



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

**QUARTERLY RESULTS FOR THE THREE MONTHS ENDED 31ST MARCH, 2000**

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*This quarterly results announcement for the three months ended 31st March, 2000, for which the directors of Far Eastern Polychem Industries Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange for the purpose of giving information with regard to Far Eastern Polychem Industries Limited. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this announcement is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

## **QUARTERLY RESULTS HIGHLIGHTS**

- Far Eastern Polychem Industries Limited (the “Company”) and its subsidiary (together the “Group”) are principally engaged in the production and distribution of two major categories of polyester products, namely bottle-grade polyethylene terephthalate (“PET”) chips and polyester filament, and the dyeing and finishing of polyester fabrics.
- Currently, the Group is the largest bottle-grade PET chip producer and a major polyester filament producer in the Peoples’ Republic of China (the “PRC”).
- The Group achieved a turnover of approximately HK\$292,718,000 for the three months ended 31st March, 2000, with profit attributable to shareholders of approximately HK\$36,169,000, representing an increase of 26.2% and 6.4%, respectively, as compared to the same period in the previous financial year.
- Earnings per share for the three months ended 31st March, 2000 was HK\$0.10.

## INTERIM FINANCIAL STATEMENTS (UNAUDITED)

The directors of the Company (the “Directors”) have the pleasure of presenting the unaudited financial statements of the Group for the three months ended 31st March, 2000 as follow:

### (a) Unaudited balance sheet

	<i>Notes</i>	<b>31st March, 2000</b> <i>HK\$'000</i>	<b>As at</b> <b>31st December, 1999</b> <i>HK\$'000</i>
Fixed assets		1,175,588	1,203,055
Deferred assets		10,399	10,680
Other long-term assets		1,733	1,814
Current assets		686,456	475,370
Current liabilities		(409,571)	(476,507)
Net current assets (liabilities)		276,885	(1,137)
Total assets less current liabilities		1,464,605	1,214,412
Loans from related companies		—	(225,931)
Loans from shareholding companies		—	(85,470)
Long-term bank loans		(397,048)	(488,146)
Deferred taxation		(1,200)	(1,200)
Net assets		1,066,357	413,665
Share Capital		410,296	6,302
Reserves	1	656,061	407,363
Shareholders' funds		1,066,357	413,665

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

		<b>For the Three months ended</b>	
		<b>31st March,</b>	
	<i>Notes</i>	<b>2000</b>	<b>1999</b>
		<i>HK\$'000</i>	<i>HK\$'000</i>
PET chips		194,247	150,020
Polyester filaments		74,420	40,666
Finished fabrics		24,051	41,258
		<hr/>	<hr/>
Total turnover	2	292,718	231,944
Cost of sales		(238,635)	(177,922)
		<hr/>	<hr/>
Gross profit		54,083	54,022
Other operating income (expenses)		517	(148)
Distribution costs		(3,545)	(1,670)
Administrative costs		(6,913)	(8,725)
		<hr/>	<hr/>
Profit from operations		44,142	43,479
Finance cost, net		(7,973)	(9,498)
		<hr/>	<hr/>
Profit before tax		36,169	33,981
Income tax expense	3	—	—
		<hr/>	<hr/>
Profit attributable to shareholders		<u>36,169</u>	<u>33,981</u>
Earnings per share	4		
- Basic		<u>0.10</u>	<u>0.11</u>
- Fully diluted		<u>NA</u>	<u>NA</u>

(c) Unaudited cash flow statements

	For the Three months ended 31st March,	
	2000	1999
	HK\$'000	HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES	79,488	39,835
Interest paid	(12,064)	(14,505)
Net cash from operating activities	<u>67,424</u>	<u>25,330</u>
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	—	(46,959)
Interest received	4,091	5,008
Net cash from (used in) investing activities	<u>4,091</u>	<u>(41,951)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares	266,062	—
Proceeds from short-term bank loans	—	93,600
Proceeds from long-term bank loans	32,900	—
Repayment of long-term bank loans	(58,198)	—
Repayment of short-term bank loans	(76,753)	—
Net cash from financing activities	<u>164,011</u>	<u>93,600</u>
Net increase in cash and cash equivalents	235,526	76,979
Effects on changes of foreign currencies translation	173	(814)
Cash and cash equivalents, beginning of period	<u>181,949</u>	<u>289,053</u>
Cash and cash equivalents, end of period	<u><u>417,648</u></u>	<u><u>365,218</u></u>

Notes:

1) Movements in reserves are as follow:

(a)

	<b>For the three months ended 31st March, 1999</b>			
	<b>Contributed Surplus HK'000</b>	<b>(Accumulated losses) HK'000</b>	<b>Cumulative translation adjustments HK'000</b>	<b>Total HK'000</b>
Beginning of period	310,825	(34,494)	482	276,813
Profit for the period	—	33,981	—	33,981
Translation change for the period	—	—	(766)	(766)
End of period	<u>310,825</u>	<u>(513)</u>	<u>(284)</u>	<u>310,028</u>

(b)

	<b>For the three months ended 31st March, 2000</b>						<b>For the year ended 31st December, 1999</b>	
	<b>Contributed surplus HK\$'000</b>	<b>Share premium HK\$'000</b>	<b>Staff welfare fund and reserve fund HK\$'000</b>	<b>Cumulative Revaluation reserve HK\$'000</b>	<b>Retained profit HK\$'000</b>	<b>translation adjustments HK\$'000</b>	<b>Total HK\$'000</b>	<b>Total HK\$'000</b>
Balance, beginning of period / year	310,825	—	—	5,645	88,892	2,001	407,363	276,813
Revaluation of property, plant and equipment	—	—	—	—	—	—	—	6,845
Effect of the revaluation of property, plant and equipment on deferred taxation	—	—	—	—	—	—	—	(1,200)
Issue of ordinary shares	—	481,430	—	—	—	—	481,430	—
Expenditure on issue of shares	—	(21,973)	—	—	—	—	(21,973)	—
Capitalization of a loan from a shareholding company	—	63,724	—	—	—	(1,818)	61,906	—
Capitalization of contributed surplus for the issuance of 4,019,580 new shares	(310,825)	—	—	—	—	—	(310,825)	—
Profit appropriation	—	—	20,107	—	(20,107)	—	—	—
Redenomination of shares from US\$10 to HK\$1	—	—	—	—	—	1,222	1,222	—
Profit for the period / year	—	—	—	—	36,169	—	36,169	123,386
Translation change for the period / year	—	—	—	—	—	769	769	1,519
Balance, end of period / year	<u>—</u>	<u>523,181</u>	<u>20,107</u>	<u>5,645</u>	<u>104,954</u>	<u>2,174</u>	<u>656,061</u>	<u>407,363</u>

## 2) Turnover

Turnover comprises sale of goods which are recognized when goods are delivered and title has passed to customers. The sales amount recognized excludes value-added or other sales taxes and is after deduction of any trade discounts.

## 3) Taxation

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

The Company's subsidiary, as a wholly foreign owned enterprise, is subject to PRC enterprise income tax on the taxable income as reported in its statutory financial statements adjusted in accordance with relevant income tax laws. The applicable enterprise income tax rate under local treatment is 15%. And local income tax rate is 3 per cent. However, there is no assurance that the Company's subsidiary will continue to enjoy the reduced enterprise income tax rate of 15 per cent. in the future. Furthermore, according to the "Income Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises", the Company's subsidiary is entitled to full exemption from the enterprise income tax for the first two profit-making year and a 50% reduction in enterprise income tax for the following three years, commencing from the first profitable year after off-setting all tax losses carried forward from previous years. For this purpose, income tax losses can be carried forward for five years. Local income tax is exempted until year 2000. As 1999 is the first profit-making year of the Company's subsidiary after off-setting previous years' losses, no provision of PRC enterprise income tax or local income tax has been provided accordingly.

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

There was no significant unprovided deferred taxation for each of the three months ended 31st March, 2000 because there were no significant temporary differences.

#### 4) Earnings per share

The calculation of basic earnings per share for the three months ended 31st March, 1999 was based on the unaudited consolidated profit attributable to shareholders of approximately HK\$33,981,000 and on the weighted average number of ordinary shares in issue during the three months ended 31st March, 1999 and adjusted retroactively to the period for the issuance of shares in connection with the capitalization of the contributed surplus of the Company and a 1-to-77.5 share split. The number of shares used in the computation was 317,833,700.

The calculation of earnings per share for the three months ended 31st March, 2000 was based on the unaudited consolidated profit attributable to shareholders of approximately HK\$36,169,000 and the weighted average number of 379,475,234 shares in issue during the period.

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

### **INTERIM DIVIDEND**

The Directors do not recommend the payment of an interim dividend for the three months ended 31st March, 2000. (1999 — Nil)

### **BUSINESS REVIEW AND PROSPECTS**

#### **Financial performance**

For the three months ended 31st March, 2000, the Group recorded an unaudited consolidated turnover of HK\$292,718,000, representing a 26% increase as compared to the same period in the previous financial year. The unaudited consolidated gross profit and profit attributable to shareholders amounted to HK\$54,083,000 and HK\$36,169,000, respectively.

The worldwide increase in crude oil prices in 1999 had a knock-on effect on the prices of the Group's raw materials, in particular purified terephthalic acid ("PTA") and mono ethylene glycol ("MEG"). During the first quarter of 2000, the Group was affected by the prices of PTA and MEG, which increased sharply by 54% and 57%, respectively, as compared to the same period in the previous financial year. Accordingly, the gross profit margin of the Group suffered a reduction from 23% to 18%.



In spite of the difficulties, the Group was able to partially pass on the increase in PTA and MEG prices to its customers. In addition, the Group has been actively establishing its sales network in the PRC market. During the first quarter of 2000, the Group was able to broaden its client base further and hence achieved a significant increase of 26% in turnover as compared to the same period in the previous financial year. At the same time, the Group has also managed to effectively monitor and control the operating and conversion costs, which has contributed to the improvement of its profit attributable to shareholders.

### **Plans and prospects**

The PRC polyester industry continued to grow at tremendous pace during the first quarter of 2000. The Directors believe that such an upward trend will continue in the near future. The Directors further believe that demand for polyester products will rise steadily throughout 2000. With its world-scale plant and high quality products, the Group is well positioned to capture additional market share in the PRC polyester market.

On the other hand, in view of the reduction in crude oil prices in the first quarter of 2000, the Directors believe that the prices of PTA and MEG will stabilize in the second quarter and will reduce in the third and fourth quarters of 2000. It is hopeful that the Group's gross profit margin will improve gradually towards the end of 2000.

During the first quarter of 2000, a new PTA silo and a polymer silo were completed, which provided additional capacity to the Group. Additional investments will continue in the future, which show our commitment and confidence in the Group's prospects. As the PRC is expected to join the World Trade Organization in the year 2000, with its world class technology, the Group is expected to benefit and will sustain growth in the viable polyester market of the PRC.

## DIRECTORS' INTERESTS IN SECURITIES

As at 31st March, 2000, the Directors had or were deemed to have interests under the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") by holding shares in Far Eastern Textile Limited ("FET"), as recorded in the register maintained by the Company pursuant to Section 29 of the SDI Ordinance, as follows:

Name of director	Number of shares				Total
	Personal interests	Family interests	Corporate interests	Other interests	
Mr. Shu-Tong Hsu	51,025,546	Nil	Nil	Nil	51,025,546
Mr. Jar-Yi Shih	1,193,127	Nil	Nil	Nil	1,193,127
Mr. Champion Lee	188	Nil	Nil	Nil	188
Mr. Chin-Sen Tu	186	Nil	Nil	Nil	186
Mr. Shaw-Y Wang	84,288	Nil	Nil	Nil	84,288
Mr. Li-Teh Chang	13,167	Nil	Nil	Nil	13,167

*Notes:*

*FET is considered to be an initial management shareholder (as defined in the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited) of the Company. As at 31st March, 2000, FET had a 58.2% (both direct and indirect) interest in the Company.*

*In aggregate, the above interests represented, as at 31st March, 2000 approximately 1.9% of the total issued common shares of FET.*

Save as disclosed above, the Company had no notice of any other interests to be recorded under Section 29 of the SDI Ordinance.

## DIRECTORS' INTERESTS IN CONTRACTS

No contract, commitment or agreement of significance in relation to the Company's business, to which the Company or its subsidiary was a party and in which any of the Directors had a material interest, either directly or indirectly, subsisted at as 31st March, 2000 or at any time during the three months ended 31st March, 2000.

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

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

During the three months ended 31st March, 2000, the Company did not grant any options under the Company's share option scheme.

## **SUBSTANTIAL SHAREHOLDERS**

As at 31st March, 2000, the following (not being Directors or chief executive of the Company) had registered an interest of 10% or more of the issued share capital of the Company:

<b>Name</b>	<b>Number of issued shares</b>	<b>Percentage shareholding</b>
Yuan Ding Investment Corporation	191,870,160	46.8%
Everest Investment (Holding) Limited	69,750,000	17.0%
Far Eastern Textile Limited	46,797,600	11.4%

Saved as disclosed above, the Company had no notice of any interests required to be notified under Section 16(1) of the SDI Ordinance as at 31st March, 2000.

## **COMPETING INTERESTS**

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

During the three months ended 31st March, 2000, FET produced approximately 177,000 tonnes of polyester polymer, 41,000 tonnes of various types of PET chips (for PET bottles, food and industrial packaging), 60,000 tonnes of polyester staple fibre, 57,000 tonnes of POY, 26,000 tonnes of DTY, 113,000 bails of yarn, 3,244,000 yards of finished fabrics and 37,619,000 million pieces of PET preforms. Everest Textile also produced approximately 11,939 tonnes of polyester filament and 23,222,826 yards of finished fabrics.

*Notes:*

1. As at 31st March, 2000, Mr. Shu-Tong Hsu, Mr. Jar-Yi Shih, Mr. Champion Lee, Mr. Chin-Sen Tu and Mr. Shaw-Y Wang , who are Directors, were also directors of FET.
2. As at 31st March, 2000, Mr. Jar-Yi Shih and Mr. Chin-Sen Tu were directors of Everest Textile.

## **SPONSOR'S INTERESTS**

As at 31st March, 2000, the Company's sponsor, HSBC Investment Bank Asia Limited ("HSBC") was interested in 11,122,000 shares of HK\$1.00 each in the issued share capital of the Company. HSBC's directors, employees or associates (as referred to in Note 3 to rule 6.35 of the GEM Listing Rules) involved in providing advice to the Company, had no interest in the share capital of the Company.

Pursuant to the agreement dated 11th January, 2000 entered into between the Company and HSBC, HSBC would receive a fee for acting as the Company's retained sponsor for the period from 12th January, 2000 to 31st December, 2002.

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

Neither the Company nor its subsidiary has purchased, sold or redeemed any of the Company's shares during the period under review.

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

Hong Kong, 12th May, 2000