



## **FAR EASTERN POLYCHEM INDUSTRIES LIMITED**

**(遠東化聚工業股份有限公司)\***

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 8012)**

### **QUARTERLY RESULTS FOR THE NINE MONTHS ENDED 30TH SEPTEMBER 2005**

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## QUARTERLY RESULTS HIGHLIGHTS

- Far Eastern Polychem Industries Limited (the “Company”) and its subsidiaries (together the “Group”) are principally engaged in the production and distribution of four major categories of polyester products, namely bottle-grade polyethylene terephthalate (“PET”) chips, polyester filaments and polyester staple fibers, and the dyeing and finishing of polyester fabrics in the People’s Republic of China (the “PRC”).
- The Group achieved a turnover of approximately HK\$2,224 million for the nine months ended 30th September 2005, representing an increase of 14%, as compared to the corresponding nine-months period ended 30th September 2004.
- Due to the surge in petrochemical raw materials price and the imbalance between demand and supply within the PRC’s domestic polyester industry, the loss attributable to shareholders was approximately HK\$170 million, for the nine months ended 30th September 2005 while the profit attributable to shareholders was approximately HK\$22.6 million for the corresponding nine months period ended 30th September 2004.
- Loss per share for the nine months ended 30th September 2005 was HK\$0.42 per share while the earnings per share for the corresponding nine months period ended 30th September 2004 was HK\$0.06 per share.
- The proposal regarding the proposed privatisation of the Company (the “Proposed Privatisation”) by way of a scheme of arrangement (the “Scheme”) under section 99 of the Company Act 1981 of Bermuda had been approved by the eligible shareholders at the court meeting and special general meeting held respectively on 31st October 2005. Subject to a number of conditions (as disclosed on page 40 of the scheme document dated 6th October 2005 (the “Scheme Document”)) being fulfilled or waived, as applicable, the Scheme is expected to become effective on 18th November 2005. The Scheme will lapse if it does not become effective on or before 31st March 2006 or such later date as Yuang Ding Investment Corporation (“YDIC”) and the Company may agree or as the Bermuda court may direct and the shareholders will be notified accordingly by further announcement. Details of the Proposed Privatisation and the Scheme are set out in the Scheme Document despatched to the shareholders of the Company.

## QUARTERLY FINANCIAL STATEMENTS (UNAUDITED)

The directors of the Company (the “Directors”) have the pleasure of presenting the unaudited consolidated financial statements of the Group for the nine months ended 30th September 2005 and, for comparison purposes, the audited consolidated balance sheet as at 31st December 2004 and figures for the corresponding nine-months period ended 30th September 2004 in respect of the unaudited consolidated income statement, statement of changes in shareholders’ equity and cash flow statement as follows:

### (a) Consolidated balance sheet

|   | <i>Note</i> | <b>As at 30th<br/>September<br/>2005</b><br><i>HK\$’000</i><br><i>(Unaudited)</i> | <b>As at 31st<br/>December<br/>2004</b><br><i>HK\$’000</i><br><i>(Audited)</i> |
|---|-------------|---|--|
| <b>Non-current assets</b>                   |             |   |  |
| Investment in an associate                  |             | 77,164  | 80,694   |
| Available-for-sale investments              |             | 3,009   | 3,009  |
| Property, plant and equipment               |             | 2,164,768   | 1,742,616  |
| Land use rights                             |             | 164,722   | 136,199  |
| Deferred assets                             |             | 7,385   | 5,712  |
| Other non-current assets                    |             | <u>106</u>  | <u>300</u>   |
|   |             | <u>2,417,154</u>  | <u>1,968,530</u>   |
| <b>Current assets</b>                       |             |   |  |
| Inventories                                 |             | 611,440   | 663,968  |
| Deposits, prepayments and other receivables |             | 73,524  | 35,944   |
| Trade and notes receivables                 | 3           | 414,786   | 406,350  |
| Tax recoverable                             |             | 22,016  | 7,466  |
| Cash and bank deposits                      |             | <u>450,242</u>  | <u>323,050</u>   |
|   |             | <u>1,572,008</u>  | <u>1,436,778</u>   |
| <b>Current liabilities</b>                  |             |   |  |
| Trade payables                              | 4           | 536,963   | 561,422  |
| Other payables and accruals                 |             | 76,220  | 79,665   |
| Tax payable                                 |             | 200   | 74   |
| Short-term bank loans                       |             | 673,242   | 295,645  |
| Long-term bank loans, current portion       |             | <u>489,400</u>  | <u>343,023</u>   |
|   |             | <u>1,776,025</u>  | <u>1,279,829</u>   |
| <b>Net current (liabilities) asset</b>      |             | <u>(204,017)</u>  | <u>156,949</u>   |

|  | <b>As at 30th<br/>September<br/>2005</b> | <b>As at 31st<br/>December<br/>2004</b> |
|--|--|---|
| <i>Note</i>                                  | <i>HK\$'000</i><br><i>(Unaudited)</i>    | <i>HK\$'000</i><br><i>(Audited)</i>     |
| <b>Total assets less current liabilities</b> | <u>2,213,137</u>                         | <u>2,125,479</u>                        |
| <b>Non-current liabilities</b>               |  |   |
| Long-term bank loans, non-current portion    | 1,047,811                                | 776,765                                 |
| Deferred tax liabilities                     | <u>3,394</u>                             | <u>3,394</u>                            |
| Total non-current liabilities                | <u>1,051,205</u>                         | <u>780,159</u>                          |
| Minority interest                            | <u>39,290</u>                            | <u>39,316</u>                           |
| <b>Net assets</b>                            | <u><u>1,122,642</u></u>                  | <u><u>1,306,004</u></u>                 |
| <b>Represented by:</b>                       |  |   |
| Share capital                                | 410,296                                  | 410,296                                 |
| Reserves                                     | <u>712,346</u>                           | <u>895,708</u>                          |
|  | <u><u>1,122,642</u></u>                  | <u><u>1,306,004</u></u>                 |

(b) Unaudited consolidated income statement

|   | <i>Note</i> | For the<br>nine months ended<br>30th September |   | For the<br>three months ended<br>30th September |   |
|---|-------------|--|---|---|---|
|   |             | 2005<br><i>HK\$'000</i><br><i>(unaudited)</i>  | 2004<br><i>HK\$'000</i><br><i>(unaudited)</i> | 2005<br><i>HK\$'000</i><br><i>(unaudited)</i>   | 2004<br><i>HK\$'000</i><br><i>(unaudited)</i> |
| PET chips   |             | 1,358,699                                      | 1,198,333                                     | 502,625   | 408,039                                       |
| Polyester filaments                                   |             | 184,040  | 173,076                                       | 67,804  | 55,083  |
| Polyester staple fibers                               |             | 420,559  | 326,102                                       | 156,757   | 136,811                                       |
| Finished fabrics                                      |             | 258,502  | 248,365                                       | 78,718  | 79,035  |
| Others  |             | <u>1,819</u>                                   | <u>748</u>                                    | <u>897</u>                                      | <u>748</u>                                    |
| Total sales, net                                      |             | 2,223,619                                      | 1,946,624                                     | 806,801   | 679,716                                       |
| Cost of sales   |             | <u>(2,228,815)</u>                             | <u>(1,801,116)</u>                            | <u>(815,486)</u>                                | <u>(642,685)</u>                              |
| <b>Gross (loss) profit</b>                            |             | (5,196)  | 145,508                                       | (8,685)   | 37,031  |
| Other operating income                                | 5           | 15,940   | 13,044  | 5,589   | 4,705   |
| Distribution costs                                    |             | (96,343)                                       | (66,259)                                      | (44,543)  | (24,357)                                      |
| Administrative expenses                               |             | <u>(53,775)</u>                                | <u>(45,467)</u>                               | <u>(18,922)</u>                                 | <u>(15,357)</u>                               |
| <b>(Loss) profit from operations</b>                  | 6           | (139,374)                                      | 46,826  | (66,561)  | 2,022   |
| Finance costs, net                                    | 7           | (27,419)                                       | (17,405)                                      | (1,131)   | (4,749)                                       |
| Share of result of an associate<br>before tax         |             | <u>(3,530)</u>                                 | <u>(2,434)</u>                                | <u>(801)</u>                                    | <u>(1,092)</u>                                |
| <b>(Loss) profit before tax</b>                       |             | (170,323)                                      | 26,987  | (68,493)  | (3,819)                                       |
| Income tax expense                                    | 8           | <u>(16)</u>                                    | <u>(4,501)</u>                                | <u>(16)</u>                                     | <u>(273)</u>                                  |
| <b>(Loss) profit before<br/>minority interest</b>     |             | (170,339)                                      | 22,486  | (68,509)  | (4,092)                                       |
| Minority interest                                     |             | <u>35</u>                                      | <u>104</u>                                    | <u>(4)</u>                                      | <u>70</u>                                     |
| <b>(Loss) profit attributable<br/>to shareholders</b> |             | <u>(170,304)</u>                               | <u>22,590</u>                                 | <u>(68,513)</u>                                 | <u>(4,022)</u>                                |
| Basic (loss) earnings per share                       | 9(a)        | <u>HK\$(0.42)</u>                              | <u>HK\$0.06</u>                               | <u>HK\$(0.17)</u>                               | <u>HK\$(0.01)</u>                             |
| Diluted (loss) earnings<br>per share                  | 9(b)        | <u>N/A</u>                                     | <u>N/A</u>                                    | <u>N/A</u>                                      | <u>N/A</u>                                    |

(c) **Unaudited consolidated statement of changes in shareholders' equity**

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

|  | Share<br>capital<br>\$'000 | Share<br>premium<br>\$'000 | Statutory<br>reserve<br>fund<br>\$'000 | Revaluation<br>reserve<br>\$'000 | Cumulative<br>translation<br>adjustments<br>\$'000 | Retained<br>earnings<br>\$'000 | Total<br>reserve<br>\$'000 | Total<br>equity<br>\$'000 |
|--|----------------------------|----------------------------|--|----------------------------------|--|--------------------------------|----------------------------|---------------------------|
| Balance as at 1st<br>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)                  |
| Translation adjustments  | —                          | —                          | —                                      | —                                | (125)  | —                              | (125)                      | (125)                     |
| Profit for the nine<br>months ended 30th<br>September 2004                 | —                          | —                          | —                                      | —                                | —  | 22,590                         | 22,590                     | 22,590                    |
| Balance as at 30th<br>September 2004                                       | 410,296                    | 523,001                    | 108,330                                | 5,645                            | 2,078  | 236,933                        | 875,987                    | 1,286,283                 |
| Surplus on revaluation<br>of buildings                                     | —                          | —                          | —                                      | 15,299                           | —  | —                              | 15,299                     | 15,299                    |
| Realisation of<br>revaluation reserve<br>due to additional<br>depreciation | —                          | —                          | —                                      | (1,411)                          | —  | 1,411                          | —                          | —                         |
| Profit for the three<br>months ended 31st<br>December 2004                 | —                          | —                          | —                                      | —                                | —  | 5,070                          | 5,070                      | 5,070                     |
| Translation adjustments  | —                          | —                          | —                                      | —                                | (648)  | —                              | (648)                      | (648)                     |
| Balance as at 31st<br>December 2004  | <u>410,296</u>             | <u>523,001</u>             | <u>108,330</u>                         | <u>19,533</u>                    | <u>1,430</u>                                       | <u>243,414</u>                 | <u>895,708</u>             | <u>1,306,004</u>          |

**For the nine months ended 30th September 2005:**

|  | Share<br>capital<br>\$'000 | Share<br>premium<br>\$'000 | Statutory<br>reserve<br>fund<br>\$'000 | Revaluation<br>reserve<br>\$'000 | Cumulative<br>translation<br>adjustments<br>\$'000 | Retained<br>earnings<br>\$'000 | Total<br>reserve<br>\$'000 | Total<br>equity<br>\$'000 |
|--|----------------------------|----------------------------|--|----------------------------------|--|--------------------------------|----------------------------|---------------------------|
| Balance as at 1st<br>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 nine<br>months ended 30th<br>September 2005 | —                          | —                          | —                                      | —                                | —  | (170,304)                      | (170,304)                  | (170,304)                 |
| Translation adjustments                                  | —                          | —                          | —                                      | —                                | 27,971   | —                              | 27,971                     | 27,971                    |
| Balance as at 30th<br>September 2005                     | <u>410,296</u>             | <u>523,001</u>             | <u>108,330</u>                         | <u>19,533</u>                    | <u>29,401</u>                                      | <u>32,081</u>                  | <u>712,346</u>             | <u>1,122,642</u>          |

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

|  | <b>For the<br/>nine months ended<br/>30th September</b> |                 |
|--|---|-----------------|
|  | <b>2005</b>   | <b>2004</b>     |
|  | <i>HK\$'000</i>   | <i>HK\$'000</i> |
| <b>CASH FLOW FROM OPERATING ACTIVITIES</b>         |   |                 |
| Cash generated used in operations                  | (33,100)  | (2,427)         |
| Interest paid                                      | (57,990)  | (18,051)        |
| Income tax paid                                    | <u>(16)</u>   | <u>(6,566)</u>  |
| Net cash used in operating activities              | (91,106)  | (27,044)        |
| <b>CASH FLOW FROM INVESTING ACTIVITIES</b>         |   |                 |
| Purchase of fixed assets                           | (482,154)   | (197,082)       |
| Purchase of land use right                         | (27,865)  | —               |
| Purchase of deferred assets                        | (2,448)   | —               |
| Interest received                                  | 2,286   | 2,242           |
| Decrease (increase) in other non-current assets    | 195   | (310)           |
| Decrease in amount due from a related Company      | <u>—</u>  | <u>19,500</u>   |
| Net cash used in investing activities              | (509,986)   | (175,650)       |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>        |   |                 |
| Proceeds from short-term bank loans                | 482,639   | 268,736         |
| Proceeds from long-term bank loans                 | 584,480   | 399,000         |
| Repayments of short-term bank loans                | (106,337)   | (197,939)       |
| Repayments of long-term bank loans                 | (194,819)   | (94,000)        |
| Dividend paid                                      | (41,029)  | (41,030)        |
| Cash contributed by minority interests             | <u>—</u>  | <u>39,000</u>   |
| Net cash from financing activities                 | <u>724,934</u>  | <u>373,767</u>  |
| Net increase in cash and cash equivalents          | 123,842   | 171,073         |
| Effect of foreign exchange rate changes            | 3,350   | (125)           |
| Cash and cash equivalents, beginning of the period | <u>323,050</u>  | <u>190,912</u>  |
| Cash and cash equivalents, end of the period       | <u>450,242</u>  | <u>361,860</u>  |

(e) **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 policies 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 nine months ended 30th September 2005, additions to fixed assets amounted to approximately HK\$503,245,000 (2004: HK\$199,130,000).

3) ***Trade and note receivables***

|                                    | <b>As at<br/>30th September<br/>2005<br/>HK\$’000<br/>(Unaudited)</b> | <b>As at<br/>31st December<br/>2004<br/>HK\$’000<br/>(Audited)</b> |
|------------------------------------|---|--|
| Trade receivables                  |   |  |
| Current to 30 days                 | 147,533   | 109,527  |
| 31 to 60 days                      | 90,392  | 105,070  |
| 61 to 90 days                      | 48,807  | 49,717   |
| Over 90 days                       | <u>40,662</u>   | <u>27,766</u>  |
|                                    | 327,394   | 292,080  |
| Less: provision for doubtful debts | <u>(4,734)</u>  | <u>(4,224)</u>   |
|                                    | 322,660   | 287,856  |
| Notes receivable                   | <u>92,126</u>   | <u>118,494</u>   |
|                                    | <u><u>414,786</u></u>   | <u><u>406,350</u></u>  |

***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*

|                       | <b>As at<br/>30th September<br/>2005</b> | <b>As at<br/>31st December<br/>2004</b> |
|-----------------------|--|---|
|                       | <i>HK\$'000</i>                          | <i>HK\$'000</i>                         |
|                       | <i>(Unaudited)</i>                       | <i>(Audited)</i>                        |
| <b>Trade payables</b> |  |   |
| Current to 30 days    | 242,291                                  | 224,155                                 |
| 31 to 90 days         | 254,633                                  | 274,597                                 |
| Over 90 days          | <u>21,585</u>                            | <u>62,670</u>                           |
|                       | 518,509                                  | 561,422                                 |
| Notes payables        | <u>18,454</u>                            | <u>—</u>                                |
|                       | <u><u>536,963</u></u>                    | <u><u>561,422</u></u>                   |

#### 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:

|  | <b>For the nine months<br/>30th September</b> |                    |
|--|---|--------------------|
|  | <b>2005</b>                                   | <b>2004</b>        |
|  | <i>HK\$'000</i>                               | <i>HK\$'000</i>    |
|  | <i>(Unaudited)</i>                            | <i>(Unaudited)</i> |
| Cost of inventories recognised as expense<br>(included in 'Cost of sales') | 2,046,630                                     | 1,659,312          |
| Staff costs  |   |                    |
| — wages and salaries   | 56,566  | 43,210             |
| — pension costs (defined contribution plan)                                | 3,816   | 3,554              |
| — other staff welfare costs  | 13,120  | 10,202             |
| Depreciation on property, plant and equipment                              | 125,518                                       | 110,599            |
| Amortisation of land use rights<br>(included in 'Administrative expenses') | 2,774   | 2,091              |
| Amortisation of deferred assets (included in 'Cost of sales')              | 930   | 1,028              |
| Operating lease rentals on property  | 4,897   | 3,013              |
| Write down bad and doubtful debts<br>(included in administrative expense)  | <u>510</u>                                    | <u>556</u>         |

7) *Finance costs, net*

|  | <b>For the nine months<br/>ended 30th September</b> |                      |
|--|---|----------------------|
|  | <b>2005</b>   | <b>2004</b>          |
|  | <i>HK\$'000</i>                                     | <i>HK\$'000</i>      |
|  | <i>(Unaudited)</i>                                  | <i>(Unaudited)</i>   |
| Interest expenses on bank loans wholly repayable within five years | 54,134  | 18,051               |
| Less: amount capitalised as construction-in-progress               | (21,093)  | (2,048)              |
| Interest income  | (2,286)   | (2,242)              |
| Net foreign currency exchange (gain) loss                          | (8,260)   | 2,172                |
| Other financial expenses   | <u>4,924</u>  | <u>1,472</u>         |
|  | <u><u>27,419</u></u>                                | <u><u>17,405</u></u> |

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.

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:

|                              | <b>For the nine months<br/>ended 30th September</b> |                     |
|------------------------------|---|---------------------|
|                              | <b>2005</b>   | <b>2004</b>         |
|                              | <i>\$'000</i>                                       | <i>\$'000</i>       |
|                              | <i>(Unaudited)</i>                                  | <i>(Unaudited)</i>  |
| Current tax — PRC taxation   | 16  | 4,501               |
| Share of tax of an associate | <u>—</u>  | <u>—</u>            |
| Taxation charge              | <u><u>16</u></u>                                    | <u><u>4,501</u></u> |

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.

|  | <b>For the nine months<br/>ended 30th September</b> |                    |
|--|---|--------------------|
|  | <b>2005</b>   | <b>2004</b>        |
|  | \$'000  | \$'000             |
|  | <i>(Unaudited)</i>                                  | <i>(Unaudited)</i> |
| (Loss) profit attributable to shareholders (\$'000)        | (170,304)   | 22,590             |
| Weighted average number of ordinary shares in issue ('000) | 410,296   | 410,296            |
| Basic (loss) earnings per share (\$ per share)             | <u>(0.42)</u>                                       | <u>0.06</u>        |

(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<br>Finishing SBU |         | Others |        | Consolidated     |                 |
|--|--|-----------|--------------|---------|-----------|---------|-----------------------------|---------|--------|--------|------------------|-----------------|
|  | For the nine months ended 30th September |           |              |         |           |         |                             |         |        |        |                  |                 |
|  | 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                                   | 1,358,699                                | 1,198,333 | 184,040      | 173,076 | 420,559   | 326,102 | 258,502                     | 284,365 | 1,819  | 748    | 2,223,619        | 1,946,624       |
| Segment result                               | 27,751                                   | 116,674   | (16,927)     | (1,456) | (34,874)  | (3,435) | 17,214                      | 32,977  | 1,640  | 748    | (5,196)          | 145,508         |
| Unallocated corporate expenses               |  |           |              |         |           |         |                             |         |        |        | <u>(134,178)</u> | <u>(98,682)</u> |
| (Loss) profit from operations                |  |           |              |         |           |         |                             |         |        |        | (139,374)        | 46,826          |
| Finance costs, net                           |  |           |              |         |           |         |                             |         |        |        | (27,419)         | (17,405)        |
| Share of result of an associate before tax   |  |           |              |         |           |         |                             |         |        |        | <u>(3,530)</u>   | <u>(2,434)</u>  |
| (Loss) profit before tax                     |  |           |              |         |           |         |                             |         |        |        | (170,323)        | 26,987          |
| Income tax expense                           |  |           |              |         |           |         |                             |         |        |        | <u>(16)</u>      | <u>(4,501)</u>  |
| Group (loss) profit before minority interest |  |           |              |         |           |         |                             |         |        |        | (170,339)        | 22,486          |
| Minority interest                            |  |           |              |         |           |         |                             |         |        |        | <u>35</u>        | <u>104</u>      |
| (Loss) profit attributable to shareholders   |  |           |              |         |           |         |                             |         |        |        | <u>(170,304)</u> | <u>22,590</u>   |

*Secondary report format — geographical segments*

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

|                        | <b>For the nine months<br/>ended 30th September</b> |                  |
|------------------------|---|------------------|
|                        | <b>2005</b>   | <b>2004</b>      |
|                        | <i>\$'000</i>                                       | <i>\$'000</i>    |
| Sales                  |   |                  |
| — The PRC              | 1,668,321   | 1,652,125        |
| — North America        | 208,717   | 18,466           |
| — Europe               | 198,940   | 236,277          |
| — Asia (excluding PRC) | 93,284  | 30,574           |
| — Middle East          | 21,779  | 9,182            |
| — Others               | <u>32,578</u>                                       | <u>—</u>         |
|                        | <u>2,223,619</u>                                    | <u>1,946,624</u> |

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 nine months ended 30th September 2005, the Company has paid, an amount of approximately HK\$2,939,000 (2004: HK\$8,756,000) 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 September 2005, the Group had the following capital commitments which were not provided for in the accounts:

|  | <b>As at 30th September</b> |                 |
|--|-----------------------------|-----------------|
|  | <b>2005</b>                 | <b>2004</b>     |
|  | <i>HK\$'000</i>             | <i>HK\$'000</i> |
| Authorised and contracted for                  |                             |                 |
| — Acquisition of property, plant and equipment | <u>10,974</u>               | <u>108,980</u>  |

### (b) *Investment commitments*

As at 30th September 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.

## **DIVIDEND**

The Directors do not recommend an interim dividend for the nine months ended 30th September 2005. The Group did not declare any dividends for the corresponding nine months period ended 30th September 2004.

On 24th March 2005, the Directors declared a final dividend of HK\$0.10 per ordinary share for the year ended 31st December 2004, totaling approximately HK\$41,029,600.

## **OPERATIONAL REVIEW**

The nine months period ended 30th September 2005 was a tough period for the Group, the business environment was significantly affected by (i) the surge in raw material price; the oversupply within the PRC’s domestic polyester industry; and (iii) the trade disputes over PRC textile products exported to the United States and European Union. The Group incurred a loss of approximately HK\$170 million primarily caused by the increase in costs of production. The over-supply situation of domestic polyester products in the PRC made it difficult for the Group to pass on the increasing raw material costs to the customers.

### **The surge in raw materials prices**

Driven by various factors, crude oil prices have been rising since the second quarter of 2004. Since the principal raw materials for polyester production, such as PTA and monoethylene glycol (“MEG”), are all petrochemical derivative products, the rising crude oil price inevitably led to the increase of raw material prices, hence, an immediate rise in production costs and, to certain extent, a narrower profit margins for the Group’s products.

### **The oversupply within the PRC's domestic polyester industry**

Although demand for polyester products showed growth, the over-supply situation of domestic polyester products in the PRC added pressure on product prices and made it more difficult for the polyester producers to pass on the increasing raw material costs to the customers. As a result, many sales are on low or sometimes negative profit margins. With a strong emphasis on economy of scale, it can be observed that major polyester producers in the PRC continue to expand their production capacities which will put additional pressure on the market and on smaller producers in particular.

### **Trade disputes over PRC textile products exported to the United States and the European Union countries**

The revenue of our filament, dyeing and finishing business were affected, as our customers in those business adopted a more conservative purchasing strategies when there were 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.

### **Active changes in product mix to react to unfavorable business environment**

The following is a summary of the Group's sales volume achieved by various strategic business units ("SBUs"):

|   | <b>For the nine months<br/>ended 30th September</b> |             | <b>Percentage<br/>increase/<br/>(decrease)</b> |
|---|---|-------------|--|
|   | <b>2005</b>   | <b>2004</b> | <b>(%)</b>                                     |
| Chip SBU (tonnes)                         | 145,130   | 139,195     | 4%   |
| Filament SBU (tonnes)                     | 14,299  | 14,814      | (3)%   |
| Fiber SBU (tones)                         | 45,526  | 38,593      | 18%  |
| Dyeing and Finishing SBU (thousand yards) | 18,787  | 19,280      | (3)%   |

The Fiber SBU has gradually expanded their production capacities and client bases in the past years which resulted in growth in sales volume in the third quarter of 2005. The sales volume of chips SBU, Filament SBU and Dyeing and finishing SBU for the Group for the nine months ended 30th September 2005 remained comparable with the nine months ended 30th September 2004.

### **Active management of domestic and export sales mix**

In view of the fierce competition for polyester products market in the PRC, the Group endeavors to achieve an optimal mix of domestic and export sales. The export ratio in terms of sales revenue increased from 15% for the nine months ended 30th September 2004 to 25% for the nine months ended 30th September 2005. The increase in exports helps the Company to mitigate the effects of over competition from the local manufacturers in the PRC market. Besides, the Group will put more efforts to expand the Asia and Middle East market so as to alleviate the effect of trade disputes over PRC textile products exported to the United States and the European Union countries.

## **The Proposed Privatisation by way of the Scheme**

On 22nd August 2005, YDIC, the shareholder of the Company, requested the board of directors (the “Board”) of the Company to put forward the proposal regarding the Proposed Privatisation by way of the Scheme to the shareholders of the Company. Such proposal has been approved by the eligible shareholders at the court meeting and the special general meeting held respectively on 31st October 2005.

Subject to a number of conditions (as disclosed on page 40 of the Scheme Document dated 6th October 2005) being fulfilled or waived, as applicable, the Scheme is expected to become effective on 18th November 2005. The Scheme will lapse if it does not become effective on or before 31st March 2006 or such later date as YDIC and the Company may agree or as the court may direct and the shareholders will be notified accordingly by further announcement. Upon the Scheme becoming effective, the Company will continue to be a member of the Far Eastern Group, held as approximately 77.38% by Far Eastern Textile Limited (“FETL”) and its 99.9% owned subsidiary, YDIC, and approximately 22.62% by Everest Textile Co., Ltd (“Everest Textile”) (via its wholly-owned subsidiary, Everest Investment (Holding) Limited (“EIHL”)). The Company will apply to the Stock Exchange for the withdrawal of the listing of its shares on GEM immediately following the Scheme becoming effective. Accordingly, it is expected that the last day of dealing in the Company shares will be on 15th November 2005. Details of the Proposed Privatisation and the Scheme are set out in the Scheme Document despatched to the shareholders of the Company.

## **FUTURE PROSPECTS**

### **The Group will continue to focus on high value-added and specialty products**

The Group will continue to focus on high value-added and specialty products. The Directors believe that diversification and differentiation are key to the Group’s future development. The Group will continue to position itself at the high-end market, to produce products that involve technology that cannot easily be copied by other producers in China. The Group will continue to focus on the production of high-quality bottle-grade PET chips for carbonated soft drink and hot-filled bottles, low denier filaments and specialty fabrics. The Directors believe that the Group’s current product mix is competitive in the current market conditions, and the Directors will continue to monitor the market situation so as to achieve the optimal product mix with a view to maximising profitability.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **RESULTS OF OPERATIONS**

The Group’s total sales increased by 14% from HK\$1,946 million for the nine months ended 30th September 2004 to HK\$2,224 million for the nine months ended 30th September 2005. The increase was mainly attributable to the increase in average unit selling prices of polyester products driven by the increase in raw material costs during the nine months ended 30th September 2005.

Notwithstanding growth in the Group's turnover, the unparalleled increase in cost of sales resulted in gross loss of approximately HK\$5 millions for the nine months ended 30th September 2005. This was caused by the continuous rise in the market price of PTA and MEG which are the Company's principal raw materials.

As the export ratio of the Group in terms of sales revenue increased from 15% for the nine months ended 30th September 2004 to 25% for the nine months ended 30th September 2005, distribution costs increased by approximately HK\$27 million.

Additional administrative costs, including staff salaries, depreciation expenses and other general office expenses were incurred when the number of employees increased to 2,470 and new subsidiaries of the Group were established for the purpose of expanding the Group's operations. Administrative costs increased by 18% from HK\$45 million for the nine months ended 30th September 2004 to HK\$54 million for the nine months ended 30th September 2005.

Due to the increase in interest rate and additional loans for the Group's expansion in operations, resulted in an increase of finance costs from HK\$17 million for the nine months ended 30th September 2004 to HK\$27 million for the nine months ended 30th September 2005.

The Group's loss attributable to shareholders for the nine months ended 30th September 2005 was approximately HK\$170 million while the Group's profit attributable to shareholders for the nine months ended 30th September 2004 was approximately HK\$23 million. The loss was mainly caused by various factors affecting gross profit explained above.

#### **DIRECTORS' SERVICE CONTRACTS**

No Director has any existing or proposed service contract with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).



## DIRECTORS' INTERESTS IN SECURITIES

As at 30th September 2005, the interests and short positions of the Directors and chief executive in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.40 of the GEM Listing Rules were as follows:

### Associated Corporations

*Long positions in shares of FET (Note 1)*

| Name of director  | Number of shares   |                  |                     |                 | Total      |
|-------------------|--------------------|------------------|---------------------|-----------------|------------|
|                   | Personal interests | Family interests | Corporate interests | Other interests |            |
| 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     |

*Note:*

1. FET is an associated corporation of the Company as FET is the Company's ultimate holding company. As at 30th September 2005, FET had a 64.2% interest in the Company, comprising (i) a direct interest of 11.4%; (ii) an indirect interest of 46.8% through its controlling shareholding in Yuang Ding Investment Corporation; and (iii) an indirect interest (arising by virtue of FET's status as the discretionary object of a discretionary trust) of 6%.

In aggregate, the above interests represented, as at 30th September 2005, approximately 2.6% of the total issued common shares of FET.

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

## DIRECTORS' RIGHTS TO PURCHASE SHARES OR DEBENTURES

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

As at 30th September 2005, no options had been granted under the Company's share option scheme.

## SUBSTANTIAL SHAREHOLDERS

As at 30th September 2005, the following persons (other than the Directors and chief executive of the Company) were the substantial shareholders of the Company who had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

### *Long positions in shares of the Company*

| <b>Name</b>                       | <b>Capacity</b>  | <b>Number and class of shares</b> | <b>Approximate percentage of interest</b> |
|-----------------------------------|------------------|-----------------------------------|---|
| FET ( <i>Note 1</i> )             | Beneficial Owner | 263,400,800 ordinary shares       | 64.2%                                     |
| YDIC                              | Beneficial Owner | 191,870,160 ordinary shares       | 46.8%                                     |
| Everest Textile ( <i>Note 2</i> ) | Beneficial Owner | 69,750,000 ordinary shares        | 17.0%                                     |
| EIHL                              | Beneficial Owner | 69,750,000 ordinary shares        | 17.0%                                     |

### *Notes:*

1. FET is interested in approximately 99.99% of the issued share capital of YDIC and is accordingly deemed to have an interest in the Company's shares in which YDIC has an interest. FET owns approximately 100% of the issued share capital of Far Eastern Investment (Holdings) Company Limited ("FEIH") and is accordingly taken to be interested in the Company's shares in which FEIH has an interest.
2. Everest Textile is interested in the entire issued share capital of Everest Investment and is accordingly deemed to have an interest in the Company's shares in which Everest Investment is deemed to have an interest.

## INTERESTS DISCLOSEABLE UNDER THE SFO

As at 30th September 2005, the following persons (other than the substantial shareholders, the Directors and chief executive of the Company) had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

### *Long positions in Shares*

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

#### *Notes:*

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

Save as disclosed above, the Company had no notice of any interests required to be recorded in the register required to be kept under Section 336 of the SFO as at 30th September 2005.

### **COMPETING INTERESTS**

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

During the nine months ended 30th September 2005, FET produced approximately 518,996 tonnes of polyester polymer, 202,196 tonnes of various types of PET chips (for PET bottles, food and industrial packaging), 175,015 tonnes of polyester staple fibers, 117,007 tonnes of pre-oriented yarn (POY), 48,122 tonnes of draw textured yarn (DTY), 267,130 bales of yarn, 25,410 thousand yards of finished fabrics and 293,372 thousand pieces of PET performs. Everest Textile also produced approximately 12,699 tonnes of polyester filaments and 52,365 thousand yards of finished fabrics.

*Notes:*

1. As at 30th September 2005, Mr. Shu-Tong Hsu, Mr. Jar-Yi Shih, Mr. Champion Lee, Mr. Chin-Sen Tu and Mr. Shaw-Y Wang, who were Directors of the Company, were also directors of FET.
2. As at 30th September 2005, Mr. Shu-Tong Hsu, Mr. Jar-Yi Shih and Mr. Chin-Sen Tu were also directors of Everest Textile.

## **THE STATEMENT OF CORPORATE GOVERNANCE**

### **Board of Directors**

The Board comprises nine Directors, each bringing different facet of expertise or experience to the Company and each with a clearly defined role. In particular, the roles of Chairman and Chief Executive are vested in different people (Mr. Shu-Tong Hsu and Mr. Lih-Teh Chang respectively) with the former concentrating on strategic overview and direction and the latter on the Group's day-to-day operations.

The Company has, from its listing in 2000, always had three independent non-executive directors who have played a significant part in overseeing the Company's affairs, in particular through their consistent attendance and presence on audit committee, as noted further below.

The Board believes that the Company has complied with the code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 15 to the GEM Listing Rules throughout the nine months ended 30th September, 2005.

### **Remuneration Committee**

The Remuneration Committee ("RC") was constituted on 10th August 2005 and comprises the following members:

Lih-Teh CHANG  
Shih-Hung CHAN  
Ying-Ho WONG, JP  
Shaw-Y WANG  
Tak-Lung TSIM, JP

A majority of the members of the RC are non-executive and independent directors.

The primary objective of the RC is to ensure formal and transparent procedures for developing remuneration policy, and for overseeing the remuneration packages of Directors and Senior Management.

In reviewing and determining the remuneration package of the executive Directors and senior executives, the RC considered, amongst other things, their responsibilities, skills, expertise and contribution to the Group's performance and whether the remuneration packages are competitive and sufficient to ensure that the Group is able to attract and retain the best available executive talent.

## **Internal Control**

The Board believes that the system of internal controls maintained by the Company is sufficient to provide reasonable assurances that the Group's assets are safeguarded against loss from unauthorized use or disposition, transactions are properly authorized and proper accounting records are maintained.

The Company has its internal audit function in place. The functions of the internal audit are to review the effectiveness of the Company's material internal control and provide assurance that key business and operational risks are identified and managed. The findings and recommendations from internal audit are reported primarily to the audit committee on an annual basis.

## **Share options and general mandate**

The Company has yet to issue any share options. Moreover, it has not, since it was listed, effected any allotment of shares pursuant to the annual general mandate afforded to the Directors. Finally, it has never sought from shareholders a general mandate to repurchase any of its shares.

## **Audit Committee**

The Company has established an audit committee with written terms of reference based upon the guidelines published by the Hong Kong Institute of Certified Public Accountants. The primary duties of the audit committee are to review the Company's annual report and accounts, half-year reports and quarterly reports and to provide advice and comments thereon to the board of Directors. The audit committee is also responsible for reviewing and supervising the Company's financial reporting and internal control procedures. The audit committee comprises three non-executive Directors, namely Mr. Shaw-Y Wang, Mr. Ying-Ho Wong, Kennedy, and Mr. Shih-Hung Chan. The audit committee has met twenty four times since its formation and three time during the nine months ended 30th September 2005. The results of the Group for the nine months ended 30th September 2005 have been reviewed by the audit committee.

## **Code of Conduct Regarding Securities Transactions by Directors**

During the nine months ended 30th September 2005, the Company continued to adopt a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company has made specific enquiry of all Directors, and the Company is not aware of any non-compliance with the required standard of dealings or otherwise in connection with its code of conduct regarding securities transactions by Directors.

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

Neither the Company nor its subsidiaries has purchased, sold or redeemed any of the Company's shares during the period from 31st January 2000 (date of listing) to 30th September 2005.

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

Taipei, 14th November 2005

*As at the date of this report, Mr. Shi-Tong Hsu, Mr. Jar-Yi Shih, Mr. Champion Lee, Mr. Lih-Teh Chang and Mr. Chin-Sen Tu are Executive Directors of the Company; Mr. Shaw-Y Wang is a Non-executive Directors and Mr. Tak-Lung Tsim, Mr. Ying-Ho Wong and Mr. Shih-Hung Chan are Independent Non-executive Directors.*

*This announcement will remain on the GEM website on the "Latest Company Announcements" page for at least 7 days from the date of its posting.*

*\* For identification purposes only*