages 14 to 38 of this document.

The action to be taken by the Independent Shareholders and the Shareholders (each as defined herein) is set out on page 50 and 51 of this document.

Notices convening the Court Meeting (as defined herein) and the SGM (as defined herein) to be held on 31st October, 2005 at 10:30 a.m. and 11:00 a.m. respectively are set out on pages 137 to 140 of this document. Whether or not you are able to attend the Court Meeting and/or the SGM or any adjournment thereof, you are strongly urged to complete and sign the enclosed pink form of proxy in respect of the Court Meeting and the enclosed white form of proxy in respect of the SGM, in accordance with the instructions printed thereon, and to lodge them with the Computershare Hong Kong Investor Services Limited, the branch share registrar of Far Eastern Polychem Industries Limited in Hong Kong at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible but in any event not later than the times and dates as stated under the paragraph headed "Action to be taken" set out on pages 50 to 51 of this document. In the case of the pink form of proxy in respect of the Court Meeting, it may be handed to the chairman of the Court Meeting at the Court Meeting if it is not so lodged.

This circular will remain on the GEM website at www.hkgem.com on the "Latest Company Announcements" page for a minimum period of 7 days from the date of publication and on FEPI's website at www.fepi.com.hk.

6th October, 2005

* *For identification purposes only*

# CHARACTERISTICS OF GEM

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 of the Stock Exchange 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 Stock Exchange. GEM 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.

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*Pages*

# DEFINITIONS

*In this document, the following expressions have the meanings set out below unless the content requires otherwise:*

| | |
|---|---|
| "acting in concert" | shall have the meaning set out in the Takeovers Code, except that class (2) of the relevant presumptions referred to in the Takeovers Code shall be modified to exclude the directors (and their close relatives, related trusts and companies controlled by any of the directors, their close relatives or related trusts) of the subsidiaries of FETL, other than YDIC and members of the FEPI Group, as consented to by the SFC on application made on behalf of FEPI |
| "Announcement" | the announcement dated 30th August, 2005 jointly issued by YDIC and FEPI in relations to the Proposal |
| "Authorisations" | all necessary authorisations, registrations, filings, rulings, consents, permissions and approvals in connection with the Proposal |
| "BNP Paribas Peregrine" | BNP Paribas Peregrine Capital Limited, the financial adviser of FEPI, a corporation licensed to conduct type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO |
| "Board" | the board of Directors of FEPI |
| "Companies Act" | the Companies Act 1981 of Bermuda |
| "Court" | the Supreme Court of Bermuda |
| "Court Meeting" | a meeting of the Scheme Shareholders to be convened at the direction of the Court at which the Scheme will be voted upon |
| "Directors" | the director(s) of FEPI, including the independent directors |
| "Effective Date" | the date the Scheme becomes effective in accordance with the Companies Act |
| "EIHL" | Everest Investment (Holding) Limited, is a company incorporated in Bermuda and a wholly-owned subsidiary of Everest Textile |
| "Everest Textile" | Everest Textile Co., Ltd., a company incorporated in Taiwan, the shares of which are listed on the Taiwan Stock Exchange and owned as to approximately 23.74% by YDIC (the single largest shareholder of Everest Textile) and approximately 0.03% by FETL |

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| "Far Eastern Group" | FETL and its subsidiaries from time to time |
| "FETL" | Far Eastern Textile Ltd., a company incorporated in Taiwan, the shares of which are listed on the Taiwan Stock Exchange |
| "FEPI" | Far Eastern Polychem Industries Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on GEM |
| "FEPI Group" | FEPI and its subsidiaries from time to time |
| "GEM" | the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited |
| "GEM Listing Rules" | the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange |
| "GCAL" | Greater China Appraisal Limited, appointed by FEPI as the property valuer |
| "GVL" | Glorious Victory Limited, a company incorporated in the British Virgin Islands, the entire issued share capital of which is owned by HSBC International Trustee Limited on the terms of a discretionary trust and is a party acting in concert with FETL and YDIC under the Takeovers Code |
| "Hong Kong" | the Hong Kong Special Administrative Region of the People's Republic of China |
| "HK$" | Hong Kong dollar(s), the lawful currency of Hong Kong |
| "Independent Board Committee" | the independent board committee of FEPI, comprising Mr. Tak-Lung Tsim, Mr. Ying-Ho Wong and Mr. Shih-Hung Chan, whom are independent non-executive directors of FEPI, appointed by the Board to advise the Independent Shareholders in connection with the Proposal |
| "Independent Shareholders" | Shareholders other than YDIC, EIHL, FETL, GVL and the directors of FEPI and any person acting in concert with any of them and exclude those with material interest in the Proposal which is different from the interests of all other shareholders |
| "Latest Practicable Date" | 4th October, 2005 being the latest practicable date prior to the printing of this document for ascertaining certain information contained in this document |
| "NAV" | net asset value |

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|---|---|
| "NTAV" | net tangible asset value |
| "PRC" | The People's Republic of China |
| "Price" | a price of HK$2.20 per Scheme Share payable to the Scheme Shareholders under the Scheme |
| "Proposal" | the proposal for the privatisation of FEPI by way of the Scheme |
| "Record Date" | 18th November, 2005 or such other date as shall have been announced to the Shareholders, for determining the entitlements of the Scheme Shareholders under the Scheme |
| "Relevant Authorities" | appropriate governments and/or governmental bodies, regulatory bodies, courts or institutions including the SFC and the Stock Exchange |
| "Scheme" | a scheme of arrangement between FEPI and the Scheme Shareholders under Section 99 of the Companies Act involving the cancellation of all the Scheme Shares |
| "Scheme Share(s)" | Share(s) held by the Scheme Shareholders |
| "Scheme Shareholder(s)" | Shareholder(s) other than YDIC, EIHL and FETL |
| "SFC" | the Securities and Futures Commission of Hong Kong |
| "SFO" | Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) |
| "SGM" | the special general meeting of FEPI to be convened to be held immediately following the Court Meeting to consider the Scheme |
| "Share Repurchase Code" | The Hong Kong Code on Share Repurchases, including the provisions of the Takeovers Code as applied therein |
| "Share(s)" | share(s) of HK$1.00 each in the share capital of FEPI |
| "Shareholder(s)" | holder(s) of the Shares |
| "Somerley" | Somerley Limited, the independent financial adviser to the Independent Board Committee and a corporation licensed to conduct type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO |
| "Stock Exchange" | The Stock Exchange of Hong Kong Limited |

| | |
|---|---|
| "Takeovers Code" | The Hong Kong Code on Takeovers and Mergers |
| "YDIC" | Yuang Ding Investment Corporation, also known as Yuang Ding Investment Co., Ltd., a 99.9% owned subsidiary of FETL incorporated in Taiwan and a member of the Far Eastern Group |

# EXPECTED TIMETABLE

| | *Hong Kong time 2005* |
|---|---|
| Latest time for lodging transfers of the Shares to qualify for attending and voting at the Court Meeting and the SGM | 4:00 p.m. on Wednesday, 26th October |
| Register closed for determination of entitlements of Independent Shareholders to attend and vote at the Court Meeting and Shareholders to attend and vote at the SGM | Thursday, 27th October to Monday, 31st October *(both dates inclusive)* |
| Latest time for lodging forms of proxy in respect of Court Meeting *(Note 1)* | 10:30 a.m. on Saturday, 29th October |
| SGM *(Note 1)* | 11:00 a.m. on Saturday, 29th October |
| Suspension of dealings in the Shares | 9:30 a.m. on Monday, 31st October |
| Court Meeting *(Note 1)* | 10:30 a.m. on Monday, 31st October |
| SGM *(Note 1)* | 11:00 a.m. on Monday, 31st October or so soon thereafter the Court Meeting shall have been concluded or adjourned |
| An announcement of the results of the Court Meeting and the SGM on the GEM website | 7:00 p.m. on Monday, 31st October |
| Resumption of dealings in the Shares | 9:30 a.m. on Tuesday, 1st November |
| Court hearing of the petition to sanction the Scheme *(Note 2)* | Monday, 14th November |
| An announcement of the result of the Court hearing to sanction the Scheme on the GEM website | 7:00 p.m. on Tuesday, 15th November |
| Last day for dealing in the Shares | 4:00 p.m. on Tuesday, 15th November |
| Latest time for lodging transfers of the Shares to qualify for entitlements under the Scheme | 4:00 p.m. on Thursday, 17th November |
| Record Date | 4:00 p.m. on Friday, 18th November |
| Effective Date *(Note 3)* | after 4:00 p.m. on Friday, 18th November |
| Withdrawal of the listing of the Shares on GEM becomes effective *(Note 3)* | 9:30 a.m. on Monday, 21st November |
| An announcement on the Effective Date and withdrawal of listing of the Shares on the GEM website | Monday, 21st November |
| Cheques for cash entitlements under the Scheme to be despatched on or before | Wednesday, 23rd November |

**Shareholders should note that the above timetable is subject to change. Further announcement(s) will be made in the event that there is any change.**

*Notes:*

1. Forms of proxy should be lodged with Computershare Hong Kong Investor Services Limited, the branch share registrar of FEPI in Hong Kong, by hand or by post, at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event no later than the times and dates stated above. In the case of the pink form of proxy in respect of the Court Meeting, it may be handed to the chairman of the Court Meeting at the Court Meeting if it is not so lodged. In order to be valid, the white form of proxy for the SGM must be lodged not later than the time and date stated above. Completion and return of a form of proxy for the Court Meeting or the SGM will not preclude a Shareholder from attending the relevant meetings and voting in person. In such event, the returned form of proxy will be deemed to have been revoked.

2. All references in this document to times and dates are references to Hong Kong times and dates, other than references to expected dates for the Court hearing of the petition to sanction the Scheme, which are references to the relevant times and dates in Bermuda. Bermuda time is 11 hours behind Hong Kong time until 30th October, 2005 when Bermuda time will be 12 hours behind Hong Kong time.

3. The Scheme will become effective when it is sanctioned (with or without modification) by the Court and a copy of the Court order is delivered to the Registrar of Companies in Bermuda for registration and is registered. Registration is expected to take place in the morning on Friday, 18th November, 2005 (Bermuda time) (which will be the evening on Friday, 18th November, 2005 (Hong Kong time)). However, in the event that not all of the conditions of the Proposal have been fulfilled (or, as applicable, waived) by Monday, 14th November, 2005, being the proposed date of the Court hearing of the petition to sanction the Scheme, the timetable of events thereafter will be subject to change. Scheme Shareholders should note the conditions of the Proposal as set out in the Explanatory Statement on pages 40 to 41 of this document. If the Scheme becomes effective, it is expected that the listing of the Shares on GEM will be withdrawn with effect from 9:30 a.m. on Monday, 21st November, 2005.

遠東化聚工業股份有限公司*
**Far Eastern Polychem Industries Limited**
*(incorporated in Bermuda with limited liability)*
**(Stock Code: 8012)**

*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

*Registered office:*
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

*Principal place of business in Hong Kong:*
Unit A, 11th Floor
Lippo Leighton Tower
103-109 Leighton Road
Causeway Bay
Hong Kong

* *For identification purposes only*

6th October, 2005

*To the Shareholders*

Dear Sir or Madam,

**PROPOSED PRIVATISATION OF
FAR EASTERN POLYCHEM INDUSTRIES LIMITED
BY WAY OF A SCHEME OF ARRANGEMENT
(UNDER SECTION 99 OF THE COMPANIES ACT)
AT THE CANCELLATION PRICE OF HK$2.20 PER SCHEME SHARE
AND
SHARE REPURCHASE UNDER SHARE REPURCHASE CODE**

## INTRODUCTION

On 22nd August, 2005, YDIC, the controlling shareholder of FEPI, requested the Board to put forward the Proposal to the Scheme Shareholders regarding a proposed privatisation of FEPI by way of the Scheme under Section 99 of the Companies Act involving the cancellation of Scheme Shares in exchange for HK$2.20 in cash for each Scheme Share. The Proposal is considered to constitute a share repurchase for the purpose of the Share Repurchase Code.

Upon the Scheme becoming effective, FEPI will continue to be a member of the Far Eastern Group, held as to approximately 77.38% by FETL and its 99.9% owned subsidiary, YDIC, and approximately 22.62% by Everest Textile (via its wholly-owned subsidiary, EIHL). FEPI will apply to the Stock Exchange for the withdrawal of the listing of the Shares on GEM immediately following the Effective Date.

The Board comprises five executive Directors, one non-executive Director and three independent non-executive Directors. Of the executive Directors, Mr. Shu-Tong Hsu is also the Chairman of YDIC and FETL, Mr. Jar-Yi Shih, Mr. Champion Lee and Mr. Chin-Sen Tu are also directors of YDIC and FETL, and Mr. Lih-Teh Chang is currently a senior executive vice president of the chemical fibre plant of FETL. Mr. Shaw-Y Wang, a non-executive Director, is also a director of YDIC and FETL. The executive Directors and the non-executive Director are all interested in the shares of FETL. Consequently, none of them is considered independent in the context of the Proposal. The remaining Directors, Mr. Tak-Lung Tsim, Mr. Ying-Ho Wong and Mr. Shih-Hung Chan, who are independent non-executive Directors, have been appointed by the Board to constitute the Independent Board Committee to give a recommendation to the Independent Shareholders as regards the Proposal. Somerley has been appointed as the independent financial adviser to advise the Independent Board Committee as regards the fairness and reasonableness of the terms of the Proposal.

The members of the Independent Board Committee are considered to be wholly independent of YDIC or FEPI. Moreover, none of them holds any Shares and, accordingly, none will receive financial benefit out of the Scheme.

The purpose of this document is to provide you with further information regarding the Proposal and to give you notices of the Court Meeting and the SGM. Your attention is also drawn to the letter from the Independent Board Committee set out on pages 12 to 13 of this document, the letter from Somerley set out on pages 14 to 38 of this document, the Explanatory Statement set out on pages 39 to 51 of this document and the Scheme set out on pages 133 to 136 of this document.

**SUMMARY OF THE PROPOSAL**

It is proposed that, subject to the fulfillment or waiver (as applicable) of the conditions of the Proposal as described in the Explanatory Statement in this document, the Proposal will be implemented by way of the Scheme, which will involve the cancellation of all the Scheme Shares and the reduction of the issued share capital of FEPI under Section 99 of the Companies Act. The Scheme provides that the Scheme Shares will be cancelled and, in consideration thereof, each Scheme Shareholder will be entitled to receive the Price, being HK$2.20 in cash for every Scheme Share held.

The Price represents:

- a premium of approximately 57.14% over the closing price of HK$1.400 per Share as quoted on GEM on 22nd August, 2005 (being the last trading day prior to the suspension of trading in the Shares pending the issue of the Announcement);
- a premium of approximately 56.70% over the average closing price of about HK$1.404 per Share based on the daily closing prices as quoted on GEM over the 5 trading days up to and including 22nd August, 2005;

- a premium of approximately 57.71% over the average closing price of about HK$1.395 per Share based on the daily closing prices as quoted on GEM over the 30 trading days up to and including 22nd August, 2005;
- a premium of approximately 52.04% over the average closing price of about HK$1.447 per Share based on the daily closing prices as quoted on GEM over the 120 trading days up to and including 22nd August, 2005;
- a discount of approximately 30.82% to the audited consolidated NAV per Share of about HK$3.18 as at 31st December, 2004; and
- a discount of approximately 22.26% to the unaudited consolidated NAV per Share of about HK$2.83 as at 30th June, 2005

The historical share price information on Shares is set out in Appendix III to this document.

As at the Latest Practicable Date, there were 410,296,000 Shares in issue and no outstanding options, warrants or convertible securities issued by FEPI. The Scheme Shareholders were interested in 101,878,240 Shares, representing approximately 24.83% of the issued share capital of FEPI. At the Price, which was arrived at after taking into account the factors set out in the section headed "Reasons for the Proposal" on pages 41 to 42 of this document, the Proposal values the entire issued share capital of FEPI at approximately HK$902.6 million. The amount of cash required in order to effect the Proposal is approximately HK$224.1 million. The consideration payable under the Scheme will be financed out of internal resources and by borrowing of FEPI and FEPI will bear the cost of the Proposal. In this regard, a loan facility of US$23 million has been provided by The Hong Kong and Shanghai Banking Corporation Limited. The loan is unsecured with an interest rate of 0.4% per annum over LIBOR. It is due to be repaid six months from the date of drawdown with an option available to FEPI to extend it for a further period of six months. BNP Paribas Peregrine, the financial adviser to FEPI, is satisfied that sufficient financial resources are available to FEPI for the implementation of the Proposal.

The Scheme will lapse if it does not become effective on or before 31st March, 2006 (or such later date as YDIC and FEPI may agree or as the Court may direct), and the Shareholders will be notified by way of an announcement accordingly. Further announcements on any changes regarding the timetable of the Proposal will be made as and when necessary.

Upon the Scheme becoming effective, all Scheme Shares will be cancelled and will not rank for any dividends to be paid by reference to a record date which falls after their date of cancellation.

Assuming that the Scheme becomes effective on 18th November, 2005, cheques for cash entitlements under the Scheme are expected to be despatched to the Scheme Shareholders on or before 23rd November, 2005.

## CONDITIONS OF THE PROPOSAL

Your attention is drawn to the section headed "Conditions of the Proposal" in the Explanatory Statement set out on pages 40 to 41 of this document.

## REASONS FOR THE PROPOSAL

Your attention is drawn to the section headed "Reasons for the Proposal" in the Explanatory Statement set out on pages 41 to 42 of this document.

## FINANCIAL EFFECTS, INFORMATION ON FEPI AND FUTURE INTENTIONS

Your attention is drawn to the sections headed "Financial effects", "Information on FEPI" and "Future intentions" in the Explanatory Statement set out on pages 44 to 48 of this document respectively.

## COURT MEETING AND SPECIAL GENERAL MEETING

In accordance with the direction of the Court, the Court Meeting has been convened for the purpose of considering and, if thought fit, passing the appropriate resolution to approve the Scheme (with or without modifications). Such a resolution will be passed if: (i) the Scheme is approved (by way of poll) by a majority in number of the Independent Shareholders holding at least 75% in value of those shares that are voted either in person or by proxy at the Court Meeting; and (ii) the Scheme is not disapproved (by way of poll) by the Independent Shareholders at the Court Meeting holding more than 10% in value of all the Scheme Shares held by the Independent Shareholders. Based on 77,145,200 Shares held by Independent Shareholders as at the date of this document, 10% of such Shares amounted to 7,714,520 Shares.

As at the Latest Practicable Date, YDIC was interested in 191,870,160 Shares, representing about 46.76% of the issued share capital of FEPI. Shares held by YDIC will not form part of the Scheme Shares and YDIC will not vote at the Court Meeting. In addition, in view of the interests of YDIC in the Proposal, parties who are acting in concert with YDIC, being FETL, EIHL and GVL, who, as at the Latest Practicable Date, held 46,797,600 Shares, 69,750,000 Shares, and 24,733,040 Shares respectively (representing approximately 11.41%, 17.00% and 6.03% respectively of the issued share capital of FEPI) will not vote at the Court Meeting. The Shares held by FETL and EIHL do not form part of the Scheme Shares and they have confirmed that they have no objection to the implementation of the Scheme.

The SGM has been convened to be held on 31st October, 2005, immediately following the Court Meeting, for the purpose of considering and, if thought fit, passing a special resolution to approve and give effect to the Scheme (including the reduction of the issued share capital of FEPI by the cancellation of the Scheme Shares). The special resolution will be passed provided that it is approved by a majority of at least three-fourths of the Shareholders present and voting, in person or by proxy, at the SGM. All Shareholders will be entitled to attend and vote on such special resolution at the SGM. YDIC, FETL, EIHL and GVL have indicated that if the Scheme is approved at the Court Meeting, they will each vote in favour of the special resolution to be proposed at the SGM to approve and give effect to the Scheme (including the reduction of the issued share capital of FEPI by the cancellation of the Scheme Shares).

An announcement will be made by FEPI in relation to the results of the Court Meeting and the SGM. In addition, an announcement will be made on the results of the hearing of the petition to sanction the Scheme by the Court and, if the Scheme is sanctioned, the last day for dealings in the Shares on GEM, the Record Date, the Effective Date and the date of withdrawal of the listing of the Shares on GEM.

Notice of the Court Meeting is set out on pages 137 to 138 of this document. The Court Meeting will be at 10:30 a.m. held on 31st October, 2005 at the Bamboo Peacock Room, 1st Floor, Mandarin Oriental Hotel, 5 Connaught Road, Central, Hong Kong.

Notice of the SGM is set out on pages 139 to 140 of this document. The SGM will be held at 11:00 a.m. on 31st October, 2005 (or as soon thereafter as the Court Meeting shall have been concluded or adjourned) at the Bamboo Peacock Room, 1st Floor, Mandarin Oriental Hotel, 5 Connaught Road, Central, Hong Kong.

**ACTION TO BE TAKEN**

Your attention is drawn to the section headed "Action to be taken" in the Explanatory Statement on pages 50 to 51 of this document.

**RECOMMENDATION**

The Independent Board Committee, having considered the terms of the Proposal and taken into account the opinion of Somerley, in particular the factors, reasons and recommendations as set out in the letter from Somerley on pages 14 to 38 of this document, considers that the terms of the Proposal taken as a whole are fair and reasonable so far as the Independent Shareholders are concerned. The letter from the Independent Board Committee is set out on pages 12 to 13 of this document.

**SHARE CERTIFICATES, DEALINGS, LISTING, REGISTRATION AND PAYMENT**

Your attention is drawn to the sections headed "Share certificates, dealings and listing" and "Registration and payment" in the Explanatory Statement on pages 48 to 49 of this document.

**TAXATION AND INDEPENDENT ADVICE**

Your attention is drawn to the paragraph headed "Taxation" in the Explanatory Statement on page 49 of this document.

It is emphasised that none of FEPI, YDIC, FETL and BNP Paribas Peregrine or any of their respective directors or associates or any other person involved in the Proposal accepts responsibility for any tax or other effects on, or liabilities of, any person or persons as a result of the implementation or otherwise of the Proposal.

**FURTHER INFORMATION**

You are urged to read carefully the letters from the Independent Board Committee and Somerley as set out on pages 12 to 13 and pages 14 to 38 of this document respectively, the Explanatory Statement as set out on pages 39 to 51 of this document, the appendices to this document, the Scheme as set out on pages 133 to 136 of this document, the notice of the Court Meeting as set out on pages 137 to 138 of this document and the notice of the SGM as set out on pages 139 to 140 of this document.

Yours faithfully,
For and on behalf of the Board
**Shu-Tong Hsu**
*Chairman*

Far Eastern
Polychem
Industries
Limited

遠東化聚工業股份有限公司*
**Far Eastern Polychem Industries Limited**
*(incorporated in Bermuda with limited liability)*
**(Stock Code: 8012)**

6th October, 2005

*To the Independent Shareholders*

Dear Sir or Madam,

**PROPOSED PRIVATISATION OF
FAR EASTERN POLYCHEM INDUSTRIES LIMITED
BY WAY OF A SCHEME OF ARRANGEMENT
(UNDER SECTION 99 OF THE COMPANIES ACT)
AT THE CANCELLATION PRICE OF HK$2.20 PER SCHEME SHARE
AND
SHARE REPURCHASE UNDER SHARE REPURCHASE CODE**

We have been appointed as the Independent Board Committee to give a recommendation to the Independent Shareholders in respect of the Proposal. Details of the Proposal are set out in the scheme document to the Shareholders dated 6th October, 2005 (the "Scheme Document"), of which this letter forms part. Terms defined in the Scheme Document shall have the same meanings when used herein unless the context otherwise requires. Somerley has been appointed as the independent financial adviser to advise the Independent Board Committee as to the fairness and reasonableness of the terms of the Proposal so far as the Independent Shareholders are concerned.

Having considered the terms of the Proposal and taken into account the opinion of Somerley, in particular the factors, reasons and recommendations as set out in the letter from Somerley set out on pages 14 to 38 of the Scheme Document, the Independent Board Committee considers that the terms of the Proposal taken as a whole are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, the Independent Board Committee recommends that the Independent Shareholders to vote in favour of the resolution to approve the Scheme at the Court Meeting. The Independent Board Committee also recommends the Independent Shareholders to vote in favour of the special resolution to approve and give effect to the Scheme at the SGM.

* *For identification purpose only*

The Independent Board Committee draws the attention of the Independent Shareholders to: (i) the letter from the Board; (ii) the Explanatory Statement; and (iii) the letter from Somerley which sets out the considerations and factors taken into account in arriving at our recommendation to the Independent Shareholders.

Yours faithfully,
**Tak-Lung Tsim, Ying-Ho Wong, Shih-Hung Chan**
*Independent non-executive Director*

*The following is the full text of a letter of advice from Somerley, the independent financial adviser, setting out its advice to the Independent Board Committee in connection with the Proposal for inclusion in this document.*

**SOMERLEY LIMITED**
Suite 2201, 22nd Floor
Two International Finance Centre
8 Finance Street
Central
Hong Kong

6th October, 2005

To the Independent Board Committee

Dear Sirs,

## PROPOSED PRIVATISATION OF FAR EASTERN POLYCHEM INDUSTRIES LIMITED BY WAY OF A SCHEME OF ARRANGEMENT (UNDER SECTION 99 OF THE COMPANIES ACT) AT THE CANCELLATION PRICE OF HK$2.20 PER SCHEME SHARE AND SHARE REPURCHASE UNDER SHARE REPURCHASE CODE

### INTRODUCTION

We refer to our appointment to advise the Independent Board Committee in connection with the proposed privatisation of FEPI by way of the Scheme under Section 99 of the Companies Act. Details of the Scheme are contained in the scheme document to the Shareholders dated 6th October, 2005 (the "Scheme Document"), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Scheme Document unless the context otherwise requires. References in this letter to "Appendix" are references to the Appendices contained in the Scheme Document.

The Board comprises five executive Directors, one non-executive Director and three independent non-executive Directors. Of the executive Directors, Mr. Shu-Tong Hsu is also the Chairman of YDIC and FETL, Mr. Jar-Yi Shih, Mr. Champion Lee and Mr. Chin-Sen Tu are also directors of YDIC and FETL, and Mr. Lih-Teh Chang is currently a senior executive vice president of the chemical fibre plant of FETL. Mr. Shaw-Y Wang, a non-executive Director, is also a director of YDIC and FETL. The executive Directors and the non-executive Director are all interested in the shares of FETL. Consequently, none of them is considered independent in the context of the Proposal. The remaining Directors, Mr. Tak-Lung Tsim, Mr. Ying-Ho Wong and Mr. Shih-Hung Chan, who are independent non-executive Directors, have been appointed by the Board to constitute the Independent Board Committee to give a recommendation to the Independent Shareholders as regards the Proposal. Somerley has been appointed as the independent financial adviser to advise the Independent Board Committee as regards the fairness and reasonableness of the terms of the Proposal.

Somerley is not associated or connected with YDIC or FEPI or their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them and accordingly is considered eligible to give an independent advice on the Proposal. Apart from normal professional fees payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from YDIC or FEPI or their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them.

In formulating our advice and recommendation, we have relied on the information and facts supplied, and the opinions expressed, by the directors and management of FEPI, which we have assumed to be true, accurate and complete as the date of this letter. We have reviewed the published information of FEPI, including its audited financial statements for the five years ended 31st December, 2004 and the unaudited financial statements for the six months ended 30th June, 2004 and 2005. We have also discussed with GCAL the bases and assumptions for their valuation of the FEPI Group's property interests as at 31st August, 2005, details of which are contained in Appendix II. We have also reviewed the trading performance of the Shares on GEM and considered the future intention of YDIC regarding FEPI.

We have sought and received confirmation from the Directors that no material facts have been omitted from the information supplied and opinions expressed by them to us in connection with the Proposal. We consider that the information which we have received is sufficient for us to reach our advice and recommendation as set out in this letter and to justify our reliance on such information. We have no reason to doubt the truth and accuracy of the information provided to us or that any material facts have been omitted or withheld. We have also assumed that all representations contained or referred to in the Scheme Document were true at the date of the Scheme Document and will continue to be true at the date of the Court Meeting and the SGM. We have, however, not conducted any independent investigation into the businesses and affairs of the FEPI Group, nor have we carried out any independent verification of the information supplied.

**TERMS OF THE PROPOSAL**

In summary, the Proposal involves the following principal steps:

(i) all the Scheme Shares will be cancelled and, in consideration thereof, each Scheme Shareholder will be entitled to receive HK$2.20 in cash from FEPI for every Scheme Share held; and

(ii) the issued share capital of FEPI will be reduced and the listing of the Shares on GEM will be withdrawn immediately following the Effective Date.

Based on the Price and a total of 101,878,240 Scheme Shares as at the Latest Practicable Date, the amount of cash required in order to effect the Proposal is approximately HK$224.1 million. Funding to effect the Proposal is to be made out of the internal resources and borrowing of FEPI.

The Scheme is subject to a number of conditions, including but not limited to, sanction of the Scheme by the Court and approval of the Scheme (by way of poll) by a majority in number representing not less than three-fourths in value of the Shares of the Scheme Shareholders present and voting either in person or by proxy at the Court Meeting to be convened by the Court to consider the Scheme, provided that dissenting votes (taken by poll) against the Scheme at the Court Meeting cast by the Independent Shareholders not exceeding 10% in value of all the Shares held by the

Independent Shareholders. As at the Latest Practicable Date, the Independent Shareholders held 77,145,200 Shares and 10% of such Shares amounted to 7,714,520 Shares. Details of the conditions to which the Scheme is subject are set out in the paragraph headed "Conditions of the Proposal" in the explanatory statement contained in the Scheme Document.

**PRINCIPAL FACTORS AND REASONS CONSIDERED**

In arriving at our recommendation to the Independent Board Committee with regard to the Proposal, we have taken into account the following principal factors and reasons:

1. **Background to and reasons for the Proposal**

The FEPI Group is principally engaged in the production and distribution of polyester products in mainland China. Currently, the FEPI Group's polyester products include bottle-grade polyethylene terephthalate ("PET") chips, polyester filaments, polyester staple fibres and finished fabrics which are sold principally to customers in the PRC, Europe and North America.

Turnover of the FEPI Group during 2000 to 2004 has recorded continuous growth, partly due to the expansion of the FEPI Group's production capacity and partly as a result of the increase in selling price of certain polyester products of the FEPI Group. Gross profit and net profit attributable to Shareholders however have shrunk gradually over the above period. Gross profit margin was squeezed from approximately 22.4% in 2000 to 8.1% in 2004, while net profit attributable to Shareholders dropped from approximately HK$220.1 million in 2000 to HK$25.4 million in 2003, and slightly recovered to approximately HK$27.7 million in 2004. Such deterioration in results was principally caused by the substantial increase in average unit cost of the FEPI Group's major raw materials such as purified terephthalic acid ("PTA") and monoethylene glycol ("MEG"). The FEPI Group recorded a loss of approximately HK$101.8 million for the six months ended 30th June, 2005 due to the surge in crude oil price in the first half of 2005.

In terms of trading performance of the Shares, the average daily and monthly trading volume of the Shares remained thin at about 79,000 Shares and 1,784,434 Shares respectively (representing approximately 0.02% and 0.43% respectively of the issued share capital of FEPI as at the Latest Practicable Date) for the previous 12-month period before the Announcement and the Shares have been consistently traded at prices at substantial discounts to the net tangible asset value of FEPI during the same period.

Given the deterioration in performance of the business and the prevailing market price and low liquidity of the Shares, the Directors believe that the Proposal provides an opportunity for all Scheme Shareholders to realise their investments in FEPI at a premium above the prevailing market price of the Shares.

Upon the Scheme becoming effective, FEPI will apply to the Stock Exchange for the withdrawal of the listing of the Shares on GEM. However, in the event that the Proposal is not implemented, it is intended that the listing of the Shares on GEM will be maintained.

2. **Historical financial performance of the FEPI Group**

The following is a summary of the audited consolidated results of the FEPI Group for the five years ended 31st December, 2004 and the unaudited consolidated results for the six-month periods ended 30th June, 2004 and 2005:

| | **Year ended 31st December,** | | | | | **Six months ended 30th June,** | |
|---|---|---|---|---|---|---|---|
| | **2004** | **2003** | **2002** | **2001** | **2000** | **2005** | **2004** |
| | *HK$ million* | *HK$ million* | *HK$ million* | *HK$ million* | *HK$ million* | *HK$ million* | *HK$ million* |
| Turnover | 2,602.0 | 2,080.5 | 1,910.2 | 1,474.1 | 1,298.6 | 1,416.8 | 1,266.9 |
| Gross profit | 212.0 | 181.6 | 242.4 | 310.6 | 290.8 | 3.5 | 108.5 |
| *Gross profit margin* | *8.1%* | *8.7%* | *12.7%* | *21.1%* | *22.4%* | *0.2%* | *8.6%* |
| Distribution costs | (105.8) | (124.2) | (99.1) | (43.9) | (17.7) | (51.8) | (41.9) |
| Administrative expenses | (68.7) | (54.5) | (45.2) | (41.3) | (33.5) | (34.9) | (30.1) |
| Other operating income | 17.1 | 17.5 | 10.7 | 6.9 | 2.2 | 10.4 | 8.3 |
| Profit/(loss) from operation | 54.6 | 20.4 | 108.8 | 232.3 | 241.8 | (72.8) | 44.8 |
| Other income | — | 21.5 | — | — | — | — | — |
| Share of result of an associate before tax | (3.7) | (2.1) | — | — | — | (2.7) | (1.3) |
| Finance costs, net | (17.8) | (11.6) | (19.0) | (8.8) | (21.7) | (26.3) | (12.7) |
| Profit/(loss) before taxation | 33.1 | 28.2 | 89.8 | 223.5 | 220.1 | (101.8) | 30.8 |
| Taxation | (5.5) | (2.8) | (7.3) | (18.2) | — | — | (4.2) |
| Minority interests | 0.1 | — | — | — | — | — | — |
| Net profit/(loss) attributable to Shareholders | 27.7 | 25.4 | 82.5 | 205.3 | 220.1 | (101.8) | 26.6 |

(i) *Analysis of turnover and gross profit*

The FEPI Group is engaged in the production and distribution of bottle-grade PET chips, polyester filaments, polyester staple fibres and finished fabrics. The principal markets for the FEPI Group's products are the PRC, Europe and North America. The following table sets out the FEPI Group's turnover by product mix for the five years ended 31st December, 2004 and for the six-month periods ended 30th June, 2004 and 2005:

| | Year ended 31st December, | | | | | Six months ended 30th June, | |
|---|---|---|---|---|---|---|---|
| | **2004** | **2003** | **2002** | **2001** | **2000** | **2005** | **2004** |
| | *HK$ million* | *HK$ million* | *HK$ million* | *HK$ million* | *HK$ million* | *HK$ million* | *HK$ million* |
| PET chips | 1,589.3 | 1,283.1 | 1,188.4 | 1,015.8 | 856.3 | 856.1 | 790.3 |
| Polyester filaments | 226.4 | 221.1 | 199.6 | 193.8 | 291.0 | 116.2 | 118.0 |
| Polyester staple fibres | 423.3 | 320.9 | 272.2 | 37.7 | — | 263.8 | 189.3 |
| Finished fabrics | 362.3 | 255.4 | 250.0 | 226.8 | 151.3 | 179.8 | 169.3 |
| Others | 0.7 | — | — | — | — | 0.9 | — |
| | 2,602.0 | 2,080.5 | 1,910.2 | 1,474.1 | 1,298.6 | 1,416.8 | 1,266.9 |

As illustrated in the summary above, the FEPI Group experienced an overall growth in its turnover during the five years ended 31st December, 2004, registering compound annual growth of approximately 19.0% per annum. The growth was most significant for PET chips and polyester staple fibres due to a capacity expansion for PET chips and the commencement of production of polyester staple fibres in the third quarter of 2001. Total volume of PET chips sold was approximately 102,559 tonnes in 2000 which was increased to 185,000 tonnes in 2002 and dropped slightly to 176,789 tonnes in 2004. Approximately 5,400 tonnes of polyester staple fibres were sold in 2001 which was gradually increased to 48,700 tonnes in 2004. The increase in turnover was also partly attributable to the shift in product mix to high value-added specialty products and the increase in the market price of the products driven by the upsurge of raw material costs.

Turnover for the six-month period ended 30th June, 2005 was approximately HK$1,416.8 million, representing an increase of approximately 11.8% from the corresponding period in 2004. Such growth was principally attributable to the increase in average unit selling prices of polyester products driven by the increase in raw material costs, albeit there was a slight drop in the sales volume of PET chips and polyester filaments.

Notwithstanding growth in the FEPI Group's turnover, gross profit margin has been squeezed over the last few years from approximately 22.4% in 2000 to 8.1% in 2004 and further to 0.2% for the six months ended 30th June, 2005. This was caused by the continuous rise in the market price of PTA and MEG which are the FEPI Group's principal raw materials. The market price of PTA and MEG has increased by approximately 64% and 145% respectively in the last five years, driven principally by the overall rise in crude oil prices from approximately US$26 per barrel in early January 2000 to approximately US$44 per barrel in late December 2004. As advised by the management of the FEPI Group, no appropriate financial or other instruments are available in the market for hedging the fluctuation in the price of the FEPI Group's raw materials. As the FEPI Group has only managed to shift partially the increase in cost to its customers through upward adjustment in product price, the FEPI Group experienced a continuous drop in gross profit margin.

The soaring crude oil price during the first half of 2005 to approximately US$57 per barrel in June 2005 further eroded the gross profit of the FEPI Group. The FEPI Group achieved marginally a gross profit of approximately HK$3.5 million for the six months ended 30th June, 2005, representing a gross profit margin of only 0.2%.

(ii) *Operating results and net profit/(loss) attributable to Shareholders*

Distribution expenses increased from approximately HK$17.7 million in 2000 to approximately HK$105.8 million in 2004, largely due to the shift of sales to export markets which incurred higher transportation expenses. Moreover, the PRC polyester market had shifted from a seller's market to a buyer's market since mid 2001 and the FEPI Group had to bear the distribution cost which was used to be borne by the customers. Administrative expenses during the same period increased along with the FEPI Group's expansion such as the establishment of staple fibre plants in 2001, the establishment of two new subsidiaries in 2003, and the acquisition of the Suzhou polymerisation plant in 2004. The other income of approximately HK$21.5 million recorded in 2003 represented a re-investment tax refund income upon the re-investment of undistributed profits of a subsidiary of FEPI which is a wholly foreign owned enterprise in the PRC.

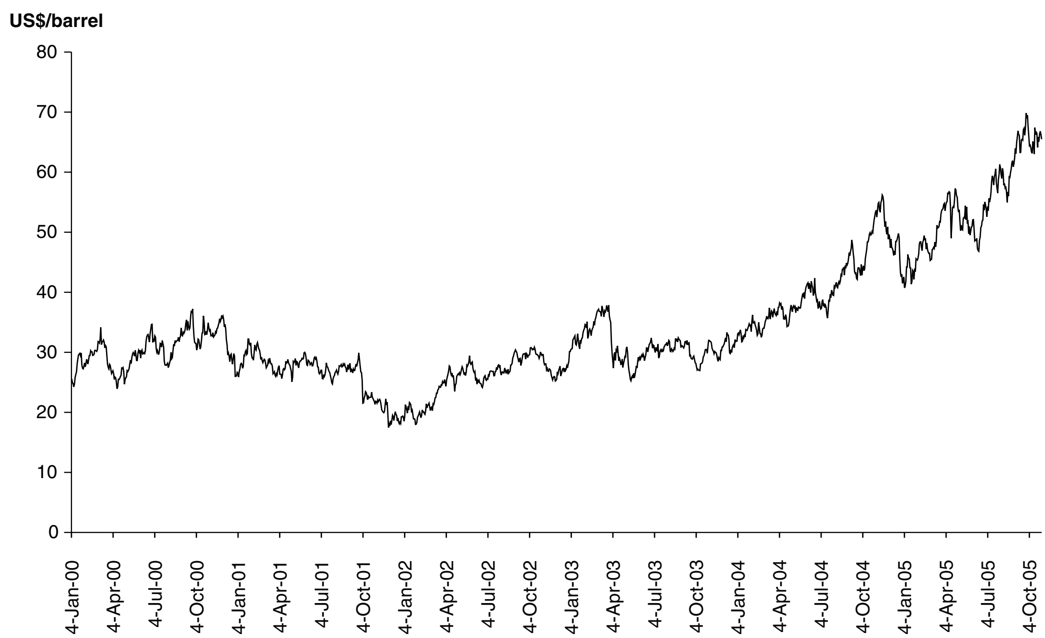
Due to the erosion in gross profit as discussed above, the FEPI Group's profit attributable to Shareholders deteriorated substantially from approximately HK$220.1 million in 2000 to approximately HK$27.7 million in 2004. For the six months ended 30th June, 2005, the FEPI Group recorded an unaudited net loss of approximately HK$101.8 million which was caused by the sharp rise in crude oil price during the first half of 2005 as discussed above.

3. **Prospects of the FEPI Group**

The management considers that there are several critical factors affecting the businesses of the FEPI Group.

Driven by various causes, crude oil price has been rising substantially since the second quarter of 2004. Crude oil price surged to approximately US$69 per barrel in late August 2005, representing an over 60% rise from approximately US$42 per barrel in early January 2005. The chart below illustrates the fluctuation in crude oil price per barrel since January 2000.

**Crude Oil Price**




*Source: Bloomberg*

Since the principal raw materials of the FEPI Group's products such as PTA and MEG are all petrochemical derivative products and these raw materials have, in the past, accounted for a significant portion of the FEPI Group's total cost of sales, the trend of rising crude oil will inevitably lead to an increase in raw material prices and hence narrower profit margin for the FEPI Group. It is uncertain about the future movement of the crude oil price and whether the crude oil price would adjust downwards from the current record high level. The high crude oil price coupled with the tight supply of principal raw materials for polyester products is likely to result in the prices of raw materials and the costs of the FEPI Group's products staying at a high level. With a view to improving its production efficiency and enhancing cost control, the FEPI Group is in the process of constructing a new polymerisation facility and formed a 21.7%-owned joint venture in 2003. The joint venture owns a 50% interest in a company which will establish and operate a new PTA plant adjacent to the FEPI Group's existing manufacturing facilities in Pudong, Shanghai. The PTA plant and the new polymerisation facilities are now under construction and are expected to commence operation by the first quarter of 2006 to supply PTA required for the FEPI Group's production and to increase the production capacity of the FEPI Group. However, the possible benefits from such expansion plan and vertical integration move may not be immediate and substantial until such plants reach their optimal level of operation.

Although demand for polyester products, in particular PET resins, is growing in the PRC, there have been over-supply of these products and the number of suppliers of bottle-grade PET chips have increased in recent years. The intensified competition have added pressure on product prices and made it more difficult for the FEPI Group to pass on the increasing raw material costs to its customers. The management is of the view that the market is undergoing a period of consolidation whereby manufacturers with higher production capacity will be able to enjoy economies of scale and squeeze out smaller players in the market. The management considers that the expansion programme being undertaken by the FEPI Group will enhance the FEPI Group's competitiveness. However, the market consolidation has taken longer than expected and the management expects the price cut by smaller manufacturers during such process will continue to exert pressure on the selling price of the FEPI Group's products.

The trade disputes between the United States, the European Union countries and the PRC on quotas and trade barriers against textile exports by the PRC since 2005 also aggravated the fluctuation in prices for polyester products. Notwithstanding that finished fabrics only accounted for approximately 13.9% and 12.7% of the FEPI Group's total sales for the year ended 31st December, 2004 and the six months ended 30th June, 2005 respectively, the unresolved trade disputes will cast an unfavourable factor on the overall performance of the FEPI Group's business in the near future.

Given the above, the management considers that the FEPI Group's operating environment will remain severe in the near future.

YDIC is a 99.9% owned subsidiary of FETL and a member of the Far Eastern Group. Far Eastern Group is a conglomerate with its headquarters in Taipei, Taiwan and is engaged in petrochemicals, telecommunications, cement production, manufacturing, retailing, transportation, financial services, investment and real estate, principally in Taiwan. It is the intention of YDIC to continue the existing businesses of the FEPI Group and not to make any significant changes to the management and staff employment of the FEPI Group or any significant redeployment of the fixed assets of FEPI in the near future if the Scheme becomes effective and is implemented. YDIC considered that potential synergies may be derived from consolidating FEPI's business with other Far Eastern Group business.

4. **Dividends paid to Shareholders**

During each of the three years ended 31st December, 2004, FEPI has declared and paid dividends to the Shareholders in the amounts of approximately HK$41.0 million (HK$0.1 per Share). These dividends represent an annual yield of approximately 7.1% based on the closing Share price of HK$1.40 as at 22nd August, 2005 (the "Pre-Suspension Day"), being the last trading day of the Shares prior to the release of the Announcement. As set out in the statement of indebtedness contained in Appendix I, the FEPI Group had outstanding borrowings totalling approximately HK$2,024 million, comprising bank overdrafts of approximately HK$12 million, bank loans of approximately HK$1,833 million, and other loans of approximately HK$179 million as at 31st August, 2005. The cash position of the FEPI Group had reduced from approximately HK$323.1 million as at 31st December, 2004 to approximately HK$289.3 million as at 30th June, 2005, which was mainly attributable to the payment of construction cost and acquisition of machinery and equipment for the polymerisation plant, and the loss recorded during the above period. Given the FEPI Group's current level of bank borrowings of which over 50% are repayable within one year, the net losses for the first half of 2005 and the net current liabilities position as at 30th June, 2005, we do not consider that dividend payment is likely in respect of the current year ending 31st December, 2005 and investment in the Shares may not generate dividend yield comparable to those achieved in previous years.

5. **Assets, cash and indebtedness position, and adjusted consolidated NAV and NTAV of the FEPI Group**

(i) *Assets*

The consolidated balance sheets of the FEPI Group as at 31st December, 2004 and 30th June, 2005 are set out in Appendix I. Total assets and net assets as at those dates are analysed as follows:

| | **Audited as at 31st December, 2004** | | **Unaudited as at 30th June, 2005** | |
|---|---|---|---|---|
| | *HK$ million* | *%* | *HK$ million* | *%* |
| Fixed assets and land use rights | 1,878.8 | 55.2 | 2,109.5 | 58.6 |
| Investments in an associate | 80.7 | 2.4 | 78.0 | 2.2 |
| Deferred assets | 5.7 | 0.1 | 5.3 | 0.1 |
| Other non-current assets | 3.3 | 0.1 | 3.5 | 0.1 |
| | 1,968.5 | 57.8 | 2,196.3 | 61.0 |
| Inventories | 664.0 | 19.5 | 662.3 | 18.4 |
| Trade and notes receivables | 406.4 | 11.9 | 357.8 | 10.0 |
| Cash and bank deposits | 323.1 | 9.5 | 289.3 | 8.0 |
| Others | 43.3 | 1.3 | 94.7 | 2.6 |
| | 1,436.8 | 42.2 | 1,404.1 | 39.0 |
| Total assets | 3,405.3 | 100.0 | 3,600.4 | 100.0 |
| Less: | | | | |
| Bank borrowings due within one year | (638.7) | | (850.0) | |
| Trade payables | (561.4) | | (583.0) | |
| Bank borrowings due after one year | (776.8) | | (832.7) | |
| Minority interests | (39.3) | | (39.3) | |
| Other payables and liabilities | (83.1) | | (132.2) | |
| Net assets | 1,306.0 | | 1,163.2 | |

*Fixed assets and land use rights*

Fixed assets of the FEPI Group include principally buildings, construction in progress and machinery and equipment which are used in the production of the FEPI Group. The aggregate net book value of the FEPI Group's buildings as at 31st December, 2004 amounted to approximately HK$296.7 million. Construction in progress represents the new polymerisation facility being constructed which is expected to put into operation in 2006. The net book value of the construction in progress of approximately HK$586.4 million as at 31st December, 2004 comprised building of approximately HK$101.4 million, and plant and machinery yet to be installed of approximately HK$485.0 million. Land use rights, comprising land use fees paid for the rights to use the land for the FEPI Group's premises in Shanghai, Suzhou, and Wuhan, amounted to approximately HK$136.2 million and HK$162.3 million as at 31st December, 2004 and 30th June, 2005 respectively. Details of the FEPI Group's property interests (including buildings that are being used and under construction and land use rights) are set out in the valuation report in Appendix II. Based on the valuation prepared by GCAL, the attributable value of the FEPI Group's property interests as at 31st August, 2005 is approximately HK$608.7 million. Such valuation represents a surplus of approximately HK$27.8 million over the attributable net book value of the FEPI Group's property interests of approximately HK$580.9 million as at 30th June, 2005.

As disclosed in the annual report of the FEPI Group, the net book value of machinery and equipment in use amounted to approximately HK$833.3 million as at 31st December, 2004. According to the FEPI Group's accounting policies, these are stated at historical cost less depreciation, calculated on a straight-line method over an estimated useful life of 10 years. We have discussed with the management and have been advised that in general, the average useful life of the machinery and equipment used for polyester products in the FEPI Group's production is close to 10 years. In addition, new technology for production of polyester products emerges every 5 to 10 years. In order to keep its production capability updated at the forefront of the technology standard, the FEPI Group would need to upgrade its machinery regularly upon the emergence of new technology. Based on the above and in view of the nature of machinery and equipment used, the management is of the view that it is not likely that the replacement cost for the FEPI Group's existing machinery and equipment would be higher than their net book value.

*Inventories*

The inventories of the FEPI Group represented approximately 19.5% and 18.4% of the FEPI Group's total assets as at 31st December, 2004 and 30th June, 2005 respectively. Such balance mainly consisted of raw materials and finished goods. The management advised us that the substantial balance of inventory as at 31st December, 2004 was caused mainly by the increase in purchase costs of raw materials.

*Trade and notes receivables*

The trade and notes receivables of the FEPI Group represented approximately 11.9% and 10.0% of the FEPI Group's total assets as at 31st December, 2004 and 30th June, 2005 respectively. The FEPI Group generally allows credit period of 7 to 60 days to its PRC customers with sound financial and good repayment histories, and 90 to 120 days for overseas customers. As at 30th June, 2005, the FEPI Group had trade receivables of approximately HK$162.7 million aged not exceeding 60 days and approximately HK$27.6 million aged from 61 days to 90 days, which respectively represented approximately 45.5% and 7.7% of the net trade receivables balance.

(ii) *Cash and indebtedness position*

The FEPI Group's cash position has improved from approximately HK$190.9 million as at 31st December, 2003 to approximately HK$323.1 million as at 31st December, 2004. Despite such increase, the FEPI Group's borrowings (including short term and long term borrowings) have increased significantly from approximately HK$642.0 million as at 31st December, 2003 to HK$1,415.5 million as at 31st December, 2004. The increased borrowings were mainly used to finance the construction work and acquisition of necessary machinery and equipment for the polymerisation plant being constructed during the year. Cash and bank balances dropped to approximately HK$289.3 million while bank borrowings continued to increase to HK$1,682.7 million as at 30th June, 2005, principally due to the losses recorded for the first half of 2005 and the payment of construction cost and acquisition of machinery and equipment for the polymerisation plant.

(iii) *Adjusted consolidated NAV and NTAV*

As disclosed in the paragraph headed "Net tangible asset value" and the section headed "Financial effects" in the explanatory statement contained in the Scheme Document, the unaudited adjusted consolidated NAV, calculated based on the unaudited consolidated NAV of the FEPI Group as at 30th June, 2005 and adjusted for the surplus arising from valuation of the properties of the FEPI Group of approximately HK$27.8 million, is approximately HK$1,190.9 million, equivalent to approximately HK$2.90 per Share on the basis of 410,296,000 Shares in issue as at the Latest Practicable Date. Excluding the intangible assets of the FEPI Group (being deferred assets of approximately HK$5.2 million as at 30th June, 2005), the unaudited adjusted consolidated NTAV calculated on the above basis is approximately HK$1,185.7 million, equivalent to approximately HK$2.89 per Share as disclosed in explanatory statement. The unaudited adjusted consolidated NAV and NTAV per Share compare with the Price as follows:

| | **Per Share** | **Discount of the Price** |
|---|---|---|
| | *HK$* | % |
| Price | 2.20 | |
| Unaudited adjusted consolidated NAV | 2.90 | 24.1 |
| Unaudited adjusted consolidated NTAV | 2.89 | 23.9 |

6. **Comparisons**

In considering the terms of the Proposal, we have compared the above discount of the Price to unaudited adjusted consolidated NTAV per Share of approximately 23.9% to:

(i) the discounts of the market prices at which the Shares have been traded during 14th March, 2003 (the date of release by the FEPI Group of its 2002 full year results) to the Pre-Suspension Day to the consolidated NTAV per Share;

(ii) the discounts of the market price of shares of other listed companies engaging in businesses comparable to the FEPI Group to their underlying NTAV per share; and

(iii) the terms at which recently completed privatisation proposals for Hong Kong listed companies have been made since beginning of 2003.

(i) *Historical discounts of market price to consolidated NTAV per Share*

We have compared the closing price of the Shares against the then latest published consolidated NTAV per Share since 14th March, 2003, which we have assumed was generally available to the market from the date of the relevant announcements of FEPI's annual, interim or quarterly results.

| Period | Published consolidated NTAV per Share# | Closing price per Share High | Closing price per Share Low | Discount to consolidated NTAV per Share Lowest | Discount to consolidated NTAV per Share Highest |
|---|---|---|---|---|---|
| | *HK$* | *HK$* | *HK$* | *%* | *%* |
| 14th March, 2003* to 12th May, 2003 | 3.20 | 1.70 | 1.45 | 46.9 | 54.7 |
| 13th May, 2003* to 13th August, 2003 | 3.13 | 1.83 | 1.45 | 41.5 | 53.7 |
| 14th August, 2003* to 13th November, 2003 | 3.12 | 1.79 | 1.48 | 42.6 | 52.6 |
| 14th November, 2003* to 9th March, 2004 | 3.11 | 1.70 | 1.48 | 45.3 | 52.4 |
| 10th March, 2004* to 9th May, 2004 | 3.16 | 1.77 | 1.53 | 44.0 | 51.6 |
| 10th May, 2004* to 9th August, 2004 | 3.13 | 1.66 | 1.41 | 47.0 | 55.0 |
| 10th August, 2004* to 3rd November, 2004 | 3.13 | 1.51 | 1.35 | 51.8 | 56.9 |
| 4th November, 2004* to 23rd March, 2005 | 3.12 | 1.58 | 1.44 | 49.4 | 53.9 |
| 24th March, 2005* to 11th May, 2005 | 3.17 | 1.56 | 1.45 | 50.8 | 54.3 |
| 12th May, 2005* to 9th August, 2005 | 2.96 | 1.46 | 1.35 | 50.7 | 54.4 |
| 10th August, 2005* to 22nd August, 2005 | 2.82 | 1.42 | 1.36 | 49.7 | 51.8 |

*Notes:*

* Being dates on which FEPI announced its annual, interim or quarterly results.

\# The consolidated NTAV figures are arrived at by deducting the deferred assets from the consolidated NAV figures as reported in FEPI's annual, interim or quarterly results announcements.

Based on the analysis set out above, the Shares have been consistently traded at substantial discounts to their underlying consolidated NTAV per Share for the period from 14th March, 2003 to the Pre-Suspension Day. The discounts during the period under review ranged from 41.5% to 56.9%. In view of the substantial discounts traded throughout the period, in our opinion, it is unlikely that such discount will narrow to the approximately 23.9% discount to the unaudited adjusted consolidated NTAV per Share represented by the Price in the absence of the Proposal.

(ii) *Peer comparison*

For the purpose of our assessment of the Price, we have identified all the companies listed in Hong Kong which are principally engaged in the production of polyester products. We have identified two such companies, namely, Sinopec Yizheng Chemical Fibre Company Limited (the "Comparable Company") (stock code: 1033) and China Specialised Fibre Holdings Limited ("China Specialised Fibre") (stock code: 285). However, as dealing in the shares of China Specialised Fibre has been suspended since 26th November, 2002 and China Specialised Fibre was ordered to be wound up by a court order dated 11th October, 2004, we have not included China Specialised Fibre in our analysis.

The table below illustrates the comparison of the share price of the Comparable Company and FEPI to their respective underlying consolidated NTAV and historical earnings:

| | **Closing share price as at the Latest Practicable Date** | **Market capitalisation as at the Latest Practicable Date** | **Audited consolidated NTAV per share** | **Audited earnings per share** | **Discount of closing share price to consolidated NTAV per share** | **Historical price-earnings multiple** |
|---|---|---|---|---|---|---|
| | *HK$* | *HK$ million* | *HK$* | *HK$* | *%* | *times* |
| Sinopec Yizheng Chemical Fibre Company Limited | 1.23 *(Note a)* | 7,828.1 *(Note a)* | 2.19 *(Note a)* | 0.058 *(Note a)* | 43.8 | 21.2 |
| **FEPI** | **2.20** *(Note b)* | **574.4** *(Note c)* | **2.89** *(Note d)* | **0.067** *(Note e)* | **23.9** | **32.8** |

*Notes:*

(a) The closing share price and market capitalisation of the Comparable Company as at the Latest Practicable Date are sourced from Bloomberg. The audited consolidated NTAV per share and the earnings per share are extracted from the latest annual report of the Comparable Company, which are translated at the rate of HK$1.00 = RMB1.04 for illustration purpose.

(b) Being the Price of HK$2.20 per Scheme Share.

(c) We have taken the price of the Share as at the Pre-Suspension Day for the purpose of determining the market capitalisation of FEPI. We have not referred to the price of the Shares as at the Latest Practicable Date because, in our opinion, it is unlikely that the recent significantly higher price level of the Shares will be sustained if the Proposal is withdrawn or lapses.

(d) Being the unaudited adjusted consolidated NTAV per Share as disclosed in the paragraph headed "Net tangible asset value" in the explanatory statement.

(e) Being the basic earnings per Share disclosed in the 2004 annual report of FEPI.

The Comparable Company traded at discount to its consolidated NTAV per share of approximately 43.8%. The discount of approximately 23.9% represented by the Price to the unaudited adjusted consolidated NTAV per Share is considerably lower than the discount of approximately 43.8% for the Comparable Company. The historical price-earnings multiple of FEPI based on the Price of 32.8 times is also considered to be more favourable than that of 21.2 times for the Comparable Company.

In view of the deteriorating financial results of FEPI and the level of discount of share price to NTAV and historical price-earnings multiple of the Comparable Company, in our opinion, it is likely that the Share price will drop back to the previous level prior to the release of the Announcement at approximately HK$1.40 per Share in the absence of the Proposal, which is equivalent to approximately 51.6% discount to the unaudited adjusted consolidated NTAV per Share and 20.9 times price-earnings multiple on 2004 earnings.

(iii) *Privatisation precedents*

We have reviewed all other privatisation proposals for companies listed on the Stock Exchange and on GEM which were announced since 1st January, 2003. There were a total of seventeen proposals announced, of which eleven have been successfully completed, four have not obtained the requisite approval from shareholders and were not completed, and the shareholders' meetings of the remaining two proposals are yet to be held. Details of all these proposals are summarised in the following table.

| | | | | | Premium of offer price over closing price/average closing share price prior to the privatisation announcement | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Date of announcement** | **Company** | **Principal activities** | **Market capitalisation** | **Offer price** | **Last trading day** | **30 trading days** | **90 trading days** | **Premium/ (discount) of offer price over/(to) adjusted NTAV per share** | **Historical price-earnings multiple** |
| | | | *(Note a)* | | | | | | *(Note b)* |
| | | | *HK$ million* | *HK$* | *%* | *%* | *%* | *%* | *times* |
| ***I. Proposals disapproved or to be considered by shareholders*** | | | | | | | | | |
| ***2003*** | | | | | | | | | |
| 19th February | eSun Holdings Limited (stock code: 571) | Development and operation of and investment in telecommunications, media, entertainment and other related businesses, provision of advertising agency services and management of hotel operations | 125.7 | 0.28 | 27.3 | 30.6 | 5.0 | (91.4) | N/A-loss |
| 23rd April | Kerry Properties Limited (stock code: 683) | Property development and investment, logistics, freight and warehouse ownership and operation, infrastructure-related investment and hotel ownership | 7,107.2 | 9.50 | 58.3 | 49.4 | 46.8 | (39.8) | 16.8 |

| Date of announcement | Company | Principal activities | Market capitalisation | Offer price | Premium of offer price over closing price/average closing share price prior to the privatisation announcement: Last trading day | 30 trading days | 90 trading days | Premium/ (discount) of offer price over/(to) adjusted NTAV per share | Historical price-earnings multiple |
|---|---|---|---|---|---|---|---|---|---|
| | | | *(Note a)* | | | | | | *(Note b)* |
| | | | *HK$ million* | *HK$* | *%* | *%* | *%* | *%* | *times* |
| ***2003*** | | | | | | | | | |
| 25th July | JCG Holdings Limited (stock code: 626) | Deposit taking, personal and commercial lending, mortgage financing, stock-broking, the letting of investment properties, the provision of finance to purchasers of taxis and public light buses, the trading of taxi cabs and taxi licences, and the leasing of taxis | 2,724.9 | 4.61 | 19.7 | 21.3 | 25.6 | 0.24 | 13.8 |
| ***2005*** | | | | | | | | | |
| 12th July | Guangdong Tannery Limited (stock code: 1058) | Processing and sale of semi-finished and finished leather | 111.1 | 0.28 | 32.1 | 52.2 | 41.4 | (6.4) | 31.5 |
| 16th August | Henderson Cyber Limited (stock code: 8023) | Internet services, merchandising services, data centre services, intelligent building services and information technology investments | 1,100.0 | 0.42 | 90.9 | 110.0 | 106.4 | 180.0 *(Note c)* | N/A-loss |
| 27th September | SUNDAY Communications Limited (stock code: 866) | Developer and provider of wireless communications and data services | 1,823.9 | 0.65 | 6.6 | 3.2 | 6.6 | 204.0 *(Note c)* | 3,250.0 |
| ***II. Proposals successfully completed*** | | | | | | | | | |
| ***2003*** | | | | | | | | | |
| 3rd May | Top Glory International Holdings Limited (stock code: 268) | Property investment, property development and hotel operations | 1,337.6 | 0.74 | 72.1 | 76.2 | 72.1 | (44.8) | 462.5 |
| 21st May | Oxford Properties & Finance Limited (stock code: 220) | Investment holding and property investment | 636.9 | 15.0 | 59.6 | 70.8 | 90.4 | 30.5 | 37.0 |
| 21st May | SIIC Medical Science and Technology (Group) Limited (stock code: 8018) | Manufacturing, distribution and sale of Chinese medicine and health supplement products | 1,160.1 | 2.15 | 15.0 | 24.3 | 35.2 | 76.2 | 15.2 |
| 26th May | Pacific Concord Holding Limited (stock code: 438) | Property development and investment | 1,396.5 | 0.65 | 51.2 | 62.5 | 47.7 | (64.5) | 25.9 |
| 20th August | iLink Holdings Limited (stock code: 8107) | Operation of data centres | 105.3 | 0.035 | 75.0 | 66.7 | 52.2 | (7.9) | N/A-loss |
| 31st October | Chevalier Construction Holdings Limited (stock code: 579) | Building construction, building maintenance and civil engineering | 53.5 | 0.25 | 16.3 | 25.0 | 56.3 | (21.1) | 8.4 |

| Date of announcement | Company | Principal activities | Market capitalisation | Offer price | Premium of offer price over closing price/average closing share price prior to the privatisation announcement: Last trading day | 30 trading days | 90 trading days | Premium/(discount) of offer price over/(to) adjusted NTAV per share | Historical price-earnings multiple |
|---|---|---|---|---|---|---|---|---|---|
| | | | *(Note a)* | | | | | | *(Note b)* |
| | | | *HK$ million* | *HK$* | *%* | *%* | *%* | *%* | *times* |
| ***2004*** | | | | | | | | | |
| 13th October | Alpha General (Holdings) Limited (stock code: 73) | Sale and distribution of electrical household appliance products | 60.2 | 0.70 | 125.8 | 133.3 | 125.8 | (47.0) | N/A-loss |
| 4th November | The Kwong Sang Hong International Limited ("KSH") (stock code: 189) | Property development, sales of properties, property leasing, manufacturing and trading in cosmetic products | 1,142.3 | 1.25 | 5.0 | 36.2 | 64.0 | (31.7) *(Note d)* | N/A-loss |
| 29th December | Sinopec Beijing Yanhua Petrochemical Company Limited ("Beijing Yanhua") (stock code: 325) | Production and sale of three principal petrochemical products groups, namely, resins and plastics; synthetic rubber; and basic organic chemical products | 11,556.0 | 3.80 | 10.9 | 22.7 | 24.3 | 104.3 | 20.8 |
| ***2005*** | | | | | | | | | |
| 3rd May | Hutchison Global Communications Holdings Limited ("HGCH") (stock code: 757) | Provision of innovative and advanced telecommunications, information technology and systems integration services | | | | **Cash alternative** | | | |
| | | | 3,279.4 | 0.65 | 36.8 | 43.8 | 45.3 | 2,124.1 *(Note e)* | 43.9 |
| | | | | | | **Share alternative** | | | |
| | | | | 0.7048 *(Note f)* | 48.4 | 55.9 | 57.6 | 2,311.6 *(Note e)* | 47.6 |
| 19th May | Henderson China Holdings Limited (stock code: 246) | Property development and investment, project management, property management, finance and investment holding in the PRC | 2,389.3 | 8.00 *(Note g)* | 66.7 | 64.3 | 68.6 | (36.1) *(Note e)* | 266.7 |
| **Average** *(Note h)* | | | | | | | | | |
| All seventeen privatisation proposals | | | | | 45.6 | 52.9 | 54.1 | | |
| Only the eleven successfully completed proposals | | | | | 49.1 | 57.4 | 62.6 | | |
| **Median** *(Note h)* | | | | | | | | | |
| All seventeen privatisation proposals | | | | | 42.6 | 49.9 | 51.5 | (7.9) | 28.7 |
| Only the eleven successfully completed proposals | | | | | 51.2 | 62.5 | 56.3 | (21.1) | 31.5 |
| **30th August** | **FEPI** | **Production and distribution of polyester products in the PRC** | **574.4** | **2.20** | **57.1** | **57.7** | **55.0** | **(23.9)** | **32.8** |

*Sources: Bloomberg, published announcements and circulars relating to the above privatisation proposals.*

*Notes:*

(a) The market capitalisations of the companies are determined by multiplying the relevant number of shares in issue as set out in the privatisation documents by the closing price per share as quoted on the Stock Exchange on the last trading day prior to the suspension of trading in the shares pending the issue of the privatisation announcements. The market capitalisation of Beijing Yanhua is calculated by reference to its 3,374 million shares (2,362 million domestic shares and 1,012 million H shares) in issue as disclosed in its privatisation document and the closing price per H share as quoted on the Stock Exchange on the last trading day prior to the suspension of trading in its shares pending the issue of the privatisation announcement. For Henderson Cyber Limited and SUNDAY Communications Limited, as they have not yet issued their privatisation documents, their market capitalisations are determined by multiplying the relevant number of shares in issue as set out in their privatisation announcements by the closing price per share as quoted on the Stock Exchange on the last trading day prior to the suspension of trading in the shares pending the issue of the privatisation announcements.

(b) Being price-earnings multiples represented by the offer prices over the latest full year audited earnings per share as released by the relevant companies before the despatch of the relevant privatisation documents.

(c) As the privatisation documents for these two proposals have not yet been issued as at the Latest Practicable Date, the figures represent the premia of the offer price over the consolidated NAV (before adjustments, if any) of the relevant companies as disclosed in the relevant announcements.

(d) The figure represents the proforma adjusted unaudited consolidated net tangible assets as disclosed in the proforma statement of adjusted unaudited consolidated net tangible assets contained in the KSH privatisation document, after taking into account the attributable property revaluation surplus in the amount of approximately HK$471.0 million as disclosed in the note to such statement.

(e) The adjusted NTAV per share of these companies (which are based on the NTAV as reported in their latest financial reports after adjustments for events such as revaluation and dividend declared) are not set out in the relevant privatisation documents or announcements. For the purpose of our analysis, we have extracted the NAV or adjusted NAV figures disclosed in the relevant privatisation documents and deduct any intangible assets as shown in the relevant companies' latest published financial reports to arrive at the adjusted NTAV figures.

(f) For every 21 scheme shares, each scheme shareholder of HGCH will receive 2 shares of Hutchison Telecommunications International Limited ("HTIL"). Each scheme share is valued at approximately HK$0.7048 on the basis of the closing price of HK$7.40 per HTIL share on the trading day immediately prior to announcing the privatisation proposal of HGCH.

(g) This represents the revised cancellation price as announced by Henderson China Holdings Limited on 3rd June, 2005. For comparison of offer price to market prices, the last trading day refers to the last trading day for the shares prior to the release of the first privatisation announcement on 19th May, 2005.

(h) The average figures of the cash alternative and share alternative for the HGCH proposal have been used for the purpose of calculating the average and median figures.

(i) For illustration purpose, figures in RMB have been translated into HK$ at the rate of RMB1.04 to HK$1.

We note from the above summary that the average premium of offer prices over the 30-day and 90-day average closing prices of all the seventeen privatisation precedents are approximately 52.9% and 54.1% respectively, with median of approximately 49.9% and 51.5% respectively. The median of price-earnings multiples of all the above proposals for profitable companies is approximately 28.7 times. However, we consider that comparison of the terms of the Proposal against unsuccessful precedents is not appropriate as the terms of such proposals were not considered fair and reasonable by their shareholders. Comparison of the terms of the Proposal against other proposals to be considered by their shareholders is also considered to be inappropriate as the fairness and reasonableness of these proposals are yet to be assessed. Inclusion of these unsuccessful precedents and pending proposals may distort the results of our analysis. Accordingly, we consider it appropriate to consider only those eleven proposals which have been approved by their shareholders and successfully completed.

It can be observed from the summary above that the average premium of offer prices over the average closing prices during the 30-day and 90-day periods of the above successful privatisation precedents are approximately 57.4% and 62.6% respectively, with median of approximately 62.5% and 56.3%. The respective premium offered by the Price over 30-day and 90-day average closing Share prices of approximately 57.7% and 55.0% are comparable to those of the other successful privatisation precedents.

As none of the companies in the above successful privatisation precedents are engaged in principal activities similar to the FEPI Group, it is not likely that these companies would have asset base and structure or market rating in terms of price-earnings multiples similar to those of the FEPI Group. In addition, each privatisation precedent may have been proposed as a result of circumstances particular to themselves which may not be applicable to FEPI. Accordingly, we consider it may not be meaningful to analyse the discount of the Price to the underlying adjusted NTAV of the Shares or the price-earnings multiple represented by the Price and directly compare such ratios with those of the privatisation precedents. However, as a general reference, we noted that of the eleven successful precedents, four offered prices at premium over underlying adjusted NTAV. The remaining seven privatisation precedents offered prices at discounts to the adjusted NTAV per share in the range of approximately 7.9% to 64.5%. The median of the eleven successfully completed privatisation precedents is approximately 21.1%. The discount of approximately 23.9% to the unaudited adjusted consolidated NTAV per Share represented by the Price is within the range of these seven precedent cases and lies towards the low end of such range, and is slightly higher than the median of 21.1% discount represented by all the successful privatisation precedents. The price-earnings multiples of the successfully completed proposals for profitable companies ranged from approximately 8.4 to 462.5 times, with median of approximately 31.5 times. The price-earnings multiple represented by the Price of approximately 32.8 times is comparable to such median.

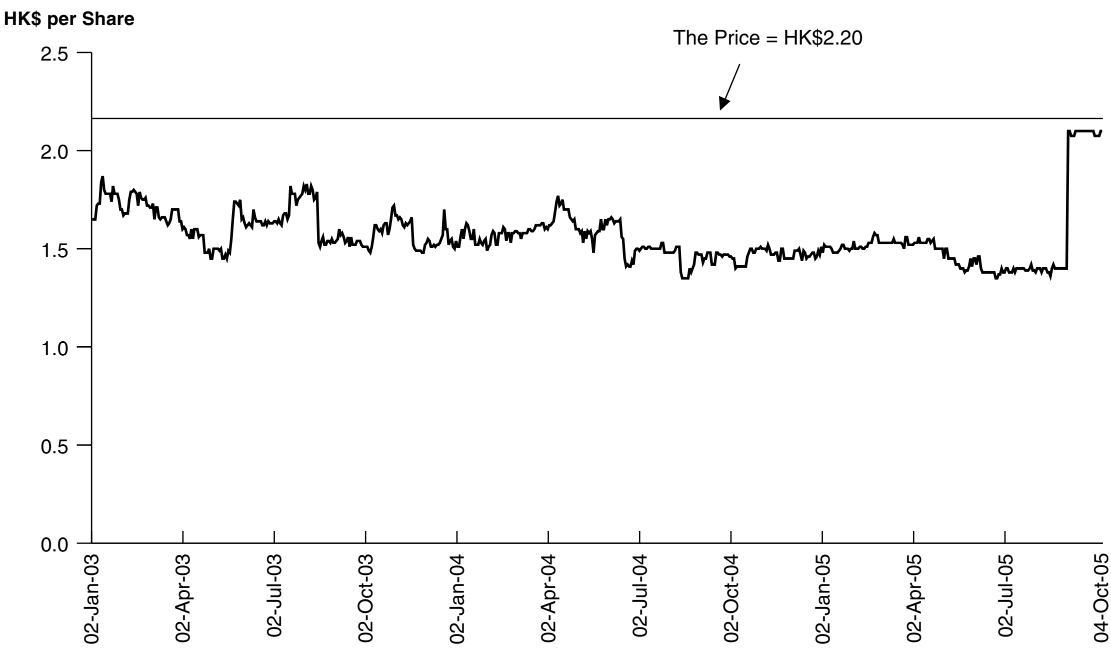
Based on the above analysis, we consider that the Price is fair and reasonable when compared with the other recently completed privatisation proposals.

7. **Share price and trading volume of the Shares**

(i) *Share price*

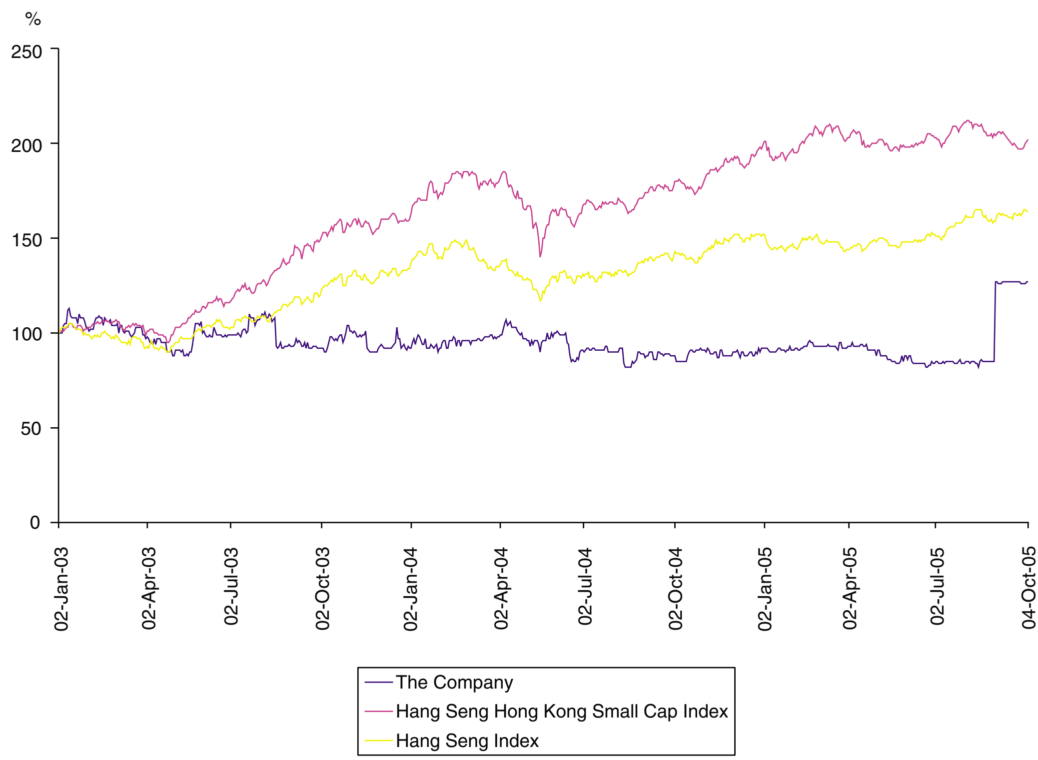
Chart 1 below illustrates the daily closing prices per Share as quoted on GEM from 2nd January, 2003 up to and including the Latest Practicable Date (the "Period"). Chart 2 below shows the relative performance of the Shares as compared to those of the Hang Seng Index and Hang Seng Hong Kong Small Cap Index during the same period.

**Chart 1**




*Source: Bloomberg*

**Chart 2**




*Source: Bloomberg*

During the period from 2nd January, 2003 to the Pre-Suspension Day, Share prices fluctuated within a narrow range of HK$1.35 to HK$1.87 per Share. The Shares closed at HK$1.87 on 13th January, 2003, and dropped gradually to around HK$1.45 per Share in mid May 2003 and rebounded to HK$1.75 per Share on 30th May, 2003, which might have been caused by the announcement by the Company on 28th May, 2003 of the disposal of a loss making wholly-owned subsidiary. Thereafter, the Shares were traded within the range of HK$1.61 to HK$1.83 per Share and dropped abruptly to close at HK$1.51 per Share on 18th August, 2003. We believe such drop might have been caused by the release by the Company of its 2003 second quarter results on 14th August, 2003 which showed a loss of approximately HK$3.2 million for the three months ended 30th June, 2003 and represented a significant deterioration from a profit of approximately HK$45.2 million for the corresponding period in 2002. Shares closed within the range of HK$1.48 to HK$1.77 per Share during September 2003 to May 2004 and dipped to HK$1.41 per Share around mid June 2004, which drop was largely in line with the fluctuations of the Hang Seng Index during that period. Share price remained at the level of around HK$1.5 per Share after June 2004 and slightly dropped to HK$1.45 per Share on 6th May, 2005 following the release of a profit warning announcement by the Company on 5th May, 2005. The Shares closed at HK$1.4 per Share on the Pre-Suspension Day and surged to and remained at the level of around HK$2.1 after the release of the Announcement.

As illustrated in Chart 2, the Shares have under-performed the Hang Seng Index and the Hang Seng Hong Kong Small Cap Index since mid August 2003. This, in our view, probably reflects the continuous deterioration in the financial results of the FEPI Group.

The Price represents:

- a premium of approximately 57.1% over the closing price of HK$1.40 per Share as quoted on GEM on the Pre-Suspension Day;
- a premium of approximately 56.7% over the average closing price of approximately HK$1.404 per Share based on the daily closing prices as quoted on GEM for the 5 trading days up to and including the Pre-Suspension Day;
- a premium of approximately 57.7% over the average closing price of approximately HK$1.395 per Share based on the daily closing prices as quoted on GEM for the 30 trading days up to and including the Pre-Suspension Day;
- a premium of approximately 55.0% over the average closing price of approximately HK$1.419 per Share based on the daily closing prices as quoted on GEM for the 90 trading days up to and including the Pre-Suspension Day;
- a premium of approximately 52.0% over the average closing price of approximately HK$1.447 per Share based on the daily closing prices as quoted on GEM for the 120 trading days up to and including the Pre-Suspension Day;
- a premium of approximately 50.3% over the average closing price of approximately HK$1.464 per Share based on the daily closing prices as quoted on GEM for the 180 trading days up to and including the Pre-Suspension Day; and
- a premium of approximately 4.8% over the closing price of HK$2.10 per Share as at the Latest Practicable Date.

The Shares have been trading at a level below the Price of HK$2.2 per Scheme Share on the market at all times during the Period. In our opinion, the recent rise in Share price after the release of the Announcement reflects the terms of the Proposal and it is not likely that the market price of the Shares will remain at the current level if the Proposal is withdrawn or lapses.

(ii) *Trading volume of the Shares*

The following table sets out the total monthly trading volume of the Shares, and the percentage of the total monthly trading volume of the Shares to the total issued Shares and the Shares held by the public respectively during the Period:

| | **Total monthly trading volume of the Shares** *(Note a)* | **% of total monthly trading volume of the Shares to the total issued Shares** *(Note b)* | **% of total monthly trading volume of the Shares to public float** *(Note c)* |
|---|---|---|---|
| **2003** | | | |
| January | 1,116,000 | 0.27% | 1.45% |
| February | 812,000 | 0.20% | 1.05% |
| March | 2,138,000 | 0.52% | 2.77% |
| April | 610,000 | 0.15% | 0.79% |
| May | 10,912,000 | 2.66% | 14.14% |
| June | 3,075,000 | 0.75% | 3.99% |
| July | 5,352,000 | 1.30% | 6.94% |
| August | 4,295,640 | 1.05% | 5.57% |
| September | 3,022,000 | 0.74% | 3.92% |
| October | 5,506,000 | 1.34% | 7.14% |
| November | 3,038,000 | 0.74% | 3.94% |
| December | 1,340,000 | 0.33% | 1.74% |
| **2004** | | | |
| January | 4,336,000 | 1.06% | 5.62% |
| February | 4,168,934 | 1.02% | 5.40% |
| March | 2,714,000 | 0.66% | 3.52% |
| April | 1,442,000 | 0.35% | 1.87% |
| May | 1,310,000 | 0.32% | 1.70% |
| June | 856,000 | 0.21% | 1.11% |
| July | 1,004,000 | 0.24% | 1.30% |
| August | 1,882,000 | 0.46% | 2.44% |
| September | 3,024,000 | 0.74% | 3.92% |
| October | 1,080,000 | 0.26% | 1.40% |
| November | 2,716,000 | 0.66% | 3.52% |
| December | 1,667,000 | 0.41% | 2.16% |

| | Total monthly trading volume of the Shares *(Note a)* | % of total monthly trading volume of the Shares to the total issued Shares *(Note b)* | % of total monthly trading volume of the Shares to public float *(Note c)* |
|---|---|---|---|
| **2005** | | | |
| January | 1,302,000 | 0.32% | 1.69% |
| February | 1,022,000 | 0.25% | 1.32% |
| March | 1,569,858 | 0.38% | 2.03% |
| April | 1,462,000 | 0.36% | 1.90% |
| May | 2,042,000 | 0.50% | 2.65% |
| June | 534,000 | 0.13% | 0.69% |
| July | 1,316,000 | 0.32% | 1.71% |
| August | 3,678,360 | 0.90% | 4.77% |
| September | 14,319,000 | 3.49% | 18.56% |

*Notes:*

(a) Source: Bloomberg.

(b) Based on 410,296,000 Shares in issue as at the Latest Practicable Date.

(c) Based on 77,145,200 Shares held by the public (i.e. total issued Shares excluding those Shares held by YDIC, FETL, EIHL and GVL) at the end of each month during the Period.

The monthly trading volume of the Shares were extremely thin during the Period, which represented less than 2% of the total issued Shares and less than 8% of the Shares in public hands save for May 2003 and September 2005. The relatively higher trading volume in May 2003 might have been prompted by certain positive news relating to the disposal of loss-making subsidiaries by FEPI. The sudden surge in the trading volume in September 2005 was likely due to the announcement of the Proposal.

Given the thin trading volume of the Shares in the past, in our view, the Scheme Shareholders who wish to sell a significant number of their Shares in the market at this level of liquidity may cause certain downward pressure on the market price of the Shares. The Proposal therefore represents an opportunity for the Scheme Shareholders to dispose of their entire holdings at the Price if they so wish.

## DISCUSSION AND CONCLUSION

The discount of the Price to the unaudited adjusted consolidated NTAV is approximately 23.9%, which compares favourably to the discount of the closing prices to NTAV of the Shares in the range of approximately 41.5% to 56.9% during the past two years. The Price represents a price-earnings multiple of approximately 32.8 times based on 2004 results. The shares of the Comparable Company is trading in the market at discount of approximately 43.8% to its underlying consolidated NTAV and approximately 21.2 times historical price-earnings multiples.

Seven out of eleven successfully completed privatisation proposals since 1st January, 2003 offered prices at discounts to adjusted NTAV. The discount to the adjusted consolidated NTAV of 23.9% represented by the Price lies towards the low end of the range of the discounts to adjusted NTAV per share of approximately 7.9% to 64.5% for these seven proposals. The discount represented by the Price is slightly higher than the median for all the eleven successfully completed privatisation precedents of approximately 21.1%.

The Price of HK$2.20 per Scheme Share is substantially above the HK$1.35 to HK$1.58 range at which the Shares have been traded in the 12 months prior to the Announcement. In particular, the premium offered by the Price exceeds 50% for the 5-day, 30-day, 120-day and 180-day average daily closing price up to and including the Pre-Suspension Day.

Moreover, the FEPI Group's operating results have continued to deteriorate since the financial year ended 31st December, 2000 owing principally to the surge in raw material costs. The management is of the view that the prospects of the FEPI Group's business remain uncertain given the upsurge of crude oil price to a record high level and the increasing competition among polyester producers in the PRC.

FEPI has not raised any new capital from issue of new shares or securities since the listing of its shares on GEM. The management does not consider that there is any immediate need for fund raising activities from the capital market. As such, the expenses of maintaining a public listing overweigh any possible benefits that such status may bring to the FEPI Group.

In view of the above factors, we concur with the management's view that the Proposal, through which the Independent Shareholders will be able to dispose of their entire holding of Shares at a substantial premium to recent market prices, represents an attractive opportunity for the Independent Shareholders to realise their investments and, in our opinion, adequately compensates them for a discount to the unaudited adjusted consolidated NTAV that is within the range of discounts in other successfully completed privatisation precedents since the beginning of 2003.

**RECOMMENDATION**

Based on the above principal factors and reasons, we consider the terms of the Proposal are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend that the Independent Board Committee advises the Independent Shareholders to vote in favour of the special resolution, which will be proposed at the Court Meeting and SGM, to approve and to implement the Scheme.

Yours faithfully,
for and on behalf of
**SOMERLEY LIMITED**
**Beatrice Lung**
*Director — Corporate Finance*

*This explanatory statement constitutes the statement required to be furnished pursuant to Section 100 of the Companies Act.*

## SCHEME OF ARRANGEMENT FOR THE CANCELLATION OF THE SCHEME SHARES AND THE PAYMENT OF THE CANCELLATION PRICE

### INTRODUCTION

It was jointly announced by YDIC and FEPI on 30th August, 2005 that on 22nd August, 2005 YDIC had requested the Board to put forward the Proposal to the Scheme Shareholders that FEPI will be privatised by way of the Scheme whereby all Scheme Shares shall be cancelled and FEPI will be held as to 62.21% by YDIC, 15.17% by FETL and 22.62% by EIHL upon completion of the Proposal.

The purpose of this Explanatory Statement is to explain the terms and effects of the Proposal and to provide the Shareholders with other relevant information in relation to the Proposal.

The particular attention of the Shareholders is drawn to the following sections of this document: (a) a letter from the Board set out on pages 7 to 11 of this document; (b) a letter from the Independent Board Committee in connection with the Proposal set out on pages 12 to 13 of this document; (c) a letter of advice from Somerley set out on pages 14 to 38 of this document; and (d) the Scheme set out on pages 133 to 136 of this document.

### SUMMARY OF THE PROPOSAL

The Proposal is to be implemented by way of the Scheme, which involves the cancellation of the Scheme Shares and a reduction of the issued share capital, under Section 99 of the Companies Act between FEPI and the Scheme Shareholders. The Scheme provides that, subject to the conditions of the Proposal being fulfilled or waived (as applicable), the Scheme Shares will be cancelled and, in consideration for such cancellation, the Scheme Shareholders whose names appear on the register of members of FEPI on the Record Date, which is expected to be 18th November, 2005, will be entitled to receive the payment of HK$2.20 in cash for each Scheme Share held on the Record Date.

As at the Latest Practicable Date, there were 410,296,000 Shares in issue and no outstanding options, warrants, or convertible securities issued by FEPI. The Scheme Shareholders were interested in 101,878,240 Shares representing approximately 24.83% of the issued share capital of FEPI. On the basis of the consideration of HK$2.20 per Scheme Share, the Proposal values the entire issued share capital of FEPI at approximately HK$902.6 million. The amount of cash required in order to effect the Proposal is approximately HK$224.1 million. The consideration payable under the Scheme will be financed out of internal resources and by borrowing of FEPI and FEPI will bear the cost of the Proposal. In this regard, a loan facility of US$23 million has been provided by The Hong Kong and Shanghai Banking Corporation Limited. The loan is unsecured with an interest rate of 0.4% per annum over LIBOR. It is due to be repaid six months from the date of drawdown with an option available to FEPI to extend it for a further period of six months. BNP Paribas Peregrine is satisfied that sufficient financial resources are available to FEPI for the implementation of the Scheme in full.

Settlement of the consideration to which the Scheme Shareholders are entitled under the Proposal will be implemented in full in accordance with the terms of the Scheme without regard to any lien, right of set-off, counterclaim or other analogous right to which FEPI may otherwise be, or claim to be, entitled against such Scheme Shareholder.

**CONDITIONS OF THE PROPOSAL**

The Proposal will become effective and binding on FEPI and all Shareholders subject to the fulfillment or waiver, as applicable, of the following conditions:

(a) the approval of the Scheme by a majority in number representing not less than three-fourths in value of the Shares of the Scheme Shareholders present and voting either in person or by proxy at the Court Meeting to be convened by the Court to consider the Scheme, provided that:

  (1) the Scheme is approved (by way of poll) by at least 75% of the votes attaching to the Scheme Shares held by the Independent Shareholders that are cast either in person or by proxy; and

  (2) the number of votes cast against the resolution to approve (by way of poll) the Scheme is not more than 10% of the votes attaching to all the Scheme Shares held by the Independent Shareholders;

(b) the passing of a special resolution to approve and give effect to the Scheme (including the reduction of the issued share capital of FEPI by the cancellation of the Scheme Shares) by a majority of at least three-fourths of the votes cast by the Shareholders present and voting, in person or by proxy, at the SGM;

(c) the sanction of the Scheme (with or without modifications) by the Court and the delivery to the Registrar of Companies in Bermuda of a copy of the order of the Court for registration;

(d) compliance, to the extent necessary, with the procedural requirements of Section 46(2) of the Companies Act in relation to the reduction of the issued share capital of FEPI;

(e) all Authorisations (if any) in connection with the Proposal having been obtained or made from, with or by (as the case may be) the Relevant Authorities, in Bermuda and/or Hong Kong and/or the PRC and/or Taiwan and/or any other relevant jurisdictions;

(f) all Authorisations (if any) remaining in full force and effect without variation, and all necessary statutory or regulatory obligations in all relevant jurisdictions having been complied with and no requirement having been imposed by any Relevant Authorities which is not expressly provided for, or is in addition to requirements expressly provided for, in relevant laws, rules, regulations or codes in connection with the Proposal or any matters, documents (including circulars) or things relating thereto, in each aforesaid case up to and at the time when the Scheme becomes effective; and

(g) all necessary consents which may be required under any existing contractual obligations of FEPI being obtained (if any).

YDIC reserves the right to waive condition (g), either in whole or in respect of any particular matter. In the event that conditions (e) and/or (f) is not fulfilled, YDIC reserves the right to assess the materiality of such non-fulfillment and to waive the fulfillment of such condition to the extent where it considers appropriate. Conditions (a) to (d) cannot be waived in any event.

All of the above conditions will have to be fulfilled or waived, as applicable, on or before 31st March, 2006 (or such later date as YDIC and FEPI may agree or as the Court may direct), failing which the Scheme will lapse.

If all of the above conditions are satisfied or waived, then the Scheme will be binding on FEPI and all Shareholders, i.e. even on those who voted against the Scheme and those who did not vote. At the Court Meeting, each Independent Shareholder has one vote for each Share registered in his/her name.

**REASONS FOR THE PROPOSAL**

The financial performance of the FEPI Group has turned from a profit of HK$27.7 million in 2004 to a loss of HK$101.8 million for the six months ended 30th June, 2005.

As such, YDIC considers the Proposal to consolidate the Far Eastern Group's interest in FEPI with other PRC business interests of the Far Eastern Group with a view to enhancing the Far Eastern Group's operational efficiency in the PRC at a time when there is, in YDIC's view, an over-supplied domestic polyester products market in the PRC. The directors of FEPI appreciate that such a reorganisation exercise would be easier to facilitate were FEPI to be an unlisted, private company.

It is the intention of YDIC to continue FEPI's businesses. As YDIC has no intention to dispose of its controlling interest in FEPI, it is unlikely that the Scheme Shareholders will receive any other general offer to acquire Shares from a third party without the approval of YDIC. In addition, Shareholders should note that no discussions have taken place (or are taking place) with any third party regarding the disposal of any of the Shares held by YDIC.

Since the listing of the Shares on GEM in January 2000, trading in the Shares has been extremely thin. The average daily trading volume of the previous 12 months is about 79,000 Shares, representing approximately 0.02% of the issued share capital of FEPI. Further, the Shares have for some time been traded at a substantial discount to the issue price of HK$4.68 at the time of listing, with a trailing 12-month average traded price of HK$1.46. Given the lack of trading activity in the Shares and the current outlook of the business, YDIC expects that investment interest in FEPI will remain low. Furthermore, YDIC is of the opinion that there is limited advantage to be gained by FEPI retaining its listing status on GEM in the foreseeable future for the purpose of raising new funds. Accordingly, YDIC considers that no tangible benefit will be derived from the continued listing of the Shares on GEM.

It is for the reasons stated above that YDIC, a 99.9% owned subsidiary of FETL, requested the board of Directors to put forward the Proposal. In considering the terms of the Proposal, YDIC has taken into account the following principal factors:

- the outlook for the polyester industry in mainland China;
- the financial results of FEPI in the past;
- the prevailing market conditions;

- potential synergies which may be derived from consolidating FEPI's business with other Far Eastern Group businesses;
- the unaudited consolidated NAV of FEPI as at 30th June, 2005; and
- the cost of maintaining the listing of the Shares on GEM.

The Directors concur with YDIC's view. In view of the prevailing market price and the low liquidity of the Shares, the Directors also believe that the Proposal provides an opportunity for all Scheme Shareholders to realise their investment in FEPI at a premium over the prevailing market price of the Shares. Under these circumstances, the Directors have decided to put forward the Proposal to the Scheme Shareholders for their consideration.

## EFFECTS OF THE PROPOSAL

### Shareholding structure

The table below sets out the shareholding structure of FEPI as at the Latest Practicable Date and immediately upon completion of the Proposal:

| | **As at the Latest Practicable Date** | | **Upon completion of the Proposal** | |
|---|---|---|---|---|
| *Shareholders* | *Number of Shares* | *%* | *Number of Shares* | *%* |
| YDIC *(Note 3)* | 191,870,160 | 46.76 | 191,870,160 | 62.21 |
| FETL *(Note 3 & 4)* | 46,797,600 | 11.41 | 46,797,600 | 15.17 |
| EIHL *(Note 1, 3 & 4)* | 69,750,000 | 17.00 | 69,750,000 | 22.62 |
| Non Scheme Shares | 308,417,760 | 75.17 | 308,417,760 | 100.00 |
| GVL *(Note 2 & 3)* | 24,733,040 | 6.03 | 0 | 0.00 |
| Independent Shareholders | 77,145,200 | 18.80 | 0 | 0.00 |
| Scheme Shares | 101,878,240 | 24.83 | 0 | 0 |
| **Total** | **410,296,000** | **100.00** | **308,417,760** | **100.00** |

*Notes:*

1. EIHL is a wholly-owned subsidiary of Everest Textile, which is in turn owned as to approximately 24.0% by YDIC and FETL and is listed on the Taiwan Stock Exchange. EIHL is a party acting in concert with FETL and YDIC under the Takeovers Code.

2. The entire issued share capital of GVL is owned by HSBC International Trustee Limited on the terms of a discretionary trust and is a party acting in concert with FETL and YDIC under the Takeovers Code.

3. YDIC and parties acting in concert with it were interested in 333,150,800 Shares representing approximately 81.20% of the issued share capital of FEPI.

4. FETL and EIHL have confirmed that the Shares held by them do not form part of the Scheme Shares and they have no objection to the implementation of the Scheme.

As at the Latest Practicable Date, no options have been granted or agreed to be granted by FEPI and there were no other outstanding warrants or convertible securities of FEPI.

**Share value**

The Price represents:

- a premium of approximately 57.14% over the closing price of HK$1.400 per Share as quoted on GEM on 22nd August, 2005 (being the last trading day prior to the suspension of trading in the Shares pending the issue of the Announcement);
- a premium of approximately 56.70% over the average closing price of about HK$1.404 per Share based on the daily closing prices as quoted on GEM over the 5 trading days up to and including 22nd August, 2005;
- a premium of approximately 57.71% over the average closing price of about HK$1.395 per Share based on the daily closing prices as quoted on GEM over the 30 trading days up to and including 22nd August, 2005;
- a premium of approximately 52.04% over the average closing price of about HK$1.447 per Share based on the daily closing prices as quoted on GEM over the 120 trading days up to and including 22nd August, 2005;
- a discount of approximately 30.82% to the audited consolidated NAV per Share of about HK$3.18 as at 31st December, 2004; and
- a discount of approximately 22.26% to the unaudited consolidated NAV per Share of about HK$2.83 as at 30th June, 2005.

The historical share price information on the Shares is set out in Appendix III to this document.

As at the Latest Practicable Date, there were 410,296,000 Shares in issue. At the Price of HK$2.20, the Proposal values the entire issued share capital of FEPI at approximately HK$902.6 million.

**Net tangible asset value**

As at 31st December, 2004, the audited consolidated NTAV of FEPI amounted to approximately HK$1,300 million, or approximately HK$3.17 per Share. The Price represents a discount of approximately 30.60% to the audited consolidated NTAV per Share as at 31st December, 2004.

As at 30th June, 2005, the unaudited consolidated NTAV of FEPI amounted to approximately HK$1,158 million, or approximately HK$2.82 per Share. The Price represents a discount of approximately 21.99% to the unaudited consolidated NTAV per Share as at 30th June, 2005.

Taking into account the revaluation surplus of the properties of HK$27.8 million as at 31st August, 2005, the unaudited adjusted consolidated NTAV of FEPI amounted to approximately HK$1,185.7 million, or appproximately HK$2.89 per Share. The Price represents a discount of approximately 23.88% to the unaudited adjusted consolidated NTAV per Share.

## FINANCIAL EFFECTS

The tables below summarise the financial effects of the Proposal based on the unaudited financial statements of the FEPI Group for the six month period ended 30th June, 2005 prior to and upon successful completion of the Proposal.

### A. NAV

| | Prior to the Proposal<br>*(HK$000's)* | Upon completion of the Proposal<br>*(HK$000's)* |
|---|---|---|
| Unaudited consolidated NAV as at 30th June, 2005 *(Note 1)* | 1,163,184 | 1,163,184 |
| Adjusted for: | | |
| Estimated cost of the Proposal *(Note 2)* | — | (233,903) |
| Surplus arising on revaluation as at 31st August, 2005 *(Note 3)* | 27,758 | 27,758 |
| Unaudited adjusted consolidated NAV | 1,190,942 | 957,039 |
| Number of Shares in issue | 410,296,000 | 308,417,760 |
| Unaudited adjusted consolidated NAV per Share | 2.90 | 3.10 |
| An increase of: | | 6.90% |

*Note 1*: As per the interim report of the FEPI Group for the six months ended 30th June, 2005.

*Note 2*: Comprised of the cost of the Proposal, interest expense on borrowing of HK$179.4 million (US$23 million) to finance the Proposal, professional, legal and miscellaneous expenses of the Proposal.

*Note 3*: Surplus arising on revaluation as at 31st August, 2005 represents the difference between the net book value of the properties interests of the FEPI Group as at 30th June, 2005 and the revalued amount of the properties interests as at 31st August, 2005.

B. **Loss per share**

| | Prior to the Proposal *(HK$000's)* | Upon completion of the Proposal *(HK$000's)* |
|---|---|---|
| Unaudited consolidated net loss for the six month period ended 30th June, 2005 *(Note 1)* | (101,791) | (101,791) |
| Adjusted for: | | |
| Interest expense relating to the Proposal *(Note 2)* | — | (4,771) |
| Unaudited adjusted consolidated net loss | (101,791) | (106,562) |
| Number of Shares in issue | 410,296,000 | 308,417,760 |
| Unaudited adjusted consolidated loss per Share | (0.25) | (0.35) |
| An increase of: | | 40.00% |

*Note 1*: As per the interim report of the FEPI Group for the six month period ended 30th June, 2005.

*Note 2*: It represents the interest expense on borrowing of HK$179.4 million (US$23 million) to finance the Proposal.

C. **Return on shareholders' funds**

| | Prior to the Proposal *(HK$000's)* | Upon completion of the Proposal *(HK$000's)* |
|---|---|---|
| Unaudited adjusted consolidated net loss (as calculated under (B) above) | (101,791) | (106,562) |
| Unaudited adjusted consolidated NAV (as calculated under (A) above) | 1,190,942 | 957,039 |
| Return on shareholders' funds | (8.55%) | (11.13%) |
| An decrease of: | | (30.18%) |

D. **Working capital and liabilities**

| | Prior to the Privatisation *(HK$000's)* | Upon completion of the Privatisation *(HK$000's)* |
|---|---|---|
| Unaudited total borrowings as at 30th June, 2005 *(Note 1)* | 1,682,681 | 1,682,681 |
| Unaudited total cash as at 30th June, 2005 *(Note 1)* | (289,331) | (289,331) |
| Adjusted for: | | |
| Estimated cost of the Proposal *(Note 2)* | — | 233,903 |
| Unaudited adjusted net borrowings | 1,393,350 | 1,627,253 |
| Unaudited adjusted consolidated NAV (as calculated under (A) above) | 1,190,942 | 957,039 |
| Unaudited adjusted net gearing ratio | 117.00% | 170.03% |

*Note 1*: As per the interim report of the FEPI Group for the six month period ended 30th June, 2005.

*Note 2*: Comprised of the cost of the Proposal, interest expense on borrowing of HK$179.4 million (US$23 million) to finance the Proposal, professional, legal and miscellaneous expenses of the Proposal.

E. **Dividends**

FEPI has declared dividends of HK$0.10 per Share for each of the years ended 31st December, 2003 and 2004. FEPI did not declare any interim dividend for the six months ended 30th June, 2005.

Upon completion of the Proposal, all the Scheme Shares will be cancelled and will not rank for any dividends to be paid by reference to a record date which falls after the date of their cancellation.

The Directors are confident that the Proposal will not inhibit the Company's ability to pay dividends in the future. Depending on the future results and financial position of FEPI, the Directors will declare dividends as and when they consider appropriate.

## INFORMATION ON FEPI

### Business

FEPI is a company incorporated in Bermuda with limited liability, the shares of which have been listed on GEM since 31st January, 2000. The principal business activities of FEPI are the production and distribution of polyester products in mainland China, including bottle-grade PET chips, polyester filaments and finished fabrics.

### Historical financial information

A summary of the audited consolidated results of FEPI for the years ended 31st December, 2003 and 2004 and the unaudited consolidated results of FEPI for the six months ended 30th June, 2005 is set out below:

| | For the year ended 31st December, | | Six months ended 30th June |
|---|---|---|---|
| | 2003 | 2004 | 2005 |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Sales | 2,080,494 | 2,602,033 | 1,416,818 |
| Operating profit (loss) | 20,384 | 54,565 | (72,813) |
| Profit (loss) before taxation | 28,111 | 33,090 | (101,830) |
| Profit (loss) before minority interest | 25,360 | 27,581 | (101,830) |
| Profit (loss) attributable to shareholders | 25,388 | 27,660 | (101,791) |

Your attention is drawn to Appendix I to this document which sets out the financial information of FEPI.

Based on the closing price of HK$2.10 per Share and the total number of Shares in issue as at the Latest Practicable Date, the market capitalisation of FEPI was approximately HK$861.6 million.

## INFORMATION ON THE FAR EASTERN GROUP AND YDIC

The Far Eastern Group is a conglomerate with its headquarters in Taipei, Taiwan which is engaged in petrochemicals, telecommunications, cement production, manufacturing, retailing, transportation, financial services, investment and real estate, principally in Taiwan. Members of the Far Eastern Group also conduct manufacturing and sales operations in the PRC, the Philippines, Singapore, Malaysia, Hong Kong, Thailand, and Canada, and export to more than 50 countries around the world. The Far Eastern Group is one of the largest and leading business groups in Taiwan, including eight stock exchange listed companies in Taiwan.

YDIC is a company incorporated in Taiwan and is a 99.9% owned subsidiary of FETL responsible for holding various business interests of the Far Eastern Group, including the single largest interest in FEPI. The company is principally engaged in investment holdings.

FEPI had no shareholdings in YDIC or other members of the Far Eastern Group (excluding, for these purposes, the FEPI Group itself) as at the Latest Practicable Date and has not dealt for value in the shares or other securities of any of them during the period starting six months prior to 22nd August, 2005 and ended on the Latest Practicable Date.

## FUTURE INTENTIONS

Upon the Scheme becoming effective, FEPI will continue to be a member of the Far Eastern Group, held as to approximately 77.38% by FETL and its 99.9% owned subsidiary, YDIC, and approximately 22.62% by Everest Textile (via its wholly-owned subsidiary, EIHL). YDIC intends to continue the existing business of FEPI and does not intend to make any significant changes to management and staff employment of the FEPI Group or any significant redeployment of the fixed assets of FEPI in the near future if the Scheme becomes effective and is implemented. The listing of the Shares on GEM will be withdrawn if the Scheme is implemented and be maintained in the event that the Scheme lapses.

## SHARE CERTIFICATES, DEALINGS AND LISTING

Upon the Scheme becoming effective, all the Scheme Shares will be cancelled and all certificates representing the Scheme Shares will cease to have effect as documents or evidence of title.

Upon the approval of the Scheme by the Independent Shareholders at the Court Meeting, the passing of the special resolution in relation to the implementation of the Scheme at the SGM, the Court's sanction of the Scheme, and the completion of all other requirements of the Companies Act and the Court, FEPI will apply to the Stock Exchange for the withdrawal of the listing of the Shares on GEM. Dealings in the Shares on GEM are expected to cease after the close of business on 15th November, 2005 and the listing of the Shares on GEM is expected to be withdrawn on 21st November, 2005. The Scheme is expected to become effective on 18th November, 2005. In the event that the Proposal is not implemented, it is intended that the listing of the Shares on GEM will be maintained.

Shareholders will be notified of the exact dates on which the Scheme and the withdrawal of the listing of the Shares on GEM will become effective by way of an announcement.

If the Scheme is not approved or lapses, FEPI will not apply to the Stock Exchange for the withdrawal of the listing of Shares on GEM.

## REGISTRATION AND PAYMENT

Upon the Scheme becoming effective, payment for the consideration of the Scheme Shares will be made to the Scheme Shareholders whose names appear on the register of members of FEPI in Hong Kong at 18th November, 2005 on the Record Date. On the basis that the Proposal becomes effective on 18th November, 2005, cheques for payment of the consideration payable under the Scheme are expected to be despatched on or before 23rd November, 2005. In the absence of any specific instructions to the contrary received in writing by the branch share registrar of FEPI, Computershare Hong Kong Investor Services Limited, at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, cheques will be sent to the persons entitled thereto at their respective registered addresses or, in the case of joint holders, to the registered address of that joint holder whose name stands first in such register in respect of the joint holding. All such cheques will be sent at the risk of the person(s) entitled thereto and FEPI, YDIC, Far Eastern Group or any of them will not be responsible for any loss or delay in despatch.

On or after the day being six calendar months after the posting of such cheques, FEPI shall have the right to cancel or countermand payment of any such cheque which has not been cashed or has been returned uncashed, and shall place all monies represented thereby in a deposit account in FEPI's name with a licensed bank in Hong Kong selected by FEPI. FEPI shall hold such monies until the expiry of six years from the Effective Date and shall, prior to such date, make payments thereout of the sums, together with interest thereon, to persons who satisfy FEPI that they are respectively entitled thereto and that the cheques of which they are payees have not been cashed. On the expiry of six years from the Effective Date, FEPI shall be released from any further obligation to make any payments under the Scheme and FEPI shall thereafter transfer the balance (if any) of the sums then standing to the credit of the deposit account in FEPI's name, including accrued interest subject, if applicable, to the deduction of any interest or withholding or other tax or any other deduction required by law and subject to the deduction of any expenses.

It is proposed to close the register of members of FEPI, at 4:00 pm on 17th November, 2005 or at the same time on such other date as may be notified to the Shareholders by an announcement, in order to establish entitlements under the Scheme. The Scheme Shareholders should ensure that their Shares are registered or lodged for registration in their names or in the name(s) of their nominees at or with Computershare Hong Kong Investor Services Limited, the branch share registrar of FEPI in Hong Kong at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, before the register of members of FEPI is closed.

Assuming that the Scheme becomes effective, all existing certificates representing the Scheme Shares will cease to have effect as documents or evidence of title as from 18th November, 2005.

Settlement of the cash entitlements to which any Scheme Shareholder is entitled under the Scheme will be implemented in full in accordance with the terms of the Proposal without regard to any lien, right of set-off, counterclaim or other analogous right to which FEPI may otherwise be, or claim to be entitled against such Scheme Shareholder.

**OVERSEAS SHAREHOLDERS**

The making of the Proposal to persons not resident in Hong Kong may be subject to the laws of the relevant jurisdictions. Such persons should inform themselves about and observe any applicable legal or regulatory requirements. It is the responsibility of any overseas Scheme Shareholders of FEPI wishing to accept the Proposal to satisfy themselves as to the full observance of laws of the relevant jurisdiction in connection therewith, including the obtaining of any governmental, exchange control or other consents which may be required, or the compliance with other necessary formalities and the payment of any issue, transfer or other taxes due in such jurisdiction.

**TAXATION**

The Scheme Shareholders, whether in Hong Kong or in other jurisdictions, are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of the Proposal and in particular, whether the receipt of the Price would make such Scheme Shareholder liable to taxation in Hong Kong or in other jurisdictions.

## COURT MEETING AND SPECIAL GENERAL MEETING

In accordance with the directions of the Court, the Court Meeting has been convened for the purpose of considering and, if thought fit, passing a resolution to approve the Scheme. The SGM has been convened to be held immediately following the Court Meeting for the purpose of considering and, if thought fit, passing a special resolution to approve the Scheme and the steps required to implement it, as referred to in the Scheme.

As at the Latest Practicable Date, YDIC was interested in 191,870,160 Shares, representing approximately 46.76% of the issued share capital of FEPI. Such Shares held by YDIC will not form part of the Scheme Shares and YDIC will not vote at the Court Meeting. In addition, parties acting in concert with YDIC, being FETL, EIHL and GVL, who, as at the Latest Practicable Date, held 46,797,600 Shares, 69,750,000 Shares and 24,733,040 Shares respectively (representing approximately 11.41%, 17.00% and 6.03% respectively of the issued share capital of FEPI) will not vote at the Court Meeting. The Shares held by FETL and EIHL do not form part of the Scheme Shares and they have confirmed that they have no objection to the implementation of the Scheme.

YDIC, FETL, EIHL and GVL have indicated that if the Scheme is approved at the Court Meeting, they will each vote in favour of the special resolution to be proposed at the SGM to approve and give effect to the Scheme (including the reduction of the issued share capital of FEPI by the cancellation of the Scheme Shares).

## ACTION TO BE TAKEN

A pink form of proxy for use at the Court Meeting and a white form of proxy for use at the SGM are enclosed with this document.

Whether or not you are able to attend the Court Meeting and/or the SGM, you are strongly urged to complete and sign the enclosed pink form of proxy in respect of the Court Meeting and the enclosed white form of proxy in respect of the SGM, in accordance with the instructions printed thereon, and to lodge them with Computershare Hong Kong Investor Services Limited, the branch share registrar of FEPI in Hong Kong at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong. In order to be valid, the pink form of proxy for use at the Court Meeting should be lodged not later than 10:30 a.m. on 29th October, 2005 and the white form of proxy for use at the SGM should be lodged not later than 11:00 a.m. on 29th October, 2005 for the purpose of the SGM to be convened on 31st October, 2005. In the case of the Court Meeting, the form of proxy may alternatively be handed to the chairman of the meeting at the meeting. The completion and return of a form of proxy for the Court Meeting or the SGM will not preclude you from attending and voting in person at the relevant meeting. In such event, the returned form of proxy will be deemed to have been revoked.

An announcement will be made by FEPI in relation to the results of the Court Meeting and the SGM. In addition, an announcement will be made on the results of the hearing of the petition to sanction the Scheme by the Court and, if the Scheme is sanctioned, the last day for dealings in the Shares on GEM, the Record Date, the Effective Date and the date of withdrawal of the listing of the Shares on GEM.

If you do not appoint a proxy and you do not attend and vote at the Court Meeting, you will still be bound by the outcome of such Court Meeting. You are therefore strongly urged to attend and vote at the Court Meeting in person or by proxy.

For the purpose of determining the entitlements of Shareholders to attend and vote at the Court Meeting and the SGM, the register of members of FEPI will be closed from 27th October, 2005 to 31st October, 2005 (both dates inclusive) and during such period, no transfer of Shares will be effected. In order to qualify to vote at the Court Meeting and the SGM, all transfers accompanied by the relevant share certificates must be lodged with the branch share registrar of FEPI, Computershare Hong Kong Investor Services Limited, at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:00 p.m. on 26th October, 2005.

## RECOMMENDATION

Your attention is drawn to the paragraph headed "Recommendation" in the "Letter from the Board" set out on pages 7 to 11 of this document.

## FURTHER INFORMATION

Further information is set out in the Appendices to, and elsewhere in, this document, all of which form part of this Explanatory Statement.

## 1. SUMMARY OF FINANCIAL INFORMATION

The following is a summary of the audited consolidated results of FEPI for the years ended 31st December, 2002, 2003 and 2004 and the unaudited six months ended 30th June, 2004 and 2005 extracted from the annual reports and interim reports of FEPI:

| | Year ended 31st December, | | | Six months ended 30th June, | |
|---|---|---|---|---|---|
| | **2004** | **2003** | **2002** | **2005** | **2004** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Turnover | 2,602,033 | 2,080,494 | 1,910,211 | 1,416,818 | 1,266,908 |
| Operating profit (loss) | 54,565 | 20,384 | 108,809 | (72,813) | 44,804 |
| Profit (loss) before taxation | 33,090 | 28,111 | 89,804 | (101,830) | 30,806 |
| Tax | (5,509) | (2,751) | (7,282) | 0 | (4,228) |
| Net profit (loss) after tax | 27,581 | 25,360 | 82,522 | (101,830) | 26,578 |
| Minority interests | 79 | 28 | 0 | 39 | 34 |
| Profit (loss) attributable to shareholders | 27,660 | 25,388 | 82,522 | (101,791) | 26,612 |
| Dividends | 41,030 | 41,030 | 41,030 | N/A | N/A |
| Basic earnings (loss) per share *(HK$)* | 0.07 | 0.06 | 0.20 | (0.25) | 0.06 |
| Diluted earnings per share | N/A | N/A | N/A | N/A | N/A |
| Dividend per Share *(HK$)* | 0.10 | 0.10 | 0.10 | N/A | N/A |

FEPI does not have any extraordinary items/exceptional items for the years ended 31st December, 2002, 2003 and 2004 and six months ended 30th June, 2004 and 2005.

There have not been any qualifications contained in the FEPI Group's auditors' report in respect of each of the last 3 financial years.

## 2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF FEPI FOR THE YEAR ENDED 31ST DECEMBER, 2004

Set out below is a summary of the consolidated income statement, the consolidated cash flow statement and the consolidated statement of changes in equity of each of the two years ended 31st December, 2004 and the consolidated balance sheet as at 31st December, 2004 of FEPI together with the relevant notes as extracted from the audited financial statements of FEPI for the year ended 31st December, 2004.

**CONSOLIDATED INCOME STATEMENT**
For the year ended 31st December 2004
*(Expressed in Hong Kong dollars)*

| | *Note* | **2004** | **2003** |
|---|---|---|---|
| | | *$'000* | *$'000* |
| Sales, net | 4 | 2,602,033 | 2,080,494 |
| Cost of sales | | (2,390,037) | (1,898,894) |
| **Gross profit** | | 211,996 | 181,600 |
| Other operating income | 5 | 17,077 | 17,507 |
| Distribution costs | | (105,824) | (124,230) |
| Administrative expenses | | (68,684) | (54,493) |
| **Profit from operations** | 6 | 54,565 | 20,384 |
| Other income | | — | 21,456 |
| Finance costs, net | 7 | (17,826) | (11,599) |
| Share of result of an associate before tax | | (3,649) | (2,130) |
| **Profit before tax** | | 33,090 | 28,111 |
| Income tax expense | 8(a) | (5,509) | (2,751) |
| **Profit before minority interest** | | 27,581 | 25,360 |
| Minority interest | | 79 | 28 |
| **Profit attributable to shareholders** | 9 | 27,660 | 25,388 |
| Dividends | 10(b) | 41,030 | 41,030 |
| Basic earnings per share | 11(a) | $ 0.067 | $ 0.062 |
| Diluted earnings per share | 11(b) | N/A | N/A |

**CONSOLIDATED BALANCE SHEET**

As at 31st December 2004

*(Expressed in Hong Kong dollars)*

| | *Note* | **2004** | **2003** |
|---|---|---|---|
| | | *$'000* | *$'000* |
| **Non-current assets** | | | |
| Investment in an associate | 13 | 80,694 | 84,343 |
| Available-for-sale investments | 14 | 3,009 | 4,419 |
| Property, plant and equipment | 15 | 1,742,616 | 1,237,512 |
| Land use rights | 16 | 136,199 | 111,867 |
| Deferred assets | 17 | 5,712 | 7,082 |
| Other non-current assets | | 300 | 107 |
| | | 1,968,530 | 1,445,330 |
| **Current assets** | | | |
| Inventories | 18 | 663,968 | 365,493 |
| Deposits, prepayments and other receivables | | 35,944 | 71,569 |
| Trade and notes receivables | 19 | 406,350 | 221,763 |
| Amount due from a related company | 25(b) | — | 19,500 |
| Tax recoverable | | 7,466 | — |
| Cash and bank deposits | 20 | 323,050 | 190,912 |
| | | 1,436,778 | 869,237 |
| **Current liabilities** | | | |
| Trade payables | 21 | 561,422 | 296,597 |
| Other payables and accruals | | 79,665 | 55,553 |
| Taxes payable | | 74 | 13,958 |
| Short-term bank loans | 22(a) | 295,645 | 123,708 |
| Long-term bank loans, current portion | 22(b) | 343,023 | 94,000 |
| | | 1,279,829 | 583,816 |
| **Net current asset** | | 156,949 | 285,421 |
| **Total assets less current liabilities** | | 2,125,479 | 1,730,751 |

| | Note | 2004 | 2003 |
|---|---|---|---|
| | | *$'000* | *$'000* |
| **Non-current liabilities** | | | |
| Long-term bank loans, non-current portion | 22(b) | 776,765 | 424,308 |
| Deferred tax liabilities | 23 | 3,394 | 1,200 |
| Total non-current liabilities | | 780,159 | 425,508 |
| Minority interest | | 39,316 | 395 |
| **Net assets** | | 1,306,004 | 1,304,848 |
| **Represented by:** | | | |
| Share capital | 24 | 410,296 | 410,296 |
| Reserves | | 895,708 | 894,552 |
| | | 1,306,004 | 1,304,848 |

**Jar-Yi SHIH**
*Deputy Chairman*

**Chin-Sen TU**
*Director*

## CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended 31st December 2004

*(Expressed in Hong Kong dollars)*

| | | | Reserves | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Share capital | Share premium | Statutory reserve fund | Revaluation reserve | Cumulative translation adjustments | Retained earnings | Total reserves | Total equity |
| | *$'000* | *$'000* | *$'000* | *$'000* | *$'000* | *$'000* | *$'000* | *$'000* |
| Balance as at 1 January 2003 | 410,296 | 523,001 | 86,370 | 5,645 | 2,169 | 292,975 | 910,160 | 1,320,456 |
| Profit for the year | — | — | — | — | — | 25,388 | 25,388 | 25,388 |
| Profit appropriation *(Note 10(a))* | — | — | 16,276 | — | — | (16,276) | — | — |
| Dividends *(Note 10(b))* | — | — | — | — | — | (41,030) | (41,030) | (41,030) |
| Translation adjustments | — | — | — | — | 34 | — | 34 | 34 |
| Balance as at 31 December 2003 | 410,296 | 523,001 | 102,646 | 5,645 | 2,203 | 261,057 | 894,552 | 1,304,848 |
| Profit for the year | — | — | — | — | — | 27,660 | 27,660 | 27,660 |
| Profit appropriation *(Note 10(a))* | — | — | 5,684 | — | — | (5,684) | — | — |
| Dividends *(Note 10(b))* | — | — | — | — | — | (41,030) | (41,030) | (41,030) |
| Surplus on revaluation of buildings *(Note 15)* | — | — | — | 15,299 | — | — | 15,299 | 15,299 |
| Realisation of revaluation reserve due to additional depreciation | — | — | — | (1,411) | — | 1,411 | — | — |
| Translation adjustments | — | — | — | — | (773) | — | (773) | (773) |
| Balance as at 31 December 2004 | 410,296 | 523,001 | 108,330 | 19,533 | 1,430 | 243,414 | 895,708 | 1,306,004 |
| Representing: | | | | | | | | |
| 2004 final dividend proposed *(Note 10(b))* | | | | | | 41,030 | | |
| Other distributable retained earnings | | | | | | 202,384 | | |
| Retained earnings as at 31 December 2004 | | | | | | 243,414 | | |

## CONSOLIDATED STATEMENT OF CASH FLOW

For the year ended 31st December 2004
*(Expressed in Hong Kong dollars)*

| | *Note* | **2004** | **2003** |
|---|---|---|---|
| | | *$'000* | *$'000* |
| **Cash flows from operating activities** | | | |
| Cash generated from operations | 25(a) | 31,638 | 90,977 |
| Interest paid | | (28,547) | (22,544) |
| Income tax paid | | (6,837) | (2,355) |
| Net cash (used in) generated from operations | | (3,746) | 66,078 |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | | (630,091) | (72,393) |
| Purchase of land use rights | | (27,232) | (4,619) |
| Proceeds from disposals of property, plant and equipment | | — | 478 |
| Investment in an associate | | — | (86,473) |
| (Increase) decrease in other non-current assets | | (193) | 1,547 |
| Decrease in amount due from a related company | | 19,500 | — |
| Interest received | | 3,286 | 2,879 |
| Net cash outflow from disposal of subsidiaries | 25(b) | — | (13,060) |
| Net cash used in investing activities | | (634,730) | (171,641) |
| **Cash flows from financing activities** | | | |
| Proceeds from short-term bank loans | | 346,216 | 769,695 |
| Proceeds from long-term bank loans | | 695,480 | 92,814 |
| Repayments of short-term bank loans | | (174,279) | (825,118) |
| Repayments of long-term bank loans | | (94,000) | (46,060) |
| Capital contributed by minority interest | | 39,000 | 423 |
| Dividends paid | | (41,030) | (41,030) |
| Net cash generated from (used in) financing activities | | 771,387 | (49,276) |
| **Effect of exchange rate changes** | | (773) | 34 |
| **Net increase (decrease) in cash and cash equivalents** | | 132,138 | (154,805) |
| Cash and cash equivalents at beginning of year | | 190,912 | 345,717 |
| **Cash and cash equivalents at end of year** | | 323,050 | 190,912 |

## BALANCE SHEET

As at 31st December 2004

*(Expressed in Hong Kong dollars)*

| | *Note* | **2004** *$'000* | **2003** *$'000* |
|---|---|---|---|
| **Non-current assets** | | | |
| Investment in subsidiaries | 26 | 1,423,090 | 1,109,427 |
| Investment in an associate | 13 | 80,694 | 84,343 |
| Available-for-sale investments | 14 | 3,009 | 3,009 |
| Other non-current assets | | 106 | 107 |
| | | 1,506,899 | 1,196,886 |
| **Current assets** | | | |
| Deposits, prepayments and other receivables | | 686 | 22,088 |
| Trade and notes receivables | 19 | 157,529 | 69,113 |
| Amount due from a related company | | — | 19,500 |
| Cash and bank deposits | 20 | 30,261 | 73,106 |
| | | 188,476 | 183,807 |
| **Current liabilities** | | | |
| Trade payables | 21 | 138,197 | 57,233 |
| Other payables and accruals | | 28,867 | 19,506 |
| Long-term bank loans, current portion | 22(b) | 39,975 | — |
| | | 207,039 | 76,739 |
| **Net current (liabilities) assets** | | (18,563) | 107,068 |
| **Total assets less current liabilities** | | 1,488,336 | 1,303,954 |
| **Non-current liabilities** | | | |
| Long-term bank loans, non-current portion | | 182,325 | — |
| **Net assets** | | 1,306,011 | 1,303,954 |
| **Represented by:** | | | |
| Share capital | 24 | 410,296 | 410,296 |
| Reserves | 27 | 895,715 | 893,658 |
| | | 1,306,011 | 1,303,954 |

**Jar-Yi SHIH**
*Deputy Chairman*

**Chin-Sen TU**
*Director*

## NOTES TO THE FINANCIAL STATEMENTS

31st December 2004

*(Amounts expressed in Hong Kong dollars unless otherwise stated)*

### 1 GENERAL INFORMATION

Far Eastern Polychem Industries Limited (the "Company") was incorporated in Bermuda on 13 April 1995 as an exempted company under the Companies Act 1981 of Bermuda.

The Company is principally engaged in investment holding and trading of products produced by one of its subsidiaries in the People's Republic of China (the "PRC"). The principal activities of the Company's subsidiaries (together with the Company hereinafter collectively referred to as the "Group") are set out in Note 26.

The Company's shares are listed on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited since 31 January 2000.

The average number of employees in 2004 was 2,098 (2003: 1,743).

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.

### 2 PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out as below:

(a) **Basis of preparation**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited. The consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of buildings.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current event and actions, actual results ultimately may differ from those estimates.

In the current year, the Group adopted IFRS 3 - "Business Combinations", International Accounting Standard ("IAS") 36 - "Impairment of Assets" and IAS 38 - "Intangible Assets". IFRS 3 is effective prospectively after 31 March 2004 and IFRS 3 requires simultaneous adoption with IAS 36 and IAS 38. The adoption of these new IFRS/IAS has no material effect on the Group's consolidated financial statements.

(b) **Group accounting**

(i) *Subsidiaries*

Subsidiaries, which are those entities (including Special Purpose Entities) in which the Group has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies are consolidated. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless cost cannot be recovered. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

(ii) *Associates*

Investments in associates are accounted for by the equity method of accounting. Under this method the Company's share of the post-acquisition profits or losses of associates is recognised in the income statement and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the cost of the investment. Associates are entities over which the Group generally has between 20% and 50% of the voting rights, or over which the Group has significant influence, but which it does not control. Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The Group's investment in associates includes goodwill (net of accumulated amortisation) on acquisition. When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not to recognise further losses, unless the Group has incurred obligations or made payments on behalf of the associates.

(c) **Foreign currency translation**

(i) *Measurement currency*

Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity (the "measurement currency"). The consolidated financial statements are presented in Hong Kong dollar, which is the measurement currency of the Company.

(ii) *Transactions and balances*

Foreign currency transactions are translated into the measurement currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement.

Translation differences on other monetary financial assets measured at fair value are included in foreign exchange gains and losses. Translation differences on non-monetary items are reported as part of the fair value gain or loss. Translation differences on available-for-sale equities are included in the revaluation reserve in equity.

(iii) *Group companies*

Income statements and cash flows of foreign entities are translated into the Group's reporting currency at average exchange rates for the year and their balance sheets are translated at the exchange rates ruling on 31 December. Exchange differences arising from the translation of the net investment in foreign entities and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign entity is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(d) **Available-for-sale investments**

Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available-for-sale; and are included in non-current assets unless management has the express intention of holding the investment for less than 12 months from the balance sheet date or unless they will need to be sold to raise operating capital, in which case they are included in current assets.

Available-for-sale investments are carried at fair value. Unrealised gain and losses arising from changes in the fair value of available-for-sale are recognised in equity. Fair values for unlisted equity securities are estimated using applicable price/earnings or price/cash flow ratios refined to reflect the specific circumstances of the issuer. Equity securities for which fair values cannot be measured reliably are recognised at cost less impairment. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains and losses from investment securities.

(e) **Property, plant and equipment**

Buildings comprise mainly factories and offices and are shown at fair value, based on revaluations by external independent valuers every five years, less subsequent depreciation. All other property, plant and equipment is stated at historical cost less depreciation. Cost includes transfers from equity of any gains/losses on qualifying cash flow hedges of currency purchase costs.

Increases in the carrying amount arising on revaluation of buildings are credited to fair value and revaluation reserves in shareholders' equity. Decreases that offset previous increases of the same asset are charged against fair value and revaluation reserves; all other decreases are charged to the income statement. Each year the difference between depreciation based on the revalued carrying amount of the asset (the depreciation charged to the income statement) and depreciation based on the asset's original cost is transferred from fair value and other reserves to retained earnings.

Depreciation is calculated on the straight-line method to write off the cost or revalued amount of each asset to their residual values over their estimated useful lives as follows:

| | |
|---|---|
| Buildings | 20 years |
| Machinery and equipment | 10 years |
| Furniture, fixtures and office equipment | 5 years |
| Motor vehicles | 5 years |

The useful life and depreciation method are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in operating profit. When revalued assets are sold, the amounts included in fair value and revaluation reserves are transferred to retained earnings.

Repairs and maintenance are charged to the income statement during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Group. Major renovations are depreciated over the remaining useful life of the related asset.

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 borrowings 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 when the assets are completed and ready for their intended use.

(f) **Land use rights**

Land use rights represent amounts paid for the acquisition of rights to use land for periods ranging from 40 years to 50 years. Land use rights are recognised as prepayments for operating leases (see (p) below).

(g) **Deferred assets**

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

(h) **Impairment of long lived assets**

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

(i) **Inventories**

Inventories are stated at the lower of cost or net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work-in-progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity) but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

(j) **Trade receivables**

Trade receivables are carried at original invoice amount less provision made for impairment of these receivables. A provision for impairment of trade receivables is established when there is an objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market rate of interest for similar borrowers.

(k) **Cash and cash equivalents**

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

(l) **Borrowings**

Borrowings are recognised initially at the proceeds received, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective yield method; any difference between proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings.

Interest costs on borrowings to finance the construction of property, plant and equipment are capitalised, during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

(m) **Deferred income taxes**

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Currently enacted tax rates are used in the determination of deferred income tax.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

(n) **Employee benefits**

(i) *Defined contribution plans*

The Company provides defined contribution plan based on Hong Kong practices and regulations. The plan covers full-time Hong Kong employees and provide for contributions the lower of 5% of the employees' basic salaries and $1,000. The Company's contributions relating to defined contribution plans are charged to income statement in the year to which they relate.

(ii) *Pension scheme*

Pursuant to the PRC laws and regulations, contributions to the basic old age insurance for the staff of the Company's subsidiaries operating in the PRC are to be made monthly to a government agency based on 30% of the standard salary set by the provincial government, of which 22% is borne by the Company's subsidiaries operating in the PRC and the remainder is borne by the staff. The government agency is responsible for the pension liabilities relating to such staff on their retirement. The Company's subsidiaries operating in the PRC account for these contributions on an accrual basis.

(o) **Revenue recognition**

Revenue comprises the invoiced value for the sale of goods and services net of rebates and discounts, and after eliminating sales within the Group. Revenue from the sale of goods is recognised when significant risks and rewards of ownership of the goods are transferred to the buyer. Revenue from rendering of services is based on the stage of completion determined by reference to services performed to date as a percentage of total services to be performed.

Interest income is recognised on a time proportion basis, taking account of the principal outstanding and the effective rate over the period to maturity, when it is determined that such income will accrue to the Group. Dividends are recognised when the right to receive payment is established.

(p) **Operating leases**

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

(q) **Dividends**

Dividends are recorded in the Group's financial statements in the period in which they are approved by the Group's shareholders.

(r) **Segment reporting**

Business segments provide products or services that are subject to risks and returns that are different from those of other business segments. Geographical segments provide products or services within a particular economic environment that is subject to risks and returns that are different from those of components operating in other economic environments.

(s) **Comparatives**

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

## 3 FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments to hedge certain risk exposures.

Risk management is carried out by Finance Department under policies approved by the Board of Directors. The Finance Department identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest-rate risk, credit risk, use of derivative financial instruments and investing excess liquidity.

### (a) Foreign exchange risk

The Group operates primarily in the PRC and is exposed to foreign exchange risk arising from export sales denominated in US dollar and Euro and from purchase of major raw materials denominated in US dollar. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

The Group's risk management policy is to use derivative financial instruments to hedge foreign currency exposure when the relevant currency is expected to fluctuate significantly. In 2003 and 2004, the Group did not enter into any derivative foreign currency contract.

### (b) Price risk

The Group is exposed to oil price risk as the Group's major raw materials are petrochemical products. Since raw materials are normally acquired before customers placing orders, effective hedging of changes in raw material prices is impractical. To address this price risk, the Group's risk management policy is to maintain a low level of inventories to reduce the price exposure associated with the inventory balance.

### (c) Credit risk

The Group has no significant concentrations of credit risk. It has policies in place to ensure that sales are made to customers with an appropriate credit history.

### (d) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient operating cash and the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, the Group aims to maintain flexibility in funding by keeping committed credit lines available.

## 4 SEGMENTAL INFORMATION

The Group operates principally in the production and distribution of PET chips, polyester filaments and polyester staple fibers, and dyeing and finishing of polyester textile products and have four strategic business units ("SBUs"), namely the Chip SBU, the Filament SBU, the Fiber SBU and the Dyeing and Finishing SBU which are managed separately.

### Primary reporting format - business segments

| | Chip SBU | | Filament SBU | | Fiber SBU | | Dyeing and Finishing SBU | | Others | | Consolidated | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| | *$'000* | *$'000* | *$'000* | *$'000* | *$'000* | *$'000* | *$'000* | *$'000* | *$'000* | *$'000* | *$'000* | *$'000* |
| Sales, net | 1,589,314 | 1,283,084 | 226,373 | 221,137 | 423,286 | 320,864 | 362,312 | 255,409 | 748 | — | 2,602,033 | 2,080,494 |
| Segment result | 161,099 | 123,052 | (2,449) | 8,737 | (2,457) | 14,797 | 55,055 | 35,014 | 748 | — | 211,996 | 181,600 |
| Unallocated corporate expenses | | | | | | | | | | | (157,431) | (161,216) |
| Profit from operations | | | | | | | | | | | 54,565 | 20,384 |
| Other income | | | | | | | | | | | — | 21,456 |
| Finance costs, net | | | | | | | | | | | (17,826) | (11,599) |
| Share of result of an associate before tax | | | | | | | | | | | (3,649) | (2,130) |
| Profit before tax | | | | | | | | | | | 33,090 | 28,111 |
| Income tax expense | | | | | | | | | | | (5,509) | (2,751) |
| Group profit before minority interest | | | | | | | | | | | 27,581 | 25,360 |
| Minority interest | | | | | | | | | | | 79 | 28 |
| Profit attributable to shareholders | | | | | | | | | | | 27,660 | 25,388 |
| Segment assets | 1,599,408 | 794,565 | 334,970 | 308,971 | 405,840 | 266,571 | 562,124 | 465,356 | 1,226 | — | 2,903,568 | 1,835,463 |
| Investment in an associate | | | | | | | | | | | 80,694 | 84,343 |
| Unallocated corporate assets | | | | | | | | | | | 421,046 | 394,761 |
| Total assets | | | | | | | | | | | 3,405,308 | 2,314,567 |
| Segment liabilities | 734,880 | 195,435 | 182,707 | 47,511 | 260,861 | 56,788 | 404,285 | 43,068 | 13 | — | 1,582,746 | 342,802 |
| Unallocated corporate liabilities | | | | | | | | | | | 477,242 | 666,522 |
| Total liabilities | | | | | | | | | | | 2,059,988 | 1,009,324 |
| Capital expenditures | 411,618 | 7,091 | 45,380 | 18,879 | 120,234 | 422 | 51,466 | 25,280 | 274 | — | 628,972 | 51,672 |
| Unallocated corporate capital expenditures | | | | | | | | | | | 33,865 | 27,631 |
| Total capital expenditures | | | | | | | | | | | 662,837 | 79,303 |
| Depreciation and amortisation | 56,729 | 54,582 | 29,820 | 27,236 | 18,856 | 16,880 | 37,551 | 34,028 | 34 | — | 142,990 | 132,726 |
| Unallocated depreciation and amortisation | | | | | | | | | | | 9,213 | 12,275 |
| Total depreciation and amortisation | | | | | | | | | | | 152,203 | 145,001 |
| Impairment of inventory | 846 | — | 1,130 | — | 3,237 | — | 2,015 | — | — | — | 7,228 | — |
| Impairment of trade receivables | 3,140 | — | 106 | — | 109 | — | 869 | — | — | — | 4,224 | — |
| Impairment of available-for-sale investments | — | — | — | — | — | — | — | — | 1,410 | — | 1,410 | — |

Segment assets consist primarily of property, plant and equipment, inventories, receivables and operating cash, and mainly exclude investments. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings. Capital expenditure comprises additions to property, plant and equipment and land use rights (Note 15 and 16).

**Secondary report format — geographical segments**

An analysis by geographical segment, as determined by location of customers, is presented below. No segment assets and liabilities are presented as majority of the Group's assets are located in the PRC. Capital expenditures are mainly for the Group's plants in the PRC.

| | **2004** | **2003** |
|---|---|---|
| | *$'000* | *$'000* |
| Sales | | |
| - The PRC | 2,062,320 | 1,504,063 |
| - Europe | 384,053 | 368,429 |
| - North America | 66,701 | 47,289 |
| - Asia (excluding the PRC) | 35,694 | 59,702 |
| - Middle East | 27,512 | 96,642 |
| - Others | 25,753 | 4,369 |
| | 2,602,033 | 2,080,494 |

## 5 OTHER OPERATING INCOME

Other operating income mainly represents income from sale of scrap materials.

## 6 PROFIT FROM OPERATIONS

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

| | **2004** | **2003** |
|---|---|---|
| | *$'000* | *$'000* |
| Cost of inventories recognised as expense (included in 'Cost of sales') | 2,193,946 | 1,724,939 |
| Staff costs | | |
| - wages and salaries | 74,608 | 61,554 |
| - pension costs (defined contribution plan) | 4,433 | 4,086 |
| Depreciation on property, plant and equipment | 147,933 | 141,029 |
| Amortisation of land use rights (included in 'Administrative expenses') | 2,900 | 2,601 |
| Amortisation of deferred assets (included in 'Cost of sales') | 1,370 | 1,371 |
| Operating lease rentals on property | 4,375 | 4,551 |
| Impairment charges for bad and doubtful debts (included in administrative expenses) | 4,224 | — |
| Write down of inventories to net realisable value | 7,228 | — |
| Provision for impairment of available-for-sale investments | 1,410 | — |
| Auditors' remuneration | 437 | 380 |
| Loss (gain) on disposals of property, plant and equipment | 61 | (353) |
| Gain on disposal of subsidiaries | — | 4,347 |

## 7 FINANCE COSTS, NET

| | 2004 | 2003 |
|---|---|---|
| | *$'000* | *$'000* |
| Interest expenses on bank loans wholly repayable within five years | 28,547 | 22,544 |
| Less: Amount capitalised as construction-in-progress (Note 15) | (5,514) | (2,291) |
| Interest income | (3,286) | (2,879) |
| Net foreign currency exchange gains | (3,818) | (11,136) |
| Other financial expenses | 1,897 | 5,361 |
| | 17,826 | 11,599 |

## 8 TAXATION

### (a) Income tax

The Company is exempted from taxation in Bermuda.

No Hong Kong profits tax was provided as the Group had no assessable profits arising in or deriving from Hong Kong.

The Company's subsidiaries registered in the PRC are subject to Enterprise Income Tax ("EIT") on the taxation income as reported in their PRC statutory accounts adjusted in accordance with relevant PRC income tax laws. The general applicable EIT rate is 33%. However, being registered in a designated high-technology development zone in the PRC, Far Eastern Industries (Shanghai) Ltd. ("FEIS") (the Company's major operating subsidiary in the PRC) is entitled to a preferential EIT rate of 15%. In addition, in accordance with the PRC "Law of Enterprise Income Tax for Enterprise with Foreign Investment", FEIS 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. Furthermore, being qualified as a "High-technology Enterprise", FEIS is entitled to a further reduced EIT rate of 10% for an additional three years following the end of the five-year period during which FEIS enjoyed the preferential EIT treatment as stated above. The "High-technology Enterprise" status is subject to review every year. The first profitable year of FEIS was 1999.

No PRC EIT had been provided for all the other PRC subsidiaries of the Company as they were either in pre-operating stage or had incurred losses for the year. The deferred tax assets derived from losses for previous years have not been recognized as these PRC subsidiaries have not yet commenced their first profitable year. A tax holiday creates a non-taxable status and the effective tax rate is zero. Since the loss carryforward accumulated prior to tax holiday will be either lost or used up before the tax holiday is activated, no deferred tax asset is recognized with respect to the loss carryforward as at 31 December 2004.

The amount of income tax expense charged to the consolidated income statement represents:

| | 2004 | 2003 |
|---|---|---|
| | *$'000* | *$'000* |
| Current tax - PRC taxation | 5,509 | 2,751 |
| Share of tax of an associate | — | — |
| Taxation charge | 5,509 | 2,751 |

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the tax rate of the home country of the Company as follows:

| | 2004 | 2003 |
|---|---|---|
| | *$'000* | *$'000* |
| Profit before taxation | 33,090 | 28,111 |
| Calculated at a taxation rate of 10% (2003: 7.5%) | 3,309 | 2,108 |
| Effect of different taxation rates in other countries | 1,022 | 936 |
| Income not subject to taxation | (162) | (443) |
| Expenses not deductible for taxation purposes | 1,340 | 150 |
| Taxation charge | 5,509 | 2,751 |

(b) **Value-added-tax ("VAT")**

The Group's operating subsidiaries registered in the PRC are subject to VAT, which is charged on top of the selling price at a general rate of 17%. An input credit is available whereby input VAT previously paid on purchase of raw materials or semi-finished products can be used to offset the output VAT on sales to determine the net VAT payable.

**9 PROFIT ATTRIBUTABLE TO SHAREHOLDERS**

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of approximately $26,859,000 (2003: $25,388,000).

**10 PROFIT APPROPRIATION**

(a) **Statutory reserve funds**

PRC laws and regulations require wholly-owned foreign enterprises ("WOFE") to provide for certain statutory funds, namely, reserve fund and staff and workers' bonus and welfare fund, which are appropriated from net profit after tax (based on the entity's local statutory accounts) but before dividend distribution. Far Eastern Industries (Shanghai) Ltd. ("FEIS") and Far Eastern Industries (Suzhou) Ltd., both being WOFE, are required to allocate at least 10% of its net profit after tax to the reserve fund until the balance of such fund has reached 50% of its respective registered capital. Appropriation to the staff and workers' bonus and welfare fund is at the discretion of the board of directors of the relevant subsidiaries. The reserve fund can only be used, upon approval by the relevant 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 employees, and assets acquired through this fund shall not be treated as assets of the Group.

For the year ended 31 December 2004, the repsective directors of the Company's PRC subsidiaries resolved in aggregate to appropriate approximately $5,684,000 (2003: $16,276,000) to the reserve fund.

Under IFRS, appropriations to the staff and workers' bonus and welfare fund have been included as expenses and the balance of the fund have been accounted for as a liability of the Group.

According to the relevant PRC regulations, retained earnings available for distribution by the PRC subsidiaries should be the retained earnings recorded in their PRC statutory financial statements that are prepared under the accounting principals and financial regulations applicable in the PRC.

(b) **Dividends**

| | 2004 | 2003 |
|---|---|---|
| | *$'000* | *$'000* |
| Final, proposed, of $0.1 (2003: $0.1) per ordinary share | 41,030 | 41,030 |

At a meeting held on 24 March 2005, the directors proposed a final dividend of $0.1 per ordinary share. This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2005.

## 11 EARNINGS PER SHARE

(a) **Basic earnings per share**

Basic earnings per share is calculated by dividing the profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year.

| | 2004 | 2003 |
|---|---|---|
| Profit attributable to shareholders ($'000) | 27,660 | 25,388 |
| Weighted average number of ordinary shares in issue ('000) | 410,296 | 410,296 |
| Basic earnings per share ($ per share) | 0.067 | 0.062 |

(b) **Diluted earnings per share**

Diluted earnings per share is not presented because there has been no potentially dilutive ordinary shares in existence during the year.

## 12 DIRECTORS' AND MANAGEMENT'S EMOLUMENTS

### (a) Directors' emoluments

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

| | 2004 | | | 2003 | | |
|---|---|---|---|---|---|---|
| | **Fees** | **Basic salaries and allowances** | **Total** | **Fees** | **Basic salaries and allowances** | **Total** |
| | *$'000* | *$'000* | *$'000* | *$'000* | *$'000* | *$'000* |
| Executive directors | | | | | | |
| Mr. Shu-Tong Hsu | 180 | — | 180 | 180 | — | 180 |
| Mr. Jar-Yi Shih | 144 | — | 144 | 144 | — | 144 |
| Mr. Champion Lee | 120 | — | 120 | 120 | — | 120 |
| Mr. Lih-Teh Chang | 120 | 879 | 999 | 120 | 616 | 736 |
| Mr. Chin-Sen Tu | 120 | — | 120 | 120 | — | 120 |
| Non-executive directors | | | | | | |
| Mr. Shaw-Y Wang | 120 | — | 120 | 120 | — | 120 |
| Mr. Tak-Lung Tsim, Dominic | 120 | — | 120 | 120 | — | 120 |
| Mr. Ying-Ho Wong, Kennedy | 120 | — | 120 | 120 | — | 120 |
| Mr. Shih-Hung Chan | 120 | — | 120 | 120 | — | 120 |
| | 1,164 | 879 | 2,043 | 1,164 | 616 | 1,780 |

During the year, none of the directors waived any emoluments or has agreed to waive 2004 emoluments.

The emoluments of the directors fell within the following bands:

| | Number of directors | |
|---|---|---|
| | *2004* | *2003* |
| Emolument bands | | |
| Nil to $1,000,000 | 9 | 9 |

(b) **Five highest paid individuals**

The five individuals whose emoluments were the highest in the Group for the years include 1 (2003: 1) director whose emolument is reflected in the analysis presented above. The emoluments payable to the remaining 4 (2003: 4) individuals during the year are as follows:

| | 2004 | 2003 |
|---|---|---|
| | *$'000* | *$'000* |
| Basic salaries and allowances | 2,770 | 2,810 |
| Others | 12 | — |
| | 2,782 | 2,810 |

The emoluments fell within the following bands:

| | Number of individuals | |
|---|---|---|
| | 2004 | 2003 |
| Emolument bands | | |
| Nil to $1,000,000 | 4 | 4 |

## 13 INVESTMENT IN AN ASSOCIATE

Investment in an associate comprised:

| | 2004 | 2003 |
|---|---|---|
| | *$'000* | *$'000* |
| Investment in unlisted shares, at cost | 86,473 | 86,473 |
| Share of results before tax | (5,779) | (2,130) |
| Share of tax | — | — |
| | 80,694 | 84,343 |

Details of the associate are as follows:

| Name | Place of incorporation and operation | Issued and fully paid up share capital | Attributable equity interest Directly held | Attributable equity interest Indirectly held | Principal activities |
|---|---|---|---|---|---|
| PET Far Eastern Holding Limited ("PETH") | Bermuda | US$50,755,000 | 21.7% | — | Investment holding |

## 14 AVAILABLE-FOR-SALE INVESTMENTS

| | Group | | Company | |
|---|---|---|---|---|
| | 2004 | 2003 | 2004 | 2003 |
| | *$'000* | *$'000* | *$'000* | *$'000* |
| Unlisted investments | 4,419 | 4,419 | 3,009 | 3,009 |
| Less: provision for impairment | (1,410) | — | — | — |
| | 3,009 | 4,419 | 3,009 | 3,009 |

Details of the investments as at 31 December 2004 are as follows:

| Name activities | Country of incorporation | Equity interest held by the Company | Date of investment/ establishment | Principal |
|---|---|---|---|---|
| China Chemical Fiber Industrial Consortium Limited | The PRC | 10% (indirectly) | 3 August 2001 | Provision of B-to-B e-commerce platform for trading of chemical fiber in the PRC |
| Nippon Parison Co., Ltd. | Japan | 10% (directly) | 7 May 2003 | Production of polyethylene terephthalate ("PET") bottle preforms in Japan |

Available-for-sale investments are classified as non-current assets, unless they are expected to be realized within 12 months of the balance sheet date or unless they will need to be sold to raise operating capital.

## 15 PROPERTY, PLANT AND EQUIPMENT

| | 2004 | | | | | | 2003 |
|---|---|---|---|---|---|---|---|
| | Buildings | Machinery and equipment | Furniture, fixtures and office equipment | Motor vehicles | Construction-in-progress | Total | Total |
| | *$'000* | *$'000* | *$'000* | *$'000* | *$'000* | *$'000* | *$'000* |
| **Cost/Valuation** | | | | | | | |
| Beginning of year | 347,169 | 1,348,774 | 39,759 | 14,012 | 33,776 | 1,783,490 | 1,724,737 |
| Additions | 9,559 | 8,581 | 4,271 | 960 | 612,234 | 635,605 | 74,684 |
| Transfers | 2,511 | 56,730 | 148 | 256 | (59,645) | — | — |
| Disposals | — | (82) | — | — | — | (82) | (354) |
| Disposal of subsidiaries | — | — | — | — | — | — | (15,577) |
| Revaluation | 17,493 | — | — | — | — | 17,493 | — |
| As at 31 December 2004 | 376,732 | 1,414,003 | 44,178 | 15,228 | 586,365 | 2,436,506 | 1,783,490 |
| **Representing** | | | | | | | |
| At cost | — | 1,414,003 | 44,178 | 15,228 | 586,365 | 2,059,774 | 1,524,859 |
| At professional valuation | 376,732 | — | — | — | — | 376,732 | 258,631 |
| | 376,732 | 1,414,003 | 44,178 | 15,228 | 586,365 | 2,436,506 | 1,783,490 |
| **Accumulated depreciation** | | | | | | | |
| Beginning of year | 64,283 | 455,915 | 17,889 | 7,891 | — | 545,978 | 405,837 |
| Charge for the year | 15,793 | 124,818 | 5,651 | 1,671 | — | 147,933 | 141,029 |
| Disposals | — | (21) | — | — | — | (21) | (229) |
| Disposal of subsidiaries | — | — | — | — | — | — | (659) |
| | 80,076 | 580,712 | 23,540 | 9,562 | — | 693,890 | 545,978 |
| **Net book value** | | | | | | | |
| End of year | 296,656 | 833,291 | 20,638 | 5,666 | 586,365 | 1,742,616 | 1,237,512 |
| Beginning of year | 282,886 | 892,859 | 21,870 | 6,121 | 33,776 | 1,237,512 | 1,318,900 |

The Group's buildings were appraised by Greater China Appraisal Limited, an independent professional property valuer, in December 2004. 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 $17,493,000 as at 31 December 2004 after deducting relevant deferred tax liabilities of $2,194,000, was credited to the revaluation reserve.

As at 31 December 2004, 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 $274,062,000 (2003: $277,410,000).

As at 31 December 2004, net book value of approximately $228 million (2003: $156 million) of the Group's buildings were pledged as collateral to secure the Group's long-term bank loans (Note 22(b)).

Construction-in-progress includes borrowing costs incurred in connection with the construction of certain assets. Borrowing costs capitalised as construction-in-progress amounted to approximately $5,514,000 (2003: $2,291,000) (Note 7). The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation was approximately 4.11% (2003: 3.55%).

## 16 LAND USE RIGHTS

| | 2004 | 2003 |
|---|---|---|
| | *$'000* | *$'000* |
| **Cost** | | |
| Beginning of year | 129,430 | 124,811 |
| Additions | 27,232 | 4,619 |
| End of year | 156,662 | 129,430 |
| **Accumulated amortisation** | | |
| Beginning of year | 17,563 | 14,962 |
| Charge for the year | 2,900 | 2,601 |
| End of year | 20,463 | 17,563 |
| **Net book value** | | |
| End of year | 136,199 | 111,867 |
| Beginning of year | 111,867 | 109,849 |

Land use rights comprise land use fees paid for the rights to use the land where the Group's premises in Shanghai and Wuhan, the PRC, are located.

As at 31 December 2004, the remaining periods of the land use rights where the Group's premises located are as follows:

| Location in the PRC | Remaining years |
|---|---|
| Shanghai | 42 years |
| Suzhou | 40 years |
| Wuhan | 49 years |

## 17 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 electric power to FEIS, the Company's major operating subsidiary in the PRC. The facilities so constructed Belonged to the Bureau and would not be transferred to the Group.

| | 2004 | 2003 |
|---|---|---|
| | *$'000* | *$'000* |
| **Cost** | | |
| Beginning and end of year | 13,213 | 13,213 |
| **Accumulated amortisation** | | |
| Beginning of year | 6,131 | 4,760 |
| Charge for the year | 1,370 | 1,371 |
| End of year | 7,501 | 6,131 |
| **Net book value** | | |
| End of year | 5,712 | 7,082 |
| Beginning of year | 7,082 | 8,453 |

## 18 INVENTORIES

| | 2004 | 2003 |
|---|---|---|
| | *$'000* | *$'000* |
| Raw materials | 357,573 | 172,455 |
| Work-in-progress | 89,033 | 48,291 |
| Finished goods | 217,362 | 144,747 |
| | 663,968 | 365,493 |

As at 31 December 2004 approximately $166,496,000 (2003: $55,944,000) finished goods were carried at net realisable value.

## 19 TRADE AND NOTES RECEIVABLES

| | Group | | Company | |
|---|---|---|---|---|
| | 2004 | 2003 | 2004 | 2003 |
| | *$'000* | *$'000* | *$'000* | *$'000* |
| Trade receivables | | | | |
| Current to 30 days | 109,527 | 85,484 | 38,830 | 16,427 |
| 31 to 60 days | 105,070 | 45,186 | 66,996 | 23,263 |
| 61 to 90 days | 49,717 | 17,010 | 26,292 | 29,423 |
| 90 to 120 days | 27,766 | 44,530 | 27,012 | — |
| | 292,080 | 192,210 | 159,130 | 69,113 |
| Less: provision for doubtful debts | (4,224) | — | (1,601) | — |
| | 287,856 | 192,210 | 157,529 | 69,113 |
| Notes receivable | 118,494 | 29,553 | — | — |
| | 406,350 | 221,763 | 157,529 | 69,113 |

**Credit policy**

No credit terms were granted to the 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 would grants credit terms from 90 to 120 days. In addition, a predetermined maximum credit limit is set for each customer.

**Concentrations of credit risk**

Concentrations of credit risk with respect to trade receivables are limited due to the Group's large number of customers, who are internationally dispersed, cover the spectrum of manufacturing and distribution and have a variety of end markets in which they sell. Due to these factors, management believes that no additional credit risk beyond amounts provided for collection losses, if any, is inherent in the Group's trade receivables.

## 20 CASH AND BANK DEPOSITS

| | Group | | Company | |
|---|---|---|---|---|
| | 2004 | 2003 | 2004 | 2003 |
| | *$'000* | *$'000* | *$'000* | *$'000* |
| Cash and bank deposits denominated in: | | | | |
| - Renminbi ("**RMB**") | 172,737 | 108,987 | — | — |
| - United states dollar | 142,689 | 65,576 | 23,719 | 56,758 |
| - Hong Kong dollar | 231 | 391 | 231 | 390 |
| - Others | 7,393 | 15,958 | 6,311 | 15,958 |
| | 323,050 | 190,912 | 30,261 | 73,106 |

RMB is not freely convertible currency in the PRC and the remittance of funds out of the PRC is subject to the exchange restriction imposed by the PRC government.

The effective interest rate ranges from 0.01% to 2.45% per annum (2003: 0.01% to 1.44%).

## 21 TRADE PAYABLES

| | Group | | Company | |
|---|---|---|---|---|
| | **2004** | **2003** | **2004** | **2003** |
| | *$'000* | *$'000* | *$'000* | *$'000* |
| Current to 30 days | 224,155 | 105,993 | 31,953 | 15,323 |
| 31 to 90 days | 274,597 | 167,365 | 92,953 | 41,910 |
| Over 90 days | 62,670 | 23,239 | 13,291 | — |
| | 561,422 | 296,597 | 138,197 | 57,233 |

Trade payables of the Company represented payables to Far Eastern Industries (Shanghai) Ltd. ("FEIS"), the Company's wholly-owned subsidiary, which are unsecured, non-interest bearing and payable according to the trading terms of FEIS.

## 22 BANK BORROWINGS

### (a) Short-term bank loans

| | **2004** | **2003** |
|---|---|---|
| | *$'000* | *$'000* |
| Unsecured | 295,645 | 123,708 |

The Group's short-term bank loans were granted by third party banks, denominated in United States dollar, bore interests at floating rates and were unsecured. As at 31 December 2004, the effective interest rate of the Group's short-term bank loans was 3.24% (2003: 1.76%) per annum.

As at 31 December 2004, certain of the Group's short-term loans amounting to approximately HK$285,000,000 were guaranteed by the Company.

### (b) Long-term bank loans

| | Group | | Company | |
|---|---|---|---|---|
| | **2004** | **2003** | **2004** | **2003** |
| | *$'000* | *$'000* | *$'000* | *$'000* |
| Secured | 185,000 | 168,260 | — | — |
| Unsecured | 934,788 | 350,048 | 222,300 | — |
| | 1,119,788 | 518,308 | 222,300 | — |
| Less: Amount repayable within one year included in current liabilities | (343,023) | (94,000) | (39,975) | — |
| | 776,765 | 424,308 | 182,325 | — |

The Group's long-term bank loans were granted by third party banks and the secured portion were secured by certain of the Group's buildings (Note 15).

As at 31 December 2004, the interest rate structure and currency denomination of the long-term bank loans are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2004 | 2003 | 2004 | 2003 |
| | *$'000* | *$'000* | *$'000* | *$'000* |
| Renminbi and fixed rates | 625,100 | 284,820 | — | — |
| United States dollar and floating rates | 494,688 | 233,488 | 222,300 | — |
| | 1,119,788 | 518,308 | 222,300 | — |

As at 31 December 2004, the effective interest rate of the Group's and the Company's long-term bank loans was 4.43% (2003: 3.64%) and 3.65% (2003: nil), respectively.

Repayments of long-term bank loans are scheduled as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2004 | 2003 | 2004 | 2003 |
| | *$'000* | *$'000* | *$'000* | *$'000* |
| Repayable in: | | | | |
| 2004 | — | 94,000 | — | — |
| 2005 | 343,023 | 424,308 | 39,975 | — |
| 2006 | 465,115 | — | 64,350 | — |
| 2007 | 191,575 | — | 64,350 | — |
| 2008 | 62,475 | — | 29,250 | — |
| 2009 | 57,600 | — | 24,375 | — |
| | 1,119,788 | 518,308 | 222,300 | — |

## 23 DEFERRED TAX LIABILITIES

Deferred taxation are calculated in full on temporary differences under the liability method using a principal taxation rate of 10%.

The movement on the deferred tax assets account is as follows:

| | 2004 | 2003 |
|---|---|---|
| | *$'000* | *$'000* |
| As at 1 January | 1,200 | 1,200 |
| Charged to equity *(Note 15)* | 2,194 | — |
| As at 31 December | 3,394 | 1,200 |

The movement in deferred tax liabilities (prior to offsetting of balances within the same taxation jurisdiction) during the year is as follows:

| | Revaluation of buildings | |
|---|---|---|
| | **2004** | **2003** |
| | *$'000* | *$'000* |
| As at 1 January | 1,200 | 1,200 |
| Charged to equity | 2,194 | — |
| As at 31 December | 3,394 | 1,200 |

The amount shown in the balance sheet include the following:

| | **2004** | **2003** |
|---|---|---|
| | *$'000* | *$'000* |
| Deferred tax liabilities to be settled after more than 12 months | 3,394 | 1,200 |

**24 SHARE CAPITAL**

The details of share capital are as follows:

| | Number of shares | | Amount | |
|---|---|---|---|---|
| | **2004** | **2003** | **2004** | **2003** |
| | *'000* | *'000* | *$'000* | *$'000* |
| Authorized: | | | | |
| Ordinary shares of $1 each | 1,500,000 | 1,500,000 | 1,500,000 | 1,500,000 |
| Issued and fully paid: | | | | |
| Ordinary shares of $1 each | 410,296 | 410,296 | 410,296 | 410,296 |

## 25 NOTES TO CASH FLOW STATEMENT

### (a) Reconciliation from profit after tax to cash generated from operations

| | 2004 | 2003 |
|---|---|---|
| | *$'000* | *$'000* |
| Profit attributable to shareholders | 27,660 | 25,388 |
| **Adjustments for:** | | |
| Minority interest | (79) | (28) |
| Tax | 5,509 | 2,751 |
| Share of result of an associate before tax | 3,649 | 2,130 |
| Gain on disposal of subsidiaries | — | (4,347) |
| Impairment for available-for-sale investments | 1,410 | — |
| Impairment for bad and doubtful debts | 4,224 | — |
| Write down of inventory to net realizable value | 7,228 | — |
| Depreciation on property, plant and equipment | 147,933 | 141,029 |
| Amortisation of land use rights and deferred assets | 4,270 | 3,972 |
| Loss (gain) on disposals of property, plant and equipment | 61 | (353) |
| Interest expense | 23,033 | 20,253 |
| Interest income | (3,286) | (2,879) |
| **Changes in working capital:** | 221,612 | 187,916 |
| Increase in trade and notes receivables | (188,811) | (7,767) |
| Decrease (increase) in deposits, prepayments and other receivables | 35,625 | (19,865) |
| Increase in inventories | (305,703) | (52,181) |
| Increase (decrease) in trade, other payables and accruals | 288,937 | (16,409) |
| Decrease in taxes payable | (20,022) | (717) |
| Cash generated from operations | 31,638 | 90,977 |

(b) **Disposal of subsidiaries**

| | **2004** | **2003** |
|---|---|---|
| | *$'000* | *$'000* |
| Net assets disposed of: | | |
| Fixed assets | — | 14,918 |
| Cash and bank deposits | — | 13,060 |
| Trade receivables | — | 832 |
| Trade payables | — | (13,657) |
| | — | 15,153 |
| Gain on disposal | — | 4,347 |
| Recorded as receivable from a related company | — | 19,500 |
| Net cash outflow from disposal of subsidiaries: | | |
| Cash consideration | — | — |
| Cash and bank deposits disposed of | — | (13,060) |
| Net cash outflow from disposal of subsidiaries | — | (13,060) |

Two wholly-owned subsidiaries, Far Eastern Info Service (Holding) Limited and Far Eastern Network Info-Tech (Shanghai) Ltd. were disposed of during 2003.

**26 INVESTMENTS IN SUBSIDIARIES**

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

| | **2004** | **2003** |
|---|---|---|
| | *$'000* | *$'000* |
| Unlisted investment, at cost | 1,135,290 | 873,600 |
| Share of post-acquisition profit less dividends received | 265,008 | 228,873 |
| Share of revaluation reserve | 20,944 | 5,645 |
| Effect of translation of the financial statements of subsidiaries | 1,848 | 1,309 |
| | 1,423,090 | 1,109,427 |

Details of the Company's subsidiaries are as follows:

| Name | Country/place of incorporation/ Establishment and kind of legal entity | Issued and fully paid up share capital/ registered capital | Attributable equity interest | | Principal activities and place of operations |
|---|---|---|---|---|---|
| | | | Directly held | Indirectly Held | |
| Far Eastern Industries (Shanghai) Ltd. ("FEIS") (a) | The PRC Wholly-owned foreign enterprise | US$125,550,000 | 100% | — | Production and distribution of PET chips, polyester filaments and polyester staple fibers, and dyeing and finishing of polyester textile products in the PRC |
| FEDP (Holding) Limited | Bermuda Limited liability company | US$25,000,000 | 80% | — | Investment holding in Bermuda |
| Shanghai Yuanzi Information Co., Ltd. ("SYI") (b) | The PRC Limited liability company | Rmb2,000,000 | — | 95% | Provision of information technology consultancy services in the PRC |
| Wuhan Far Eastern Industrial Trading Co., Ltd. ("WFEIT") (c) | The PRC Limited liability company | Rmb7,000,000 | — | 95% | Distribution of products of FEIS in the PRC |
| Far Eastern Industries (Suzhou) Ltd. ("FEIZ") (d) | The PRC Wholly-owned foreign enterprise | US$25,000,000 | — | 80% | Production of polyester polymers |

(a) FEIS was established on 25 September 1996 as a wholly-owned foreign enterprise in the PRC to be operated for 50 years up to 24 September 2046.

(b) SYI was established on 15 April 2003 as a PRC limited company in the PRC to be operated for a period of 18 years up to 14 April 2021.

(c) WFEIT was established on 9 July 2003 as a PRC limited company in the PRC to be operated for a period of 50 years up to 8 July 2053.

(d) FEIZ was established on 22 March 2004 as a wholly-owned foreign enterprise in the PRC to be operated for 50 years up to 21 March 2054.

## 27 RESERVES — THE COMPANY

| | Share premium | Revaluation reserve | Cumulative translation adjustments | Retained earnings | Total |
|---|---|---|---|---|---|
| | *$'000* | *$'000* | *$'000* | *$'000* | *$'000* |
| Balance as at 1 January 2003 | 523,001 | — | (1,383) | 379,345 | 900,963 |
| Profit for the year | — | — | — | 25,388 | 25,388 |
| Dividends *(Note 10(b))* | — | — | — | (41,030) | (41,030) |
| Share of revaluation reserve of a subsidiary | — | 5,645 | — | — | 5,645 |
| Translation adjustments | — | — | 2,692 | — | 2,692 |
| Balance as at 31 December 2003 | 523,001 | 5,645 | 1,309 | 363,703 | 893,658 |
| Profit for the year | — | — | — | 26,859 | 26,859 |
| Dividends *(Note 10(b))* | — | — | — | (41,030) | (41,030) |
| Share of revaluation reserve of a subsidiary | — | 15,299 | — | — | 15,299 |
| Translation adjustments | — | — | 929 | — | 929 |
| Balance as at 31 December 2004 | 523,001 | 20,944 | 2,238 | 349,532 | 895,715 |

## 28 FINANCIAL INSTRUMENTS

The carrying amounts of the Group cash and cash equivalents, receivables and payables approximate their fair values due to the short-term maturity of these instruments. As at 31 December 2004, the estimated fair values of long-term loans including current portions were approximately $1,119,788,000 (2003: $518,308,000) based on current market interest rates for comparable instruments.

## 29 OPEARTING LEASES

As at 31 December 2004, the Group had future aggregate minimum lease payments under non-cancelable operating leases for buildings as follows:

| | 2004 | 2003 |
|---|---|---|
| | *$'000* | *$'000* |
| Within one year | 4,215 | 2,900 |
| 2 to 5 years | 3,454 | 5,558 |
| | 7,669 | 8,458 |

## 30 COMMITMENTS

### (a) Capital commitments

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

| | 2004 | 2003 |
|---|---|---|
| | *$'000* | *$'000* |
| Authorised and contracted for | | |
| — Acquisition of property, plant and equipment | 92,183 | 71,753 |

### (b) Investment commitments

As at 31 December 2004, the Group had entered into agreement with the minority shareholders of FEDP (Holding) Limited ("FEDP"), currently an 80% subsidiary of the Group, to have the right to acquire the remaining 20% of the shareholding in FEDP. In addition, the minority shareholders of FEDP also have the right to sell the remaining 20% shareholding of FEDP to the Group. These rights are exercisable during the period from 2 October to 31 October 2006. The consideration upon exercise of the rights by either of the parties is US$5,000,000 (equivalent to approximately RMB39,000,000) together with interest calculated at London Inter Bank Offer Rate plus 0.5% from 1 November 2004 to the date of exercise.

## 31 RELATED PARTY TRANSACTIONS

### (a) Name and relationship

| Name | Relationship |
|---|---|
| Far Eastern Textile Limited ("FET") | Ultimate holding company of the Company |
| Far Eastern Investment (Holdings) Company Limited ("FEIH") | Subsidiary of FET |
| Ding Yuang International Investment Corporation ("DYIIC") | Subsidiary of FET |
| Oriental Union Chemical Corporation ("OUCC") | Associate of FET |
| Far EasTone Telecommunications Co., Ltd. ("Far EasTone") | Subsidiary of FET |

### (b) Transactions

During the year ended 31 December 2004, the Group had the following significant transactions with related parties:

| | 2004 | 2003 |
|---|---|---|
| | *$'000* | *$'000* |
| Technological license fee paid to FEIH | 11,675 | 11,674 |

### 32 RETIREMENT BENEFITS

All of the full-time PRC employees of the Group's PRC subsidiaries 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. The Group's PRC subsidiaries are required to make monthly contributions to the state-sponsored retirement plan at rates ranging from 22.0% to 22.5% of the employees' basic salaries as defined by relevant rules.

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 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.

For the year ended 31 December 2004, the amount of retirement benefit costs charged to the income statement was approximately $4,433,000 (2003: $4,086,000).

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

### 33 BANKING FACILITIES

The Group had certain banking facilities from several banks for loans and trade financing. These facilities were guaranteed by the Company and the pledge of the Group's land and buildings, with a net book value of approximately $228 million as at 31 December 2004 (2003: $156 million) (Note 15).

As at 31 December 2004, the Group had aggregate banking facilitates as follows:

| | **2004** | **2003** |
|---|---|---|
| | *$'000* | *$'000* |
| Aggregate amount of banking facilities | 2,391,942 | 2,133,680 |
| Less: Amount utilised | (1,415,557) | (683,052) |
| Unused facilities | 976,385 | 1,450,628 |

### 34 SUBSEQUENT EVENTS

On 24 March 2005, the board of directors declared a final dividend of $0.10 per ordinary share, totaling approximately $41,030,000.

### 35 CONTINGENT LIABILITY

As at 31 December 2004, the Group has contingent liabilities of discounted notes of approximately $77,614,000 (2003: $119,438,000).

### 36 APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 24 March 2005.

## 3. UNAUDITED CONSOLIDATED INTERIM RESULTS FOR FEPI FOR THE SIX MONTHS ENDED 30TH JUNE, 2005

The following is the unaudited consolidated interim results of FEPI extracted from the interim report of FEPI for the six months ended 30th June, 2005:

**CONSOLIDATED BALANCE SHEET**
**(Expressed in Hong Kong dollars)**

| | *Note* | **As at 30th June 2005** *$'000* *(Unaudited)* | **As at 31st December 2004** *$'000* *(Audited)* |
|---|---|---|---|
| **Non-current assets** | | | |
| Investment in an associate | | 77,965 | 80,694 |
| Available-for-sale investments | | 3,009 | 3,009 |
| Property, plant and equipment | | 1,947,236 | 1,742,616 |
| Land use rights | | 162,255 | 136,199 |
| Deferred assets | | 5,263 | 5,712 |
| Other non-current assets | | 534 | 300 |
| | | 2,196,262 | 1,968,530 |
| **Current assets** | | | |
| Inventories | | 662,336 | 663,968 |
| Deposits, prepayments and other receivables | | 84,878 | 35,944 |
| Trade and notes receivables | 3 | 357,817 | 406,350 |
| Tax recoverable | | 9,815 | 7,466 |
| Cash and bank deposits | | 289,331 | 323,050 |
| | | 1,404,177 | 1,436,778 |
| **Current liabilities** | | | |
| Trade payables | 4 | 583,059 | 561,422 |
| Other payables and accruals | | 120,611 | 79,665 |
| Taxes payable | | 8,232 | 74 |
| Short-term bank loans | | 326,765 | 295,645 |
| Long-term bank loans, current portion | | 523,233 | 343,023 |
| | | 1,561,900 | 1,279,829 |

| | Note | As at 30th June 2005 $'000 (Unaudited) | As at 31st December 2004 $'000 (Audited) |
|---|---|---|---|
| **Net current (liabilities) asset** | | (157,723) | 156,949 |
| **Total assets less current liabilities** | | 2,038,539 | 2,125,479 |
| **Non-current liabilities** | | | |
| Long-term bank loans, non-current portion | | 832,683 | 776,765 |
| Deferred tax liabilities | | 3,394 | 3,394 |
| **Total non-current liabilities** | | 836,077 | 780,159 |
| Minority interest | | 39,278 | 39,316 |
| **Net assets** | | 1,163,184 | 1,306,004 |
| **Represented by:** | | | |
| Share capital | | 410,296 | 410,296 |
| Reserves | | 752,888 | 895,708 |
| | | 1,163,184 | 1,306,004 |

**UNAUDITED CONSOLIDATED INCOME STATEMENT**
**(Expressed in Hong Kong dollars)**

| | | For the six months ended 30th June | | For the three months ended 30th June | |
|---|---|---|---|---|---|
| | *Note* | **2005** | **2004** | **2005** | **2004** |
| | | *$'000* | *$'000* | *$'000* | *$'000* |
| | | *(unaudited)* | *(unaudited)* | *(unaudited)* | *(unaudited)* |
| PET chips | | 856,074 | 790,294 | 425,550 | 405,590 |
| Polyester filaments | | 116,236 | 117,993 | 65,853 | 63,175 |
| Polyester staple fibers | | 263,802 | 189,291 | 134,768 | 105,592 |
| Finished fabrics | | 179,784 | 169,330 | 78,403 | 84,213 |
| Others | | 922 | — | 595 | — |
| Total Sales, net | | 1,416,818 | 1,266,908 | 705,169 | 658,570 |
| Cost of sales | | (1,413,329) | (1,158,431) | (704,671) | (621,614) |
| **Gross profit** | | 3,489 | 108,477 | 498 | 36,956 |
| Other operating income | 5 | 10,351 | 8,339 | 2,532 | 4,174 |
| Distribution costs | | (51,800) | (41,902) | (27,864) | (20,069) |
| Administrative expenses | | (34,853) | (30,110) | (16,686) | (13,558) |
| **(Loss) profit from operations** | 6 | (72,813) | 44,804 | (41,520) | 7,503 |
| Finance costs, net | 7 | (26,288) | (12,656) | (14,176) | (6,415) |
| Share of result of an associate before tax | | (2,729) | (1,342) | (974) | (827) |
| **(Loss) profit before tax** | | (101,830) | 30,806 | (56,670) | 261 |
| Income tax expense | 8 | — | (4,228) | — | (20) |
| (Loss) profit before minority interest | | (101,830) | 26,578 | (56,670) | 241 |
| Minority interest | | 39 | 34 | 15 | 16 |
| **(Loss) profit attributable to shareholders** | | (101,791) | 26,612 | (56,655) | 57 |
| Basic (loss) earnings per share | 9(a) | HK$(0.25) | HK$0.06 | HK$(0.14) | HK$0.00 |
| Diluted (loss) earnings per share | 9(b) | N/A | N/A | N/A | N/A |

## UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

### For the year ended 31st December 2004:

| | Share capital | Share premium | Statutory reserve fund | Revaluation reserve | Cumulative translation adjustments | Retained earnings | Total reserve | Total equity |
|---|---|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| Balance as at 1st January 2004 | 410,296 | 523,001 | 102,646 | 5,645 | 2,203 | 261,057 | 894,552 | 1,304,848 |
| Profit appropriation | — | — | 5,684 | — | — | (5,684) | — | — |
| Dividends | — | — | — | — | — | (41,030) | (41,030) | (41,030) |
| Profit for the six months ended 30th June 2004 | — | — | — | — | — | 26,612 | 26,612 | 26,612 |
| Balance as at 30th June 2004 | 410,296 | 523,001 | 108,330 | 5,645 | 2,203 | 240,955 | 880,134 | 1,290,430 |
| Surplus on revaluation of buildings | — | — | — | 15,299 | — | — | 15,299 | 15,299 |
| Realisation of revaluation reserve due to additional depreciation | — | — | — | (1,411) | — | 1,411 | — | — |
| Profit for the six months ended 31st December 2004 | — | — | — | — | — | 1,048 | 1,048 | 1,048 |
| Translation adjustments | — | — | — | — | (773) | — | (773) | (773) |
| Balance as at 31st December 2004 | 410,296 | 523,001 | 108,330 | 19,533 | 1,430 | 243,414 | 895,708 | 1,306,004 |

### For the six months ended 30th June 2005:

| | Share capital | Share premium | Statutory reserve fund | Revaluation reserve | Cumulative translation adjustments | Retained earnings | Total reserve | Total equity |
|---|---|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| Balance as at 1st January 2005 | 410,296 | 523,001 | 108,330 | 19,533 | 1,430 | 243,414 | 895,708 | 1,306,004 |
| Dividends | — | — | — | — | — | (41,029) | (41,029) | (41,029) |
| Loss for the six months ended 30th June 2005 | — | — | — | — | — | (101,791) | (101,791) | (101,791) |
| Balance as at 30th June 2005 | 410,296 | 523,001 | 108,330 | 19,533 | 1,430 | 100,594 | 752,888 | 1,163,184 |

**UNAUDITED CONSOLIDATED CASH FLOW STATEMENT**
**(Expressed in Hong Kong dollars)**

| | For the six months ended 30th June | |
|---|---|---|
| | **2005** | **2004** |
| | *$'000* | *$'000* |
| **CASH FLOW FROM OPERATING ACTIVITIES** | | |
| Cash generated from (used in) operations | 71,890 | (22,302) |
| Interest paid | (30,704) | (10,973) |
| Income tax paid | — | (6,566) |
| Net cash generated from (used in) operating activities | 41,186 | (39,841) |
| **CASH FLOW FROM INVESTING ACTIVITIES** | | |
| Purchase of fixed assets | (273,474) | (18,794) |
| Purchase of land use right | (27,865) | — |
| Interest received | 449 | 896 |
| Increase in other long term assets | (233) | (465) |
| Net cash used in investing activities | (301,123) | (18,363) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Proceeds from short-term bank loans | 137,247 | 148,603 |
| Proceeds from long-term bank loans | 427,578 | 180,000 |
| Repayments of short-term bank loans | (106,127) | (87,140) |
| Repayments of long-term bank loans | (191,451) | (94,000) |
| Dividend paid | (41,029) | — |
| Net cash from financing activities | 226,218 | 147,463 |
| Net (decrease) increase in cash and cash equivalents | (33,719) | 89,259 |
| Cash and cash equivalents, beginning of the period | 323,050 | 190,912 |
| Cash and cash equivalents, end of the period | 289,331 | 280,171 |

## NOTES TO THE UNAUDITED FINANCIAL STATEMENTS

1) *Basis of presentation*

The unaudited financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited. The unaudited financial statements have been prepared under the historical cost convention as modified by the revaluation of buildings.

The accounting polices and methods of computation used in the preparation of the unaudited financial statements are consistent with those used in the annual financial statements as at and for the year ended 31st December 2004 except that the Group has adopted IFRS 2 - Share-based Payment and IFRS 5 - Non-Current Assets Held for Sale and Discontinued Operations which are mandatory for the financial year beginning on and after 1 January 2005. The adoption of these new IFRS has no material effect on the Group's financial statements.

2) *Fixed assets*

During the six months ended 30th June 2005, additions to fixed assets amounted to approximately HK$285,352,000 (2004: HK$19,089,000).

3) *Trade and note receivables*

| | **As at 30th June 2005** | **As at 31st December 2004** |
|---|---|---|
| | *$'000* | *$'000* |
| **Trade receivables** | | |
| Current to 30 days | 109,384 | 109,527 |
| 31 to 60 days | 53,326 | 105,070 |
| 61 to 90 days | 27,641 | 49,717 |
| Over 90 days | 49,794 | 27,766 |
| | 240,145 | 292,080 |
| Less: provision for doubtful debts | (3,569) | (4,224) |
| | 236,576 | 287,856 |
| Notes receivable | 121,241 | 118,494 |
| | 357,817 | 406,350 |

Credit policy

No credit terms were granted to the 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 would grants credit terms from 90 to 120 days. In addition, a predetermined maximum credit limit is set for each customer.

Concentrations of credit risk

Concentrations of credit risk with respect to trade receivables are limited due to the Group's large number of customers, who are internationally dispersed, cover the spectrum of manufacturing and distribution and have a variety of end markets in which they sell. Due to these factors, management believes that no additional credit risk beyond amounts provided for collection losses, if any, is inherent in the Group's trade receivables.

4) *Trade payables*

| | **As at 30th June 2005** | **As at 31st December 2004** |
|---|---|---|
| | *$'000* | *$'000* |
| **Trade payables** | | |
| Current to 30 days | 119,216 | 224,155 |
| 31 to 90 days | 260,879 | 274,597 |
| Over 90 days | 29,144 | 62,670 |
| | 409,239 | 561,422 |
| Notes payables | 173,820 | — |
| | 583,059 | 561,422 |

5) *Other operating income*

Other operating income mainly represented income from sales of scrap materials.

6) *(Loss) profit from operations*

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

| | For the six months 30th June | |
|---|---|---|
| | **2005** | **2004** |
| | *$'000* | *$'000* |
| Cost of inventories recognised as expense (included in 'Cost of sales') | 1,306,744 | 1,158,431 |
| Staff costs | | |
| - wages and salaries | 37,757 | 28,997 |
| - pension costs (defined contribution plan) | 2,355 | 2,404 |
| - other staff welfare costs | 8,686 | 6,567 |
| Depreciation on property, plant and equipment | 80,636 | 73,717 |
| Amortisation of land use rights (included in 'Administrative expenses') | 1,809 | 1,402 |
| Amortisation of deferred assets (included in 'Cost of sales') | 648 | 685 |
| Operating lease rentals on property | 2,845 | 1,887 |
| Write (back) down bad and doubtful debts (included in administrative expense) | (655) | 3,309 |

7) *Finance costs, net*

| | For the six months ended 30th June | |
|---|---|---|
| | **2005** | **2004** |
| | *$'000* | *$'000* |
| Interest expenses on bank loans wholly repayable within five years | 30,704 | 10,973 |
| Less: amount capitalised as construction-in-progress | (11,885) | (295) |
| Interest income | (449) | (896) |
| Net foreign currency exchange loss | 3,998 | 2,022 |
| Other financial expenses | 3,920 | 852 |
| | 26,288 | 12,656 |

8) *Income tax expense*

The Company is exempted from taxation in Bermuda.

No Hong Kong profits tax was provided as the Group had no assessable profits arising in or deriving from Hong Kong.

The Company's subsidiaries registered in the PRC are subject to Enterprise Income Tax ("EIT") on the taxation income as reported in their PRC statutory accounts adjusted in accordance with relevant PRC income tax laws. The general applicable EIT rate is 33%. However, being registered in a designated high-technology development zone in the PRC, Far Eastern Industries (Shanghai) Ltd. ("FEIS") (the Company's major operating subsidiary in the PRC) is entitled to a preferential EIT rate of 15%. In addition, in accordance with the PRC "Law of Enterprise Income Tax for Enterprise with Foreign Investment", FEIS 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. Furthermore, being qualified as a "High-technology Enterprise", FEIS is entitled to a further reduced EIT rate of 10% for an additional three years following the end of the five-year period during which FEIS enjoyed the preferential EIT treatment as stated above. The "High-technology Enterprise" status is subject to review every year. The first profitable year of FEIS was 1999.

No PRC EIT had been provided for all the other PRC subsidiaries of the Company as they were either in pre-operating stage or had incurred losses for the year. The deferred tax assets derived from losses for previous years have not been recognized as these PRC subsidiaries have not yet commenced their first profitable year. A tax holiday creates a non-taxable status and the effective tax rate is zero. Since the loss carryforward accumulated prior to tax holiday will be either lost or used up before the tax holiday is activated, no deferred tax asset is recognized with respect to the loss carryforward.

The amount of income tax expense charged to the consolidated income statement represents:

| | **For the six months ended 30th June** | |
|---|---|---|
| | **2005** | **2004** |
| | *$'000* | *$'000* |
| Current tax - PRC taxation | — | 4,228 |
| Share of tax of an associate | — | — |
| Taxation charge | — | 4,228 |

9) *(Loss) earnings per share*

(a) Basic (loss) earnings per share

Basic (loss) earnings per share is calculated by dividing the (loss) profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year.

| | For the six months ended 30th June | |
|---|---|---|
| | **2005** | **2004** |
| | *$'000* | *$'000* |
| (Loss) profit attributable to shareholders ($'000) | (101,791) | 26,612 |
| Weighted average number of ordinary shares in issue ( '000) | 410,296 | 410,296 |
| Basic (loss) earnings per share ($ per share) | (0.25) | 0.06 |

(b) Diluted (loss) earnings per share

Diluted (loss) earnings per share is not presented because there has been no potentially dilutive ordinary shares in existence during the year.

10) *Segmental information*

The Group operates principally in the production and distribution of PET chips, polyester filaments and polyester staple fibers, and dyeing and finishing of polyester textile products and have four strategic business units ("SBUs"), namely the Chip SBU, the Filament SBU, the Fiber SBU and the Dyeing and Finishing SBU which are managed separately.

Primary reporting format - business segments

| | Chip SBU | | Filament SBU | | Fiber SBU | | Dyeing and Finishing SBU | | Others | | Consolidated | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | For the six months ended 30th June | | | | | | | | | | | |
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| | *$'000* | *$'000* | *$'000* | *$'000* | *$'000* | *$'000* | *$'000* | *$'000* | *$'000* | *$'000* | *$'000* | *$'000* |
| Sales, net | 856,074 | 790,294 | 116,236 | 117,993 | 263,802 | 189,291 | 179,784 | 169,330 | 922 | — | 1,416,818 | 1,266,908 |
| Segment result | 17,554 | 86,755 | (11,952) | (1,699) | (18,396) | (2,617) | 15,468 | 26,038 | 815 | — | 3,489 | 108,477 |
| Unallocated corporate expenses | | | | | | | | | | | (76,302) | (63,673) |
| (Loss) profit from operations | | | | | | | | | | | (72,813) | 44,804 |
| Finance costs, net | | | | | | | | | | | (26,288) | (12,656) |
| Share of result of an associate before tax | | | | | | | | | | | (2,729) | (1,342) |
| (Loss) profit before tax | | | | | | | | | | | (101,830) | 30,806 |
| Income tax expense | | | | | | | | | | | — | (4,228) |
| Group (loss) profit before minority interest | | | | | | | | | | | (101,830) | 26,578 |
| Minority interest | | | | | | | | | | | 39 | 34 |
| (Loss) profit attributable to shareholders | | | | | | | | | | | (101,791) | 26,612 |

Secondary report format - geographical segments

An analysis by geographical segment, as determined by location of customers, is presented below.

| | For the six months ended 30th June | |
|---|---|---|
| | **2005** | **2004** |
| | *$'000* | *$'000* |
| Sales | | |
| - The PRC | 1,110,845 | 1,085,007 |
| - Europe | 135,378 | 153,950 |
| - Middle East | 13,522 | 12,414 |
| - Asia (excluding PRC) | 50,485 | 15,537 |
| - North America | 82,569 | — |
| - Others | 24,019 | — |
| | 1,416,818 | 1,266,908 |

11) *Related party transactions*

The Company's wholly-owned subsidiary, Far Eastern Industries (Shanghai) Ltd., is party to an on-going technological licence agreement with an associate of the Company's controlling shareholder, Far Eastern Textile Ltd. The Agreement, entered into prior to the Company's listing in January, 2000, is for a term of ten years expiring on 31st December 2009 and is in its sixth year of operation.

A waiver from strict compliance with the announcement and shareholders' approval requirements contained in Chapter 20 of the GEM Listing Rules was granted by the Stock Exchange at the time of the Company's listing. At the time of listing, the Company set and disclosed annual caps on the licence fee payable by FEIS for the Financial years up to the year ended 31st December 2001. In January 2002, the annual caps on the licence fee payable by FEIS were renewed at the same level for a period of three years from 1st January 2002 to 31st December 2004.

On 15th April 2005, the parties to the Agreement agreed to a reduction in the annual licence fee payable by FEIS from US$10 per metric tonne of polyester polymer to US$2.50 per metric tonne of polyester and agreed to set a reduced annual cap for a further period of three years from 1st January 2005 to 31st December 2007. The annual cap in respect of the licence fee payable by FEIS has been reduced from US$1.5 million to US$0.7 million (approximately HK$5.5 million) per annum.

For the six months ended 30th June 2005, the Company has paid, an amount of approximately HK$2,289,000 (2004: HK$5,837,000) technological licence fee payable to Far Eastern Investment (Holdings) Company Limited, a subsidiary of Far Eastern Textile Limited, on the basis of the agreed reduction in the License fee rate.

12) *Commitments*

(a) Capital commitments

As at 30th June 2005, the Group had the following capital commitments which were not provided for in the accounts:

| | As at 30th June | |
|---|---|---|
| | **2005** | **2004** |
| | *HK$'000* | *HK$'000* |
| Authorised and contracted for | | |
| - Acquisition of property, plant and equipment | 42,984 | 85,177 |

(b) Investment commitments

As at 30th June 2005, the Group had entered into agreement with the minority shareholders of FEDP (Holding) Limited ("FEDP"), currently an 80% subsidiary of the Group, to have the right to acquire the remaining 20% of the shareholding in FEDP. In addition, the minority shareholders of FEDP also have the right to sell the remaining 20% shareholding of FEDP to the Group. These rights are exercisable during the period from 2 October 2006 to 31 October 2006. The consideration upon exercise of the rights by either of the parties is US$5,000,000 (equivalent to approximately RMB39,000,000) together with interest calculated at London Inter Bank Offer Rate plus 0.5% from 1 November 2004 to the date of exercise.

## 4. SHARE CAPITAL

The authorised and issued share capital of FEPI as at the Latest Practicable Date were as follows:

| | HK$ |
|---|---|
| *Authorised:* | |
| 1,500,000,000 Shares | 1,500,000,000 |
| *Issued and fully paid:* | |
| 410,296,000 Shares | 410,296,000 |

All of the Shares currently in issue rank pari passu in all respects with each other, including, in particular, as to dividends, voting rights and capital. No Shares have been issued since 31st December 2004 (the date to which the latest audited financial statements of FEPI were made up) to the Latest Practicable Date.

The Shares are listed on GEM and none of the securities of FEPI are listed or dealt in on any other stock exchange and no such listing or permission to deal is being or is proposed to be sought.

During the two financial years immediately preceding the commencement of the offer period, FEPI did not have any reorganisation of its capital.

The Company has not repurchased any Shares during the 12-month period immediately preceding the Latest Practicable Date.

As at the Latest Practicable Date, FEPI had no options, warrants, derivatives or other securities that are convertible into Shares.

## 5. INDEBTEDNESS

As at the close of business on 31st August, 2005, the FEPI Group had outstanding borrowings totalling HK$2,024 million, comprising bank overdrafts of approximately HK$12 million, bank loans of approximately HK$1,833 million, and other loans of approximately HK$179 million. Of these borrowings, bank and other loans of the FEPI Group were secured to the extent of approximately HK$208 million.

As at 31st August, 2005, fixed assets of certain subsidiary companies amounting to HK$563 million were used as collateral for certain of the borrowings.

As at 31st August, 2005, FEPI had given guarantees of approximately HK$630 million in favour of banks for securing banking facilities granted to subsidiaries.

Save as disclosed above, the FEPI Group did not have any other outstanding bank overdrafts, loans or other similar indebtedness, mortgages, charges, or guarantees or other material contingent liabilities as at 31st August, 2005.

The Directors have confirmed that there has been no material changes in FEPI's indebtedness, commitments or contingent liability position since 31st August, 2005.

## 6. MATERIAL CHANGE

Save for the financial performance of the FEPI Group has turned from a profit of HK$27.7 million in 2004 to a loss of HK$101.8 million for the six months ended 30th June, 2005, the Directors are not aware of any material change in the financial or trading position or outlook of FEPI since 31st December 2004, the date to which the latest published financial statements of FEPI were made up.

GREATER CHINA APPRAISAL LIMITED
漢 華 評 值 有 限 公 司

2407 Shui On Centre
6-8 Harbour Road
Wanchai
Hong Kong

6th October, 2005

The Directors
Far Eastern Polychem Industries Limited
Unit A, 11/F
Lippo Leighton Tower
Nos. 103-109 Leighton Road
Causeway Bay
Hong Kong

Dear Sirs,

In accordance with your instructions to value all the property interests held by Far Eastern Polychem Industries Limited (hereinafter together referred to as the "Company") or its subsidiaries (the "Group") located in the People's Republic of China (the "PRC") and Hong Kong, we confirm that we have made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the capital value of such property interests as at 31st August, 2005 (the "Valuation Date") for a proposed privatization of the Company.

This letter which forms part of our valuation report explains the basis of valuation and clarifies our assumptions made, titleship of property and the limiting conditions.

## BASIS OF VALUATION

The valuation is our opinion of the market value which we would define as intended to mean:

"The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion."

In this report, we have valued the properties in their designed uses with the understanding that the properties will be used as such (referred to as "continued use").

## VALUATION METHODOLOGY

For properties in Group I, due to the nature of buildings and structures constructed, there are no readily identifiable market comparables to them, we have applied the cost method of valuation in assessing the property. It is a method of using current replacement costs to arrive at the value to the business in occupation of the property as existing at the date of valuation.

This method of valuation, cost method, is based on an estimate of the market value for the existing use of the land, plus the current gross replacement costs of the improvements, less allowances for physical deterioration and all relevant forms of obsolescence and optimization.

The cost method generally furnishes the most reliable indication of value for property in the absence of a known market based on comparables.

We have ascribed no commercial value to the property interests in Group II which are leased by the Group, due either to the short-term nature of the leases or the prohibition against assignment or sub-letting or otherwise due to the lack of substantial profit rents.

**ASSUMPTIONS**

Our valuations have been made on the assumption that the owner sells the properties in their continued uses and in their existing states without the benefit of any deferred terms contracts, leaseback, joint ventures, management agreements or any similar arrangement which would serve to increase the value of the properties.

Continued use assumes the properties will be used for the purposes for which the properties are designed and built, or to which they are currently adapted. The valuation on the property in continued use does not represent the amount that might be realized from piecemeal disposition of the property on the open market.

For the properties which are held under long term Government Leases/Land Use Rights, we have assumed that the owners of the properties have free and uninterrupted rights to use or transfer the properties for the whole of the unexpired term of the respective Government Leases/Land Use Rights. In our valuation, we have assumed that the properties can be freely disposed of and transferred to third parties on the open market without any additional payment to the relevant government authorities. Unless stated as otherwise, vacant possession is assumed for the property concerned.

We have assumed that all consents, approvals and licenses from relevant government authorities for the buildings and structures erected thereon have been granted. Also, we have assumed that all buildings and structures fall within the site are held by the owner or permitted to be occupied by the owner.

It is assumed that all applicable zoning and use regulations and restrictions have been complied with unless nonconformity has been stated, defined and considered in the valuation report. Moreover, it is assumed that the utilization of the land and improvements is within the boundaries of the property described and that no encroachment or trespass exists, unless noted in the report.

No environmental impact study has been ordered or made. Full compliance with applicable national, provincial and local environmental regulations and laws is assumed. In addition, it is assumed that all required licences, consents or other legislative or administrative authorities from any local, provincial or national government or private entities or organizations either have been or can be obtained or renewed for any uses which the report covers.

Other special assumptions of each property, if any, have been stated out in the footnotes of the valuation certificate.

## TITLE INVESTIGATION

For the Group's property interests in the PRC, we have been provided with copies of title documents. However, due to the current registration system of the PRC, no investigations have been made as to legal title or any material liabilities attached to the Group. Moreover, we have been provided with copies of tenancy agreements of the properties leased to the Group.

We have not inspected the original documents to verify ownership or to ascertain the existence of any amendments which do not appear on the copies handed to us.

As far as the properties in the PRC are concerned, we have relied upon the legal opinions given by the PRC lawyer ("The PRC Lawyer") on 29th September, 2005 in relation to the legal title to the properties located in the PRC under valuation.

All legal documents disclosed in this report are for reference only and no responsibility is assumed for any legal matters concerning the legal title to the property interests set out in this report.

## LIMITING CONDITIONS

We have not carried out detailed site measurements to verify the correctness of the land or building areas in respect of the properties but have assumed that the areas shown on the legal documents provided to us are correct. Based on our experience of valuation of similar properties, we consider the assumptions so made to be reasonable. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations.

We have inspected the exterior and, where possible, the interior of the properties included in the attached valuation certificates. However, no structural survey has been made and we are therefore unable to report as to whether the property is free from rot, infestation or any other structural defects. Also, no tests were carried out on any of the services.

No soil investigation has been carried out to determine the suitability of the ground conditions or the services for any property development.

We do not investigate any industrial safety, environmental and health related regulations in association with any particular manufacturing process of the Group. It is assumed that all necessary licences, procedures and measures were implemented in accordance with government legislation and guidance.

Having examined all relevant documentation, we have relied to a very considerable extent on the information provided by the Group and have accepted advice given to us by it on such matters as planning approvals, statutory notices, easements, tenure, occupation, rentals, site and floor areas and in the identification of the property in which the Group has valid interests. We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We were also advised by the Group that no material factors have been omitted from the information to reach an informed view, and have no reason to suspect that any material information has been withheld.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on any of the property valued nor for any expenses or taxation which may be incurred in effecting a sale.

As advised by the Company, the properties held by the Group are for production, warehouse and staff quarter purposes, the Company does not have any intention to sell any or all properties. Therefore, the amount of tax liability would not be quantifiable nor crystallised. Should disposal of the properties be conducted, the potential tax liabilities arising will include the sales tax (5.0% on transaction price) and land appreciation tax (from 30% to 60% on the appreciation depending on the ratio of the appreciation to the original cost of the property).

Unless otherwise stated, it is assumed that the interests are free of encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

Since the property is located in a relatively under-developed market, the PRC, those assumptions are often based on imperfect market evidence. A range of values may be attributable to the property depending upon the assumptions made. While the valuer has exercised his professional judgment in arriving at the value, report readers are urged to consider carefully the nature of such assumptions which are disclosed in the valuation report and should exercise caution in interpreting the valuation report.

**OPINION OF VALUE**

Valuation figures of the properties held by the Group are shown in the attached summary of valuation and their respective valuation certificates.

For the property which is leased by the Group from independent third party under tenancy agreement, it has no commercial value due to inclusion of non-alienation clause or otherwise due to lack of substantial profit rent or short term nature.

**REMARKS**

Our valuations have been prepared in accordance with generally accepted valuation procedures and in compliance with the requirements of the rules governing the listing of securities of The Stock Exchange of Hong Kong Limited. In valuing the property interests, we have complied with the requirements contained in the HKIS Valuation Standards on Properties (1st Edition 2005) published by the Hong Kong Institute of Surveyors and effective from 1st January, 2005.

The properties have been valued in Hong Kong Dollar at the exchange rates as at 31st August, 2005 of RMB 1.00 to HK$0.96. Our valuations are on the entire property interests.

We enclose herewith the summary of valuation and valuation certificates.

This valuation report is issued subject to our General Service Conditions.

Yours faithfully,
For and on behalf of
**GREATER CHINA APPRAISAL LIMITED**
**K. K. Ip**
**BLE, LLD**
*Chartered Valuation Surveyor*
*Registered Professional Surveyor*
Managing Director

*Notes: Mr. K. K. Ip, who is a Chartered Valuation Surveyor and a Registered Professional Surveyor, has substantial experience in valuation of properties in the PRC since 1992.*

## SUMMARY OF VALUATION

| No. | Property | Market Value in existing state as at 31st August, 2005 *(HK$)* | Interests Attributable to the Group *(%)* | Market Value in existing state as at 31st August, 2005 *(HK$)* |
|---|---|---|---|---|
| **Group I — Property Interests Owned and Occupied by the Group in the PRC** | | | | |
| 1. | Four parcels of land, various buildings and structures on Nos.197 and 198 Baisha Road Xinghuo Development Zone Pudong New District Shanghai The PRC | 514,000,000 | 100 | 514,000,000 |
| 2. | Land, buildings and structures on No.1 Meigui Yuan Mingcheng Residential Area Xinghuo Development Zone Pudong New District Shanghai The PRC | 22,500,000 | 100 | 22,500,000 |
| 3. | The whole block of Entrance No.2 Block 16 of Meigui Yuan Mingcheng Residential Area Xinghuo Development Zone Pudong New District Shanghai The PRC | 1,000,000 | 100 | 1,000,000 |
| 4. | Land, buildings and structures on No.6 Hengshan Road Suzhou New District Suzhou The PRC | 74,800,000 | 80 | 59,840,000 |

| No. | Property | Market Value in existing state as at 31st August, 2005 *(HK$)* | Interests Attributable to the Group *(%)* | Market Value in existing state as at 31st August, 2005 *(HK$)* |
|---|---|---|---|---|
| 5 | Land, buildings and structures on No.93 Zhushanhu Road Wuhan Economic and Technological Development Zone Wuhan The PRC | 12,000,000 | 95 | 11,400,000 |
| | Sub-total: | 624,300,000 | | 608,740,000 |

**Group II — Property Interests Rented by the Group in the PRC and Hong Kong**

| No. | Property | Market Value in existing state as at 31st August, 2005 *(HK$)* | Interests Attributable to the Group *(%)* | Market Value in existing state as at 31st August, 2005 *(HK$)* |
|---|---|---|---|---|
| 6. | Unit A, 11th Floor Lippo Leighton Tower Nos. 103-109 Leighton Road Causeway Bay Hong Kong | No commercial value | | No commercial value |
| 7. | The whole of the 31st Floor, 33rd Floor and Unit 3202 Baoan Building No.800 Dongfang Road Pudong Shanghai The PRC | No commercial value | | No commercial value |
| 8. | Unit 3201A Baoan Building No.800 Dongfang Road Pudong Shanghai The PRC | No commercial value | | No commercial value |

| No. | Property | Market Value in existing state as at 31st August, 2005 *(HK$)* | Interests Attributable to the Group *(%)* | Market Value in existing state as at 31st August, 2005 *(HK$)* |
|---|---|---|---|---|
| 9. | Units B10B and B25B<br>Jueshi Building<br>No.29 Xiangcheng Road<br>Pudong<br>Shanghai<br>The PRC | No commercial value | | No commercial value |
| 10. | Unit 2504<br>No.2 of 108 Shangcheng Road<br>Pudong<br>Shanghai<br>The PRC | No commercial value | | No commercial value |
| 11. | Unit B7C<br>Jueshi Building<br>No.29 Xiangcheng Road<br>Pudong<br>Shanghai<br>The PRC | No commercial value | | No commercial value |
| 12. | Unit 5A<br>No.9 of 99 Puming Road<br>Pudong<br>Shanghai<br>The PRC | No commercial value | | No commercial value |
| 13. | Unit 1701<br>No.11 of 333 Songlin Rood<br>Pudong<br>Shanghai<br>The PRC | No commercial value | | No commercial value |
| 14. | Unit 3002<br>No.7 of 333 Songlin Rood<br>Pudong<br>Shanghai<br>The PRC | No commercial value | | No commercial value |

| No. | Property | Market Value in existing state as at 31st August, 2005 (HK$) | Interests Attributable to the Group (%) | Market Value in existing state as at 31st August, 2005 (HK$) |
|---|---|---|---|---|
| 15. | No. 6 of 89<br>Xingguo Road<br>Xuhui District<br>Shanghai<br>The PRC | No commercial value | | No commercial value |
| 16. | Unit 20B<br>Block 2<br>Yangguang Apartment<br>Shishan Xin Yuan<br>Jinshan Road<br>Suzhou New District<br>Suzhou<br>The PRC | No commercial value | | No commercial value |
| 17. | Unit 803<br>Block 2<br>Jingfeng Yuan<br>No.1750 Binghe Road<br>Suzhou New District<br>Suzhou<br>ThePRC | No commercial value | | No commercial value |
| 18. | Unit 204<br>Block 33<br>Shishan Xin Yuan<br>Jinshan Road<br>Suzhou New District<br>Suzhou<br>The PRC | No commercial value | | No commercial value |
| | Sub-total: | No commercial value | | No commercial value |
| | Grand Total: | 624,300,000 | | 608,740,000 |

## VALUATION CERTIFICATE

**Group I — Property Interests Owned and Occupied by the Group in the PRC**

| | Property | Description and Tenure | Particulars of occupancy | Market Value in existing state as at 31st August, 2005 *(HK$)* |
|---|---|---|---|---|
| 1. | Four parcels of land, various buildings and structures on Nos.197 and 198 Baisha Road Xinghuo Development Zone Pudong New District Shanghai The PRC | The property comprises the buildings and structures erected on three parcels of land having a total area of approximately 375,803 sq.m. In addition, a parcel of greenfield site with an area of approximately 133,333 sq.m. is held by the Company for further expansion.<br><br>The buildings and structures mainly comprise polymerization, SSP, POY, PET, DTY, staple fibre and fabrics finishing, dyeing plant or workshop buildings together with sewage treatment plants, warehouses, transformer house, administration building and their associated roadworks and fencing walls completed in between 1998 and 2004. The total gross floor area of the property is approximately 150,103 sq.m.<br><br>In addition, there are constructions of seven workshops, warehouses or structures in progress. The total gross floor area of those buildings is about 39,172 sq.m., of which about 27,600 sq.m. are practically completed. The remaining constructions are scheduled to be completed in mid-October 2005. | The property is occupied by the Group as a polychemical plant. | 514,000,000<br><br>(100% attributable to the Group: HK$514,000,000) |

*Notes:*

(i) According to two contracts on Transfer of Land Use Rights (Ref. Nos. SXH-DG-(96)-D5-D12, G7-003 and SXH-DG-(98)-G7-001) respectively dated 14th August, 1996 and 30th November, 1998 entered into between Shanghai Pudong Xinghuo Development Zone United Development Company (Party A) and Far Eastern Industries (Shanghai) Limited. (Party B, a 100%-owned subsidiary of the Company), Party B agreed to purchase the land use rights of Land Lot Nos. D5 to D12 and a portion of Land Lot No.G7 (together named as “Phase I site”) having a total area of approximately 373,600 sq.m. (subject to site measurement) for a term of 50 years from the contract date and an adjoining land of Land Lot No. G7 having an area of approximately 980 sq.m. (subject to site measurement) for a term terminating on 20th January, 2047. In addition, Party A agreed to reserve the land use rights on the remaining portion of Land Lot No.G7 having an area of approximately 212,000 sq.m. for Party B’s purchase for the Phase II development of the industrial complex. Salient development requirements for Land Lot Nos. D5 to D12 and G7 (portion) are summarized as follows:

| | | |
|---|---|---|
| a. Site Coverage | : | not more than 40% |
| b. Plot Ratio | : | not more than 1.2 |
| c. Greenery Ratio | : | not less than 25% |
| d. Set Back | : | 5 meters from Huizhou Road and 10 meters from Baisha Road |

The adjoining land of Lot No. G7 is for access road construction uses.

(ii) According to a contract on Transfer of Land Use Rights (Ref. Nos. SXH-DG-(2004)-G2, G4-G6-012) dated 27th August, 2004, entered into between Shanghai Pudong Xinghuo Development Zone United Development Company (Party A) and Far Eastern Industries (Shanghai) Limited (Party B), Party B agreed to purchase the land use rights of Land Lot Nos. G2, G4-G6 having a total area of approximately 133,333 sq.m. (subject to site measurement) for industrial uses for a term of 50 years from site delivery date. Salient development requirements are summarized as follows:

| | | |
|---|---|---|
| a. Site Coverage | : | not more than 40% |
| b. Plot Ratio | : | not more than 1.0 |
| c. Greenery Ratio | : | not less than 25% |
| d. Set Back | : | 5 meters from Huizhou Road and 10 meters from Liantang Road |

According to the Company, the land use fee mentioned was fully settled on 31st January, 2005.

(iii) According to three Realty Title Certificates Nos. Hu Fang Di Pu Zi (1999) 022638, (2002) 073785 and (2003) 017520 respectively issued on 19th June, 1999, 30th October, 2002 and 28th February, 2003, the titles of 31 buildings erected on the sites having a total gross floor area of approximately 150,103 sq.m. are vested in Far Eastern Industries (Shanghai) Limited. Further details are as follows:

| **Certificate No.** | **Land Use Term** | **Site Area** *(in sq.m.)* | **Gross Floor Area** *(in sq.m.)* | **Uses** |
|---|---|---|---|---|
| (1999) 022638 | 30th November, 1998 to 20th January, 2047 | 980 | Nil | Industrial |
| (2002) 073785 | 21st January 1997 to 20th January, 2047 | 88,560 | 54,068 | Industrial |
| (2003) 017520 | 21st January 1997 to 20th January, 2047 | 286,263 | 96,035 | Industrial |
| | Total: | 375,803 | 105,103 | |

(iv) According to three Construction Project Planning Permits Nos. Wu Jian Gui 2004-169,243, and 290, respectively dated 18th June, 2004, 26th August, 2004 and 19th October, 2004, the construction of additional buildings and structures having a total area of approximately 39,172 sq.m. within the site was approved by the Town Planning Bureau of Shanghai City. According to the Company, the total construction cost incurred as at the date of valuation was approximately RMB105,154,228 and the outstanding cost of construction for completion was about RMB7,343,500.

(v) According to the Company, the land was acquired at a cost of RMB29,773,258 on 31st January, 2005.

(vi) Opinions of the PRC Lawyer are summarized as follows:

(a) The property is owned by Far Eastern Industries (Shanghai) Limited.

(b) Far Eastern Industries (Shanghai) Limited has applied for all necessary approvals, consents and registrations in order to obtain the land use rights and building ownership of the property. All taxes required have been settled in full.

(c) Far Eastern Industries (Shanghai) Limited has the rights to lease, dispose of, transfer and mortgage the property without seeking any approvals from other parties.

| | Property | Description and Tenure | Particulars of occupancy | Market Value in existing state as at 31st August, 2005 *(HK$)* |
|---|---|---|---|---|
| 2. | Land, buildings and structures on No.1 Meigui Yuan Mingcheng Residential Area Xinghuo Development Zone Pudong New District Shanghai The PRC | The property comprises the buildings and ancillary structures erected on a site having a total area of approximately 18,662 sq.m.<br><br>The buildings and structures comprise 7 blocks of 6-storey dormitory buildings, a 2-storey comprehensive building, a boiler house, a transformer house, a bicycle shed and a guard house, all completed in 1998.<br><br>The total gross floor area of the property is approximately 16,685 sq.m. | The property is currently occupied by the Group as staff quarters. | 22,500,000<br><br>(100% attributable to the Group: HK$22,500,000) |

*Notes:*

(i) According to the Contract on Transfer of Land Use Rights (Ref. Nos. SXH-DF-(97)-Ming Cheng Xiao Qu 001) dated 24th March, 1997 entered into between Shanghai Pudong Xinghuo Development Zone United Development Company (Party A) and Far Eastern Industries (Shanghai) Limited (Party B, a 100%-owned subsidiary of the Company), Party B agreed to purchase the land use rights of a site having a total area of approximately 16,544.5 sq.m. (subject to site measurement) for the development of dormitory area of Party B. The land use rights term is from the contract date to 8th November, 2046. Salient development requirements are summarized as follows:

| | | |
|---|---|---|
| a. Site Coverage | : | 27% |
| b. Plot Ratio | : | one |
| c. Greenery Ratio | : | greater than 30% |
| d. Set Back | : | 10 meters from Lingshan Road and 6 meters from Zhongxin Road |

(ii) According to the Realty Title Certificate Nos. Hu Fang Di Pu Zi (1999) 018854 issued on 28th May, 1999, the titles of the 13 buildings having a total gross floor area of approximately 16,685 sq.m. erected on the site with an area of approximately 18,662 sq.m. are vested in Far Eastern Industries (Shanghai) Limited. The year term of the land use rights of the site is from 24th March, 1997 to 8th November, 2046 for residential uses.

(iii) Opinions of the PRC Lawyer are summarized as follows:

(a) The property is owned by Far Eastern Industries (Shanghai) Limited.

(b) Far Eastern Industries (Shanghai) Limited has applied for all necessary approvals, consents and registrations in order to obtain the land use rights and building ownership of the property. All taxes required have been settled in full.

(c) Far Eastern Industries (Shanghai) Limited has the rights to lease, dispose of, transfer and mortgage the property without seeking any approvals from other parties.

| | Property | Description and Tenure | Particulars of occupancy | Market Value in existing state as at 31st August, 2005 *(HK$)* |
|---|---|---|---|---|
| 3. | The whole block of Entrance No. 2 Block 16 of Meigui Yuan Mingcheng Residential Area Xinghuo Development Zone Pudong New District Shanghai The PRC | The property comprises 12 residential units in a 6-storey residential block erected on a site of approximately 576.40 sq.m. in a row of building blocks completed in 1995.<br><br>The property has a total gross floor area of approximately 860.93 sq.m.<br><br>The land use rights of the property erected on was granted for a term of 50 years commencing from 2nd September, 1994 and expiring on 1st September, 2044 for residential uses. | The property is currently occupied by the Group as staff quarters. | 1,000,000<br><br>(100% attributable to the Group: HK$1,000,000) |

*Notes:*

(i) According to the Shanghai City Realty Title Certificate Hu Fang Di Pu Zi (1997) No.001516 issued on 13th February, 1997, the title of the property having a total gross floor area of 860.93 sq.m. is vested in Far Eastern Industries (Shanghai) Limited. (a 100%-owned subsidiary of the Company) with a land use term from 2nd September, 1994 to 1st September, 2044 for residential uses.

(ii) Opinions of the PRC Lawyer are summarized as follows:

(a) The property is owned by Far Eastern Industries (Shanghai) Limited.

(b) Far Eastern Industries (Shanghai) Limited has applied for all necessary approvals, consents and registrations in order to obtain the land use rights and building ownership of the property. All taxes required have been settled in full.

(c) Far Eastern Industries (Shanghai) Limited has the rights to lease, dispose of, transfer and mortgage the property without seeking any approvals from other parties.

| | Property | Description and Tenure | Particulars of occupancy | Market Value in existing state as at 31st August, 2005 *(HK$)* |
|---|---|---|---|---|
| 4. | Land, buildings and structures on No.6 Hengshan Road Suzhou New District Suzhou The PRC | The property comprises the buildings and structures erected on a site having a total area of approximately 117,832.8 sq.m.<br><br>The buildings and structures mainly comprise polymerization, POY, DTY workshop buildings together with sewage treatment house, warehouses, transformer house, administration building and their associated roadworks and fencing walls completed in 1998.<br><br>The total gross floor area of the property is approximately 46,482.01 sq.m. | The property is occupied by the Group as a polychemical plant. | 74,800,000<br><br>(80% attributable to the Group: HK$59,840,000) |

*Notes:*

(i) According to a State-owned Land Use Rights Certificate No. Su Xin Guo Yong (2004) 4647 dated 18th October, 2004, the land use rights of the subject property having an area of approximately 117,832.80 sq.m. have been assigned to Far Eastern Industries (Suzhou) Limited. (a 80%-owned subsidiary of the Company) for industrial uses for a term expiring on 4th November, 2044.

(ii) According to a Building Ownership Certificate No. Su Fang Quan Zheng Xin Qu 00031055 issued on 22nd October, 2004, the titles of 16 buildings having a total gross floor area of approximately 46,482.01 sq.m. are vested in Far Eastern Industries (Suzhou) Limited.

(iii) According to the Company, the property was acquired at a total cost of RMB81,880,575 on 1st November, 2004.

(iv) Opinions of the PRC Lawyer are summarized as follows:

(a) The property is owned by Far Eastern Industries (Suzhou) Limited.

(b) Far Eastern Industries (Suzhou) Limited has applied for all necessary approvals, consents and registrations in order to obtain the land use rights and building ownership of the property. All taxes required have been settled in full.

(c) Far Eastern Industries (Suzhou) Limited has the rights to lease, dispose of, transfer and mortgage the property without seeking any approvals from other parties.

| | Property | Description and Tenure | Particulars of occupancy | Market Value in existing state as at 31st August, 2005 *(HK$)* |
|---|---|---|---|---|
| 5. | Land, building and structures on No.93 Zhushanhu Road Wuhan Economic and Technological Development Zone Wuhan The PRC | The property comprises a building and structures erected on a site having a total area of approximately 27,611.79 sq.m.<br><br>The building and structures mainly comprise a warehouse building, the associated roadworks and fencing walls completed in late 2004.<br><br>The total gross floor area of the property is approximately 5,428 sq.m. | The property is occupied by the Group as a warehouse. | 12,000,000<br><br>(95% attributable to the Group: HK$11,400,000) |

*Notes:*

(i) According to a State-owned Land Use Rights Certificate No. Wu Kai Guo Yong (2003) 26 dated 17th July, 2003, the land use rights having an area of approximately 27,611.97 sq.m. has been granted to Wuhan Far Eastern Industrial Trading Co., Limited (a 95%-owned subsidiary of the Company) for industrial uses for a term from 17th July, 2003 to 17th July, 2053.

(ii) According to a State-owned Land Use Rights Transfer Contract (Ref. No. 2003-05) dated 12th March, 2003 entered into between The Committee of Wuhan Economic and Technological Development Zone (Party A) and Far Eastern Industries (Shanghai) Limited (Party B, a 100% owned subsidiary of the Company), Party B agreed to purchase the land use rights of Land Lot No. 14MC in the development zone having a total area of approximately 27,573.91 sq.m. for a term of 50 years from the date of site delivery.

(iii) According to two Construction Project Planning Permits Nos. Wu Kai Jian Gui 2003-78 and 2003-128, the construction of an industrial building having an area of 4,882.5 sq.m., together with the associated fencing wall and roadworks within the site was approved by the Planning and Construction Bureau of the development zone.

(iv) According to the Company, the land was acquired at a total cost of RMB2,681,835.95 on 9th April, 2003. As at the valuation date, the construction cost of RMB10,300,471 for the completed construction had been fully settled. The application on the issuance of Realty Title Certificates is currently in progress.

(v) Opinions of the PRC Lawyer are summarized as follows:

(a) The property is owned by Wuhan Far Eastern Industrial Trading Company Limited.

(b) Wuhan Far Eastern Industrial Trading Company Limited has applied for all necessary approvals, consents and registrations in order to obtain the land use rights of the property. All taxes required have been settled in full.

(c) Wuhan Far Eastern Industrial Trading Company Limited has the rights to lease, dispose of, transfer and mortgage the land use rights without seeking any approvals from other parties.

(d) The building and the associated fencing wall and roadworks have been constructed in accordance with the city planning requirements. Inspection for acceptance by planning authorities is in progress.

(e) Upon fulfilling registration requirements of the building administration authorities, there will be no legal impediments in obtaining Building Ownership Certificate for the building.

**Group II — Property Interests Rented by the Group in the PRC and Hong Kong**

| | Property | Description and Tenure | Particulars of occupancy | Market Value in existing state as at 31st August, 2005 *(HK$)* |
|---|---|---|---|---|
| 6. | Unit A, 11th Floor Lippo Leighton Tower Nos. 103-109 Leighton Road Causeway Bay Hong Kong | The property comprises an office unit on the 11th floor of a 23-storey office/commercial development. The building was completed in about 1990.<br><br>The property has a gross floor area of approximately 100 sq.m.<br><br>The property is rented from an Independent Third Party by the Company, for a term from 15th October, 2004 to 14th October, 2005 at a monthly rent of HK$15,000 exclusive of management fees and utility services charges. | The property is occupied by the Group as an office. | No commercial value |
| 7. | The whole of the 31st Floor, 33rd Floor, and Unit 3202 Baoan Building No. 800 Dong Fang Road Pudong Shanghai The PRC | The property comprises two office floors on the 31st and 33rd floor and an office unit on the 32nd floor of a 38-storey office tower built upon a 2-level underground car parking. The building was completed in the 1990s.<br><br>The property has a gross floor area of approximately 2,933.66 sq.m.<br><br>The property is rented from an Independent Third Party by Far Eastern Industries (Shanghai) Limited (a 100%-owned subsidiary of the Company) for a term from 1st January, 2005 to 30th November, 2006 at a monthly rent of RMB280,658 exclusive of management fees and utility services charges. | The property is occupied by the Group as an office. | No commercial value |

*Note:*

(i) Opinions of the PRC Lawyer are summarized as follows:

(a) The property is rented under a tenancy agreement entered into between Shanghai Bao An Enterprise Company Limited (上海寶安企業有限公司) and Far Eastern Industries (Shanghai) Limited at a monthly rent of RMB280,658 for a term from 1st January, 2005 to 30th November, 2006.

(b) The tenancy agreement is valid and subsisting.

(c) However, the tenancy agreement is required to be registered at the relevant property administration authorities.

| | Property | Description and Tenure | Particulars of occupancy | Market Value in existing state as at 31st August, 2005 *(HK$)* |
|---|---|---|---|---|
| 8. | Unit 3201A<br>Baoan Building<br>No. 800<br>Dongfang Road<br>Pudong<br>Shanghai<br>The PRC | The property comprises an office unit on the 32nd floor of a 38-storey office tower built upon a 2-level underground car parking. The building was completed in the 1990s.<br><br>The property has a gross floor area of approximately 486.25 sq.m.<br><br>The property is rented from an Independent Third Party by the Far Eastern Industries (Shanghai) Limited (a 100%-owned subsidiary of the Company) for a term from 1st June, 2003 to 30th November, 2006 at a monthly rent of RMB30,615 exclusive of management fees and utility services charges. | The property is occupied by the Group as an office. | No commercial value |

*Note:*

(i) Opinions of the PRC Lawyer are summarized as follows:

(a) The property is rented under a tenancy agreement entered into between Shanghai Bao An Enterprise Company Limited (上海寶安企業有限公司) and Far Eastern Industries (Shanghai) Limited at a monthly rent of RMB30,615 for a term from 1st June, 2003 to 30th November, 2006.

(b) The tenancy agreement is valid and subsisting.

(c) However, the tenancy agreement is required to be registered at the relevant property administration authorities.

| | Property | Description and Tenure | Particulars of occupancy | Market Value in existing state as at 31st August, 2005 *(HK$)* |
|---|---|---|---|---|
| 9. | Units B10B and B25B Jueshi Building No. 29 Xiangcheng Road Pudong Shanghai The PRC | The property comprises two residential units respectively on the 10th and 25th floor of a 30-storey plus a single-storey basement) residential block. The building was completed in the 1990s.<br><br>The two units have a total gross floor area of approximately 302.86 sq.m.<br><br>Both units are rented from an Independent Third Parties by Far Eastern Industries (Shanghai) Limited (a 100%-owned subsidiary of the Company) for a term from 15th December, 2004 to 14th December, 2005 at a monthly rent of RMB13,248 inclusive of management fees but exclusive of utility services charges. | The property is occupied by the Group as staff quarters. | No commercial value |

*Note:*

(i) Opinions of the PRC Lawyer are summarized as follows:

(a) The property is rented under a tenancy agreement entered into between Chen Chao (陳超) and Far Eastern Industries (Shanghai) Limited; and Wu Shuang Lan (吳雙蘭) and Far Eastern Industries (Shanghai) Limited at a monthly rent of RMB6,624 for each unit for a term from 15th December, 2004 to 14th December, 2005.

(b) The tenancy agreements are valid and subsisting.

(c) However, the tenancy agreements are required to be registered at the relevant property administration authorities.

| | Property | Description and Tenure | Particulars of occupancy | Market Value in existing state as at 31st August, 2005 *(HK$)* |
|---|---|---|---|---|
| 10. | Unit 2504<br>No. 2 of 108<br>Shangcheng Road<br>Pudong<br>Shanghai<br>The PRC | The property comprises a residential unit on the 25th floor of a 30-storey (plus a single-storey basement) residential block. The building was completed in the 1990s.<br><br>The property has a gross floor area of approximately 174.20 sq.m.<br><br>The property is rented from an Independent Third Party by Far Eastern Industries (Shanghai) Limited (a 100%-owned subsidiary of the Company) for a term from 1st October, 2004 to 30th September, 2006 at a monthly rent of RMB6,500 inclusive of management fees but exclusive of utility services charges. | The property is occupied by the Group as staff quarters. | No commercial value |

*Note:*

(i) Opinions of the PRC Lawyer are summarized as follows:

(a) The property is rented under a tenancy agreement entered into between Huang Yu Fen (黃郁芬) and Far Eastern Industries (Shanghai) Limited at a monthly rent of RMB6,500 for a term from 1st October, 2004 to 30th September, 2006.

(b) The tenancy agreement is valid and subsisting.

(c) However, the tenancy agreement is required to be registered at the relevant property administration authorities.

| | Property | Description and Tenure | Particulars of occupancy | Market Value in existing state as at 31st August, 2005 *(HK$)* |
|---|---|---|---|---|
| 11. | Unit B7C<br>Jueshi Building<br>No. 29<br>Xiangcheng Road<br>Pudong<br>Shanghai<br>The PRC | The property comprises a residential unit on the 7th floor of a 30-storey (plus a single-storey basement) residential block. The building was completed in the 1990s.<br><br>The property has a gross floor area of approximately 162.09 sq.m.<br><br>The property is rented from an Independent Third Party by Far Eastern Industries (Shanghai) Limited (a 100%-owned subsidiary of the Company) for a term from 9th November, 2004 to 8th November, 2005 at a monthly rent of RMB6,624 inclusive of management fees but exclusive of utility services charges. | The property is occupied by the Group as staff quarters. | No commercial value |

*Note:*

(i) Opinions of the PRC Lawyer are summarized as follows:

(a) The property is rented under a tenancy agreement entered into between Chen Qiang (陳薔) and Far Eastern Industries (Shanghai) Limited at a monthly rent of RMB6,624 for a term from 9th November, 2004 to 8th November, 2005.

(b) The tenancy agreement is valid and subsisting.

(c) However, the tenancy agreement is required to be registered at the relevant property administration authorities.

| | Property | Description and Tenure | Particulars of occupancy | Market Value in existing state as at 31st August, 2005 *(HK$)* |
|---|---|---|---|---|
| 12. | Unit 5A<br>No. 9 of<br>99 Puming Road<br>Pudong<br>Shanghai<br>The PRC | The property comprises a residential unit on the 5th floor of a 25-storey (plus a single-storey basement) residential block. The building was completed in the 1990s.<br><br>The property has a gross floor area of approximately 151 sq.m.<br><br>The property is rented from an Independent Third Party by Far Eastern Industries (Shanghai) Limited (a 100%-owned subsidiary of the Company), for a term from 16th January, 2003 to 15th January, 2006 at a monthly rent of RMB16,560 inclusive of management fees but exclusive of utility services charges. | The property is occupied by the Group as staff quarters. | No commercial value |

*Note:*

(i) Opinions of the PRC Lawyer are summarized as follows:

(a) The property is rented under a tenancy agreement entered into between Huang Jian Ping (王建平) and Far Eastern Industries (Shanghai) Limited at a monthly rent of RMB16,560 for a term from 16th January, 2003 to 15th January, 2006.

(b) The tenancy agreement is valid and subsisting.

(c) However, the tenancy agreement is required to be registered at the relevant property administration authorities.

| | Property | Description and Tenure | Particulars of occupancy | Market Value in existing state as at 31st August, 2005 *(HK$)* |
|---|---|---|---|---|
| 13. | Unit 1701<br>No.11 of<br>333 Songlin Rood<br>Pudong<br>Shanghai<br>The PRC | The property comprises a residential unit on the 17th floor of a 18-storey (plus a single-storey basement) residential block. The building was completed in the 1990s.<br><br>The property has a gross floor area of approximately 158.88 sq.m<br><br>The property is rented from an Independent Third Party by Far Eastern Industries (Shanghai) Limited (a 100%-owned subsidiary of the Company), for a term from 1st September, 2005 to 31st August, 2006 at a monthly rent of RMB9,000 inclusive of management fees but exclusive of utility services charges. | The property is occupied by the Group as staff quarters. | No commercial value |

*Note:*

(i) Opinions of the PRC Lawyer are summarized as follows:

(a) The property is rented under a tenancy agreement entered into between Zhang Hong Xing (張洪星) and Far Eastern Industries (Shanghai) Limited at a monthly rent of RMB9,000 for a term from 1st September, 2005 to 31st August, 2006.

(b) The tenancy agreement is valid and subsisting.

(c) However, the tenancy agreement is required to be registered at the relevant property administration authorities.

| | Property | Description and Tenure | Particulars of occupancy | Market Value in existing state as at 31st August, 2005 *(HK$)* |
|---|---|---|---|---|
| 14. | Unit 3002<br>No.7 of<br>333 Songlin Rood<br>Pudong<br>Shanghai<br>The PRC | The property comprises a residential unit on the 3rd floor of a 18-storey (plus a single-storey basement) residential block. The building was completed in the 1990s.<br><br>The property has a gross floor area of approximately 114.69 sq.m.<br><br>The property is rented from an Independent Third Party by Far Eastern Industries (Shanghai) Limited (a 100%-owned subsidiary of the Company), for a term from 17th January, 2005 to 16th January, 2006 at a monthly rent of RMB7,800 exclusive of management fees and utility services charges. | The property is occupied by the Group as staff quarters. | No commercial value |

*Note:*

(i) Opinions of the PRC Lawyer are summarized as follows:

(a) The property is rented under a tenancy agreement entered into between Zeng Yu Tian (曾玉田) and Far Eastern Industries (Shanghai) Limited at a monthly rent of RMB7,800 for a term from 17th January, 2005 to 16th January, 2006.

(b) The tenancy agreement is valid and subsisting.

(c) However, the tenancy agreement is required to be registered at the relevant property administration authorities.

| | Property | Description and Tenure | Particulars of occupancy | Market Value in existing state as at 31st August, 2005 *(HK$)* |
|---|---|---|---|---|
| 15. | No. 6 of 89 Xingguo Road Xuhui District Shanghai The PRC | The property comprises a 3-storey residential block completed in about 1994.<br><br>The property has a gross floor area of approximately 366 sq.m.<br><br>The property is rented from an Independent Third Party by the Company, for a term from 1st Novemember, 2004 to 31st October, 2005 at a monthly rent of US$2,000 exclusive of management fees and utility services charges. | The property is occupied by the Group as staff quarters. | No commercial value |

*Note:*

(i) Opinions of the PRC Lawyer are summarized as follows:

(a) The property is rented under a tenancy agreement entered into between Huan Shi Resources Company Limited (環世資源有限公司) and Far Eastern Polychem Industries Limited at a monthly rent of US$2,000 for a term from 1st November, 2004 to 31st October, 2005.

(b) The tenancy agreement is valid and subsisting.

(c) However, the tenancy agreement is required to be registered at the relevant property administration authorities.

| | Property | Description and Tenure | Particulars of occupancy | Market Value in existing state as at 31st August, 2005 (HK$) |
|---|---|---|---|---|
| 16. | Unit 20B Block 2 Yangguang Apartment Shishan Xin Yuan Jinshan Road Suzhou New District Suzhou The PRC | The property comprises a residential unit on the 20th floor of a 25-storey (plus a single-storey basement) residential block. The building was completed in the 1990s.<br><br>The property has a gross floor area of approximately 114 sq.m.<br><br>The property is rented from an Independent Third Party by Far Eastern Industries (Suzhou) Limited (a 80%-owned subsidiary of the Company) for terms from 10th August, 2005 to 9th August, 2006 at a total monthly rent of RMB3,500 inclusive of furniture and appliance but exclusive of management fees and utility services charges. | The property is occupied by the Group as staff quarters. | No commercial value |

*Note:*

(i) Opinions of the PRC Lawyer are summarized as follows:

(a) The property is rented under a tenancy agreement entered into between Suzhou Xin Gang Property Management Company Limited (蘇州新港物業管理有限公司) and Far Eastern Industries (Suzhou) Limited at a monthly rent of RMB3,500 for a term from 10th August, 2005 to 9th November, 2005.

(b) The tenancy agreement is valid and subsisting.

(c) However, the tenancy agreement is required to be registered at the relevant property administration authorities.

| | Property | Description and Tenure | Particulars of occupancy | Market Value in existing state as at 31st August, 2005 *(HK$)* |
|---|---|---|---|---|
| 17. | Unit 803<br>Block 2<br>Jingfeng Yuan<br>No.1750<br>Binghe Road<br>Suzhou New District<br>Suzhou<br>The PRC | The property comprises a residential unit on the 8th floor of an 11-storey (plus a single-storey basement) residential block. The building was completed in the 1990s.<br><br>The property has a gross floor area of approximately 145 sq.m.<br><br>The property is rented from an Independent Third Party by Far Eastern Industries (Suzhou) Limited (a 80%-owned subsidiary of the Company), for a term from 1st May, 2005 to 30th April, 2006 at a monthly rent of RMB4,600 exclusive of management fees and utility services charges. | The property is occupied by the Group as staff quarters. | No commercial value |

*Note:*

(i) Opinions of the PRC Lawyer are summarized as follows:

(a) The property is rented under a tenancy agreement entered into between Li De Yu (李德玉) and Far Eastern Industries (Suzhou) Limited at a monthly rent of RMB4,600 for a term from 1st May, 2005 to 30th April, 2006.

(b) The tenancy agreement is valid and subsisting.

(c) However, the tenancy agreement is required to be registeredat the relevant property administration authorities.

| | Property | Description and Tenure | Particulars of occupancy | Market Value in existing state as at 31st August, 2005 *(HK$)* |
|---|---|---|---|---|
| 18. | Unit 204<br>Block 33<br>Shishan Xin Yuan<br>Jinshan Road<br>Suzhou New District<br>Suzhou<br>The PRC | The property comprises a residential unit on the 2nd floor of a 5-storey residential block. The building was completed in 1990s.<br><br>The property has a gross floor area of approximately 99 sq.m.<br><br>The property is rented from an Independent Third Party by Far Eastern Industries (Suzhou) Limited (a 80%-owned subsidiary of the Company), for a term from 1st November, 2004 to 31st October, 2005 at a monthly rent of RMB2,500 exclusive of management fees and utility services charges. | The property is occupied by the Group as staff quarters. | No commercial value |

*Note:*

(i) Opinions of the PRC Lawyer are summarized as follows:

(a) The property is rented under a tenancy agreement entered into between Lin Bin (林彬) and Far Eastern Industries (Suzhou) Limited at a monthly rent of RMB2,500 for a term from 1st November, 2004 to 31st October, 2005.

(b) The tenancy agreement is valid and subsisting.

(c) However, the tenancy agreement is required to be registered at the relevant property administration authorities.

## RESPONSIBILITY STATEMENT

This document, for which the directors of FEPI collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to FEPI. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this document is accurate and complete in all material respects and not misleading; (ii) there are no other matters that the omission of which would make any statement in this document misleading; and (iii) all opinions expressed in this document have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

The directors of YDIC jointly and severally accept full responsibility for the accuracy of the information contained in this document (other than that relating to FEPI and its subsidiaries) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this document have been arrived at after due and careful consideration and there are no other facts not contained in this document, the omission of which would make any statement in this document misleading.

## MARKET PRICES

The Shares are traded on GEM.

The table below shows the respective closing prices of the Shares on GEM (i) on the last trading day of each of the six calendar months preceding the date of the Announcement and ending on the Latest Practicable Date; (ii) on 22nd August, 2005 (being the last full trading day immediately preceding the date of the Announcement); (iii) on the Latest Practicable Date; and (iv) the highest and lowest closing prices of the respective calendar months.

| | **Price per Share (HK$)** | | | |
|---|---|---|---|---|
| *Month* | *Monthly* | | As at | |
| | *Highest* | *Lowest* | | |
| February, 2005 | 1.58 | 1.50 | 28th | 1.53 |
| March, 2005 | 1.56 | 1.50 | 31st | 1.52 |
| April, 2005 | 1.56 | 1.50 | 29th | 1.50 |
| May, 2005 | 1.50 | 1.38 | 31st | 1.41 |
| June, 2005 | 1.46 | 1.35 | 30th | 1.38 |
| July, 2005 | 1.42 | 1.38 | 29th | 1.39 |
| August, 2005 | 2.10 | 1.36 | 31st | 2.10 |
| September, 2005 | 2.125 | 2.075 | 30th | 2.075 |
| 22nd August, 2005 | | | | 1.40 |
| Latest Practicable Date | | | | 2.10 |

The highest and lowest closing prices of the Shares recorded on GEM during the period from 28th February, 2005, being the date six months prior to the date of the Announcement, to the Latest Practicable Date were HK$2.125 on the trading days on 26th September, 2005 and HK$1.35 on the trading days 22nd June, 2005 and 23rd June, 2005, respectively.

## DISCLOSURE OF INTERESTS

For the purpose of this section, the "Offer Period" means the period from 30th August, 2005 to the Latest Practicable Date, both days inclusive, the "Disclosure Period" means the period beginning from the six months prior to the Offer Period and ending with the Latest Practicable Date, both days inclusive, and "interested" and "interests" have the meanings respectively ascribed thereto in the SFO.

(a) **Interests and dealings in the Shares**

(i) As at the Latest Practicable Date, YDIC and parties acting in concert with it were interested in 333,150,800 Shares, representing approximately 81.2% of the issued share capital of FEPI, and save as above, YDIC and parties acting in concert with it did not own or control any Shares, options, warrants, securities convertible into Shares or derivatives of FEPI.

(ii) As at the Latest Practicable Date, none of the Directors had any interest in any Shares, options, warrants, securities convertible into Shares or derivatives of FEPI.

(iii) As at the Latest Practicable Date, no person acting in concert with the Directors or any of them had any interest in any Shares, options, warrants, securities convertible into Shares or derivatives of FEPI.

(iv) Prior to the posting of this document, no holder of Shares had irrevocably committed to accept or reject the Scheme.

(v) The following are the particulars of each of the Shareholders holding 10% or more of the voting rights of FEPI as at the Latest Practicable Date:

| **Shareholder** | **Number of Shares** | **Percentage** *(%)* |
|---|---|---|
| YDIC | 191,870,160 | 46.76% |
| FETL | 46,797,600 | 11.41% |
| EIHL | 69,750,000 | 17.00% |

(vi) As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive in the shares, underlying shares and debentures of FEPI 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 FEPI and the Stock Exchange pursuant to Rule 5.40 of the GEM Listing Rules were as follows:

**Associated Corporation — FETL**

*Long positions in shares of FETL*

| | Number of shares | | | | |
|---|---|---|---|---|---|
| **Name of director** | **Personal interests** | **Family interests** | **Corporate interests** | **Other interests** | **Total** |
| Mr. Shu-Tong Hsu | 75,338,177 | Nil | Nil | Nil | 75,338,177 |
| Mr. Jar-Yi Shih | 2,049,693 | 24,301,364 | Nil | Nil | 26,351,057 |
| Mr. Champion Lee | 175,885 | Nil | Nil | Nil | 175,885 |
| Mr. Chin-Sen Tu | 923 | Nil | Nil | Nil | 923 |
| Mr. Shaw-Y Wang | 303,100 | Nil | Nil | Nil | 303,100 |
| Mr. Lih-Teh Chang | 23,864 | Nil | Nil | Nil | 23,864 |

In aggregate, the above interests represented, as at the Latest Practicable Date, approximately 2.5% of the total issued common shares of FETL.

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 FEPI 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 FEPI and the Stock Exchange pursuant to Rule 5.40 of the GEM Listing Rules.

(vii) None of the Directors nor any person acting in concert with any of the Directors dealt for value in any Shares, options, warrants, securities convertible into Shares or derivatives of FEPI during the Disclosure Period.

(viii) As at the Latest Practicable Date, no option had been granted or agreed to be granted by FEPI and there were no outstanding warrants or convertible securities of FEPI.

(ix) As at the Latest Practicable Date, no pension fund of FEPI or advisers of FEPI owned or controlled any Shares, options, warrants, securities convertible into Shares or derivatives of FEPI or dealt for value in any Shares, options, warrants, securities convertible into Shares or derivatives of FEPI during the Disclosure Period.

(x) As at the Latest Practicable Date, no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code existed between YDIC or any person acting in concert with YDIC and any other person.

(xi) As at the Latest Practicable Date, no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code existed between FEPI or any person acting in concert with FEPI by virtue of classes (1), (2), (3) and (4) of the definition of associate and any person.

(xii) As at the Latest Practicable Date, there was no interest in any Shares which was managed on a discretionary basis by fund managers (other than exempt fund managers) connected with FEPI and no such fund manager dealt for value in any Shares, options, warrants, securities convertible into Shares or derivatives of FEPI during the Disclosure Period.

(b) **Other interests**

(i) No benefit is or will be paid to any Director as compensation for loss of office or otherwise in connection with the Proposal.

(ii) As at the Latest Practicable Date, there was no agreement, arrangement or understanding (including any compensation arrangement) or intention to enter into any agreement, arrangement or understanding (including any compensation arrangement) between YDIC or any person acting in concert with YDIC and any of the Directors, recent Directors, Shareholders or recent Shareholders having any connection with or dependence upon the Scheme.

(iii) No agreement or arrangement exists between any Director and any other person which is conditional on or dependent upon the outcome of the Scheme or otherwise connected with the Scheme.

(iv) No material contract has been entered into by YDIC in which any Director has a material personal interest.

(v) None of the Directors has a service contract in force with any member of the FEPI Group which has more than twelve months to run or which was entered into or amended within six months before the date of the Announcement.

(vi) As at the Latest Practicable Date, there was no agreement, arrangement or understanding or intention to enter into any agreement, arrangement or understanding between YDIC or any person acting in concert with it and any other person for the transfer of the beneficial interests in the Scheme Shares under the Scheme.

**MATERIAL CONTRACTS**

No member of the FEPI Group has, within the two years prior to the Announcement, entered into any contract which is or may be material other than in the ordinary course of the business carried on or intended to be carried on by the FEPI Group.

## MATERIAL LITIGATION

No member of the FEPI Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to any of the Directors to be pending or threatened by or against any member of the FEPI Group.

## EXPERTS

The following are the qualifications of the experts who have given opinions or advice which are contained in this document:

| Name | Qualifications |
|---|---|
| BNP Paribas Peregrine | a licensed corporation to conduct type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO |
| Somerley | a licensed corporation to conduct type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO |
| GCAL | Independent property valuer |

## CONSENTS

Each of BNP Paribas Peregrine, Somerley and GCAL have given and have not withdrawn their respective written consents to the issue of this document with the inclusion therein of their opinions or letters, as the case may be, and the references to their names, opinions or letters in the form and context in which they respectively appear.

## MISCELLANEOUS

(a) The registered office of YDIC is at 34th Floor, Taipei Metro Tower 207, Tun Hwa S. Road, Sec.2 Taipei, Taiwan, R.O.C.

(b) The directors of YDIC are Messrs. Shu-Tong Hsu, Jar-Yi Shih, Champion Lee, Shaw-Y Wang and Chin-Sen Tu.

(c) The registered office of BNP Paribas Peregrine is at 59th-63rd Floors, Two International Finance Centre, 8 Finance Street, Central, Hong Kong.

(d) The registered office of Somerley is at Suite 2201, 22nd Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong.

(e) All costs, charges and expenses of and incidental to the Proposal and the costs of carrying the Scheme into effect shall be borne by FEPI.

## DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the offices of the transaction solicitors, Richards Butler, at 20th Floor, Alexandra House, 16-20 Chater Road, Central, Hong Kong during normal business hours on any weekday (public holidays excepted) until the Effective Date or the date on which the Scheme lapses or is withdrawn, whichever is earlier:

(a) the memorandum and articles of association of FEPI;

(b) the audited consolidated financial statements of FEPI for each of the two years ended 31st December, 2003 and 2004 and the unaudited interim report of FEPI for the six months ended 30th June, 2005;

(c) the letter from the Independent Board Committee, the text of which is set out on pages 12 to 13 of this document;

(d) the letter from Somerley to the Independent Board Committee, the text of which is set out on pages 14 to 38 of this document;

(e) the property valuation report from GCAL, the text of which is set out on pages 101 to 126 of this document;

(f) the letters of consent referred to in this Appendix; and

(g) the facility letter from The Hong Kong Shanghai Banking Corporation Limited for the US$23 million loan facility to finance the Proposal.

# SCHEME OF ARRANGEMENT

IN THE SUPREME COURT OF BERMUDA

CIVIL JURISDICTION

2005: NO. 296

IN THE MATTER OF
FAR EASTERN POLYCHEM INDUSTRIES LIMITED
and
IN THE MATTER OF SECTION 99 OF
THE COMPANIES ACT 1981
SCHEME OF ARRANGEMENT
between
FAR EASTERN POLYCHEM INDUSTRIES LIMITED
and
THE HOLDERS OF THE SCHEME SHARES
(as hereinafter defined)

PRELIMINARY

(A) In this Scheme of Arrangement, unless inconsistent with the subject or context, the following expressions shall bear the following meanings:

"Company" means Far Eastern Polychem Industries Limited, a company incorporated in Bermuda;

"Court" means the Supreme Court of Bermuda;

"Effective Date" means the date on which this Scheme becomes effective in accordance with clause 7 of this Scheme;

"EIHL" means Everest Investment (Holding) Limited, a company incorporated under the laws of Bermuda and a wholly-owned subsidiary of Everest Textile;

"Everest Textile" means Everest Textile Co., Ltd., a company incorporated in Taiwan, the shares of which are listed on the Taiwan Stock Exchange and owned as to approximately 23.74% by YDIC (the single largest shareholder of Everest Textile) and approximately 0.03% by FETL;

"Far Eastern Group" means FETL and its subsidiaries from time to time;

"FETL" means Far Eastern Textile Ltd, a company incorporated in Taiwan, the shares of which are listed on the Taiwan Stock Exchange;

"HK$" means Hong Kong dollars;

"Latest Practicable Date" means 4th October, 2005, being the latest practicable date prior to printing of the document sent to, inter alia, holders of Shares in which this Scheme is contained;

"Record Date" means 18th November, 2005, or such other date as shall have been announced to the Shareholders, the record date for determining entitlements under the Scheme;

"Register" means the register of members of the Company;

"Scheme" means this scheme of arrangement in its present form or with or subject to any modification or addition or condition which the Court may approve or impose;

"Scheme Shares" means the Shares in issue as at the Record Date which are not beneficially owned by YDIC, EIHL and FETL;

"Shareholder" means a registered holder of Shares;

"Shares" means ordinary shares of HK$1.00 each in the capital of the Company; and

"YDIC" means Yuang Ding Investment Corporation, also known as Yuang Ding Investment Co., Ltd., a 99.9% owned subsidiary of FETL incorporated in Taiwan and a member of the Far Eastern Group.

(B) The Company was incorporated on 13th April, 1995, in Bermuda under the Companies Act 1981 of Bermuda with an authorised share capital of US$12,000 divided into 1,200 shares of US$10.00 and as of the Latest Practicable Date had an authorised share capital of HK$1,500,000,000 divided into 1,500,000,000 Shares which 410,296,000 Shares have been issued and are fully paid or credited as fully paid.

(C) On the Latest Practicable Date, YDIC, FETL and EIHL beneficially owned an aggregate of 308,417,760 Shares, all credited as fully paid. YDIC, FETL and EIHL have undertaken that in relation to such Shares in which it is beneficially interested, each will remain so beneficially interested until the date on which the Scheme becomes effective, is withdrawn or lapsed.

(D) On the Effective Date, all the Scheme Shares in issue on the Record Date will be cancelled and extinguished.

(E) In consideration of and exchange for the cancellation and extinguishment of each of the Scheme Shares, all holders of Scheme Shares will be entitled to receive HK$2.20 in cash for every Scheme Share held.

(F) YDIC, FETL and EIHL have agreed to appear by Counsel at the hearing of the petition to sanction this Scheme and to undertake to the Court to be bound thereby and to execute and do and procure to be executed and done all such documents, acts and things as may be necessary or desirable to be executed and done by them for the purpose of giving effect to this Scheme.

(G) The primary purpose of this Scheme is that the holders of Scheme Shares should receive cash, in consideration of the cancellation and extinguishment of the Scheme Shares, on the basis of HK$2.20 in cash for every Scheme Share held by them and that the Company should become owned by YDIC, FETL and EIHL as to 62.21%, 15.17% and 22.62% respectively.

## The Scheme

**Part I — Cancellation and extinguishment of the Scheme Shares**

1. (a) On the Effective Date, the issued share capital of the Company shall be reduced by cancelling and extinguishing the Scheme Shares.

   (b) The Company shall apply the amount of the credit arising in its books of account as a result of the reduction of its share capital referred to in paragraph (a) above to a reserve account in the books of account of the Company.

**Part II — Consideration for cancellation of the Scheme Shares**

2. In consideration of the cancellation of the Scheme Shares pursuant to paragraph 1(a) of this Scheme, the Company will pay to each Scheme Shareholder, as appearing in the Register at 4:00 p.m. (Hong Kong time) on the Record Date, HK$2.20 in cash for every Scheme Share held.

**Part III — General**

3. As from the Effective Date, all certificates representing the Scheme Shares shall cease to have effect as documents or evidence of title and every holder thereof shall be bound on the request of the Company to deliver up to the Company the certificates for his or her existing holding.

4. (a) Not later than ten days after the Effective Date, the Company shall send or cause to be sent to the Scheme Shareholders (as appearing in the Register at 4:00 p.m. (Hong Kong time) on the Record Date) cheques in respect of the sums payable to such Scheme Shareholders.

   (b) Unless indicated otherwise in writing to the branch share registrar of the Company in Hong Kong, all such cheques and certificates shall be sent through the post (by airmail where appropriate) in pre-paid envelopes addressed to such Scheme Shareholders as follows:

      (i) In the case of each sole Scheme Shareholder, to the registered address of such Scheme Shareholders as appearing in the Register as at 4:00 p.m. (Hong Kong time) on the Record Date; or

      (ii) In the case of joint Scheme Shareholders, the registered address as appearing in the Register as at 4:00 p.m. (Hong Kong time) on the Record Date of the joint Scheme Shareholder whose name then stands first in the Register in respect of the relevant joint holding.

   (c) All cheques shall be made payable to the order of the person or persons to whom, in accordance with the provisions of Clause 4(b) of this Scheme, the envelope containing the same is addressed and the encashment of any such cheque shall be a good discharge to the Company for the moneys expressed to be represented thereby.

   (d) All cheques shall be posted at the risk of the addressee and other persons entitled thereto and the Company shall not be liable for any loss or delay in transmission.

(e) On or after the day being six calendar months after the posting of the cheques pursuant to paragraph 4(b) of this Scheme, the Company shall have the right to cancel or countermand payment of any such cheque which has not then been cashed or has been returned uncashed, and shall place all monies represented thereby in a deposit account in the Company's name with a licensed bank in Hong Kong selected by the Company. The Company shall hold such monies until the expiry of six years from the Effective Date and shall prior to such date make payments thereout of the sums payable pursuant to paragraph 2 of this Scheme to persons who satisfy the Company that they are respectively entitled thereto, provided that the cheques referred to in paragraph 4(b) of this Scheme of which they are payees have not been cashed. Any payments made by the Company hereunder shall include any interest accrued on the sums to which the respective persons are entitled pursuant to paragraph 2 of this Scheme, calculated at the annual rate prevailing from time to time at the licensed bank in which the monies are deposited, subject, if applicable, to the deduction of interest tax or any withholding or other tax or any other deduction required by law. The Company shall exercise its absolute discretion in determining whether or not it is satisfied that any person is so entitled, and a certificate of the Company to the effect that any particular person is so entitled or not so entitled, as the case may be, shall be conclusive and binding upon all persons claiming an interest in the relevant monies.

(f) On the expiry of six years from the Effective Date, the Company shall be released from any further obligation to make any payments under this Scheme and the Company shall thereafter retain the balance (if any) of the sums standing to the credit of the deposit account referred to in paragraph 4(e) of this Scheme including accrued interest subject, if applicable, to the deduction of interest tax or any withholding or other tax or any other deduction required by law and subject to the deduction of any expenses.

(g) The preceding sub-paragraphs of this paragraph 4 shall take effect subject to any prohibition or condition imposed by law.

5. Each instrument of transfer and certificate validly subsisting at the Record Date in respect of a transfer or holding of any number of Scheme Shares shall, as from the Effective Date, cease to be valid for any purpose as an instrument of transfer or a certificate for Shares and every Scheme Shareholder thereof shall be bound, on the request of the Company, to deliver up to the Company the certificate(s) for its, his or her existing holding.

6. All mandates or other instructions to the Company in force at the opening of business in Hong Kong on the Effective Date in relation to the Scheme Shares (including elections for the payment of dividends by way of scrip) shall cease to be valid as effective mandates or instructions.

7. This Scheme shall become effective as soon as a copy of the Order of the Court sanctioning this Scheme under section 99 of the Companies Act shall have been duly registered by the Registrar of Companies in Bermuda.

8. The Company may jointly consent for and on behalf of all concerned to any modification(s) of or addition(s) to this Scheme or to any condition(s) which the Court may see fit to approve or impose.

Dated 6th October, 2005

# NOTICE OF COURT MEETING

**IN THE SUPREME COURT OF BERMUDA**

**CIVIL JURISDICTION**
**2005: NO. 296**

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**IN THE MATTER OF**
**FAR EASTERN POLYCHEM INDUSTRIES LIMITED**
**and**
**IN THE MATTER OF**

**The Companies Act 1981, Section 99**

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**Notice of Meeting**

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**NOTICE IS HEREBY GIVEN** that, by an Order dated 29th September, 2005 ("Order") made in the above matter, the Court has directed to convene a meeting of the holders of the Scheme Shares (as defined in the Scheme of Arrangement hereinafter mentioned), for the purpose of considering and, if thought fit, approving (with or without modification(s)) a Scheme of Arrangement proposed to be made between the above-named company (the "Company") and the holders of Scheme Shares and that such meeting will be held at the Bamboo Peacock Room, 1st Floor, Mandarin Oriental Hotel, 5 Connaught Road, Central, Hong Kong on 31st October, 2005 at 10:30 a.m. at which place and time all the holders of the Scheme Shares are requested to attend.

A copy of the said Scheme of Arrangement and a copy of the Explanatory Statement required to be furnished pursuant to Section 100 of the above mentioned Act are incorporated in the printed document dispatched to the holders of Scheme Shares (the "Document") of which a copy of this Notice forms part. The Document containing, amongst others, the Scheme and the Explanatory Statement can also be obtained from the principal offices of the Company in Hong Kong during normal working hours.

The said holders of the Scheme Shares may vote in person at the said meeting or they may appoint another person(s) whether member(s) of the Company or not, as their proxies to attend and vote in their stead. A pink form of proxy for use at the meeting is enclosed with the Document.

In the case of joint holders, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the vote(s) of the other joint holder(s), and for this purpose seniority will be determined by the order in which the names stand in the register of members of the Company in respect of the relevant joint shareholding.

It is requested that forms appointing proxies be lodged with Computershare Hong Kong Investor Services Limited, the branch share registrar and transfer office of the Company, at 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 48 hours before the time appointed for the said meeting, but if the forms are not so lodged they may be handed to the chairman of the meeting at the meeting. Completion and return of the form of proxy shall not preclude the holder of the Scheme Shares from attending and voting in person at the Meeting and, in such event, the form of proxy shall be deemed to be revoked.

By the Order the Court has appointed Mr. Hsu Shu-Tong, a Director of the Company, or failing him, Mr. Shih Jar-Yi, also a Director of the Company, or failing him, any other person who is a Director of the Company as at the date of the Order to act as Chairman of the said meeting and has directed the Chairman to report the result thereof to the Court.

The said Scheme of Arrangement will be subject to the subsequent approval of the Court and to the satisfaction of the Proposal (as defined in the Scheme of Arrangement) set out in the Explanatory Statement.

Dated this 6th day of October, 2005

**CONYERS DILL & PEARMAN**
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda
Attorneys for the Company

Far Eastern
Polychem
Industries
Limited

遠東化聚工業股份有限公司*

**Far Eastern Polychem Industries Limited**

*(incorporated in Bermuda with limited liability)*

**(Stock Code: 8012)**

**NOTICE IS HEREBY GIVEN** that a special general meeting of Far Eastern Polychem Industries Limited ("FEPI") will be held at the Bamboo Peacock Room, 1st Floor, Mandarin Oriental Hotel, 5 Connaught Road, Central, Hong Kong on 31st October, 2005 at 11:00 a.m. (or as soon thereafter as the Court Meeting (as defined in the scheme of arrangement hereinafter mentioned) convened for the same day and place shall have been concluded or adjourned), for the purpose of considering and, if thought fit, passing the following resolution which will be proposed as a special resolution:

**SPECIAL RESOLUTION**

"**THAT:**

(A) the proposed scheme of arrangement (the "Scheme") between Far Eastern Polychem Industries Limited ("FEPI") and the holders of the Scheme Shares (as defined in the Scheme) which has been produced to this meeting and for the purposes of identification, signed by the chairman of this meeting, subject to any modifications, additions or conditions as may be approved or imposed by the Supreme Court of Bermuda, be and is hereby approved;

(B) for the purposes of giving effect to the Scheme, on the Effective Date (as defined in the Scheme):

(i) the issued share capital of FEPI shall be reduced by cancelling and extinguishing the Scheme Shares;

(ii) FEPI shall apply the credit arising in its books of account as a result of the said reduction of share capital to a reserve account in the books of account of FEPI;

(C) subject to the Scheme taking effect, the directors of FEPI be and are hereby authorised to make application to The Stock Exchange of Hong Kong Limited (hereinafter called the "Stock Exchange") for withdrawal of the listing of FEPI's shares on GEM; and

(D) the directors of FEPI be and are hereby authorised to do all other acts and things as considered by them to be necessary or desirable in connection with the implementation of the Scheme, including (without limitation) the giving of consent to any modifications of, or additions to, the Scheme, which the Supreme Court of Bermuda may see fit to impose and to do all other acts and things as considered by them to be necessary or desirable in connection with the

* *For identification purposes only*

implementation of the Proposal (as defined in the document sent to the holders of Scheme Shares (the "Document") of which the notice of this resolution forms part)."

By order of the Board
**Champion Lee, Chin-Sen Tu**
*Director*

Hong Kong, 6th October, 2005

Principal place of business in Hong Kong:
Unit A, 11th Floor
Lippo Leighton Tower
103-109 Leighton Road
Causeway Bay
Hong Kong

**Notes:**

1. A white form of proxy for use at this meeting is enclosed herewith.

2. A member of FEPI entitled to attend and vote at this meeting is entitled to appoint one or more proxies (who must be an individual) to attend and vote instead of him/her. A proxy need not be a member of FEPI.

3. In order to be valid, the white form of proxy together with any power of attorney or other authority (if any) under which it is signed, or notarially certified copy of such power of attorney, must be deposited with Computershare Hong Kong Investor Services Limited, the branch share registrar and transfer office of FEPI, at 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not less than 48 hours before the time appointed for holding this meeting or any adjournment thereof.

4. Completion and return of the form of proxy shall not preclude a member from attending and voting in person at this meeting and, in such event, the form of proxy shall be deemed to be revoked.

5. Where there are joint holders of any share in FEPI, any one of such joint holders may vote at this meeting, either personally or by proxy, in respect of such share as if he/she were solely entitled thereto; but if more than one of such joint holders are present at this meeting personally or by proxy, the most senior shall alone be entitled to vote in respect of the relevant joint holding and, for this purpose, seniority shall be determined by reference to the order in which the names of the joint holders stand on the register of members of FEPI in respect of the relevant joint holding.