

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, 2001

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

QUARTERLY RESULTS HIGHLIGHTS

- Far Eastern Polychem Industries Limited (the “Company”) and its subsidiary (together the “Group”) are principally engaged in the production and distribution of two major categories of polyester products in the People’s Republic of China (the “PRC”), namely bottle-grade polyethylene terephthalate (“PET”) chips and polyester filament, and the dyeing and finishing of polyester fabrics.
- The Group achieved a turnover of approximately HK\$312,767,000 for the three months ended 31st March, 2001, with profit attributable to shareholders of approximately HK\$57,922,000, representing an increase of 7% and 60%, respectively, as compared to the same quarterly period in the previous financial year.
- Earnings per share for the three months ended 31st March, 2001 was HK\$0.14 (Earnings per share for the three months ended 31st March, 2000 was HK\$0.10).

QUARTERLY FINANCIAL STATEMENTS (UNAUDITED)

The directors of the Company (the “Directors”) have the pleasure of presenting the consolidated balance sheet of the Group as at 31st March, 2001 and the unaudited consolidated profit and loss account and cash flow statements of the Group for the three months ended 31st March, 2001 and the comparative figures as follow:

(a) Consolidated balance sheet

		As at
	31st March,	31st December,
<i>Notes</i>	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Audited)</i>
Fixed assets	1,319,242	1,271,145
Deferred assets	9,233	9,524
Other long-term assets	1,668	1,684
Current assets	816,158	748,223
Current liabilities	(576,252)	(403,566)
Net current assets	<u>239,906</u>	<u>344,657</u>
Total assets less current liabilities	1,570,049	1,627,010
Long-term bank loans	(385,358)	(385,358)
Deferred taxation	(1,200)	(1,200)
Net assets	<u>1,183,491</u>	<u>1,240,452</u>
Share capital	410,296	410,296
Reserves	1 773,195	830,156
Shareholders' funds	<u>1,183,491</u>	<u>1,240,452</u>

(b) Unaudited consolidated profit and loss account

		For the three months ended	
		31st March	
	<i>Notes</i>	2001	2000
		<i>HK\$'000</i>	<i>HK\$'000</i>
		<i>(Unaudited)</i>	<i>(Unaudited)</i>
			<i>(Note 5)</i>
PET chips		211,522	194,247
Polyester filaments		49,070	74,420
Finished fabrics		52,175	24,051
		<hr/>	<hr/>
Total turnover	2	312,767	292,718
Cost of sales		(240,620)	(238,635)
		<hr/>	<hr/>
Gross profit		72,147	54,083
Other operating income		6,630	4,608
Distribution costs		(3,945)	(3,545)
Administrative costs		(6,196)	(6,913)
		<hr/>	<hr/>
Profit from operations		68,636	48,233
Finance cost, net		(6,138)	(12,064)
		<hr/>	<hr/>
Profit before tax		62,498	36,169
Income tax expense	3	(4,576)	—
		<hr/>	<hr/>
Profit attributable to shareholders		57,922	36,169
		<hr/> <hr/>	<hr/> <hr/>
Earnings per share (in HK\$)	4		
- Basic		0.14	0.10
		<hr/> <hr/>	<hr/> <hr/>
- Fully diluted		NA	NA
		<hr/> <hr/>	<hr/> <hr/>

(c) Unaudited consolidated cash flow statements

	For the three months ended 31st March	
	2001 HK\$'000 (Unaudited)	2000 HK\$'000 (Unaudited) (Note 5)
CASH FLOWS FROM OPERATING ACTIVITIES	81,296	17,466
Interest paid	(6,138)	(12,064)
Net cash from operating activities	<u>75,158</u>	<u>5,402</u>
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(72,646)	—
Interest received	4,549	4,091
Net cash (used in) from investing activities	<u>(68,097)</u>	<u>4,091</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares	—	266,062
Proceeds from reorganization	—	62,022
Proceeds from short-term bank loans	42,300	—
Proceeds from long-term bank loans	—	32,900
Repayment of short-term bank loans	(18,800)	(76,753)
Repayment of long-term bank loans	—	(58,198)
Net cash from financing activities	<u>23,500</u>	<u>226,033</u>
Net increase in cash and cash equivalents	30,561	235,526
Effects on changes of foreign currencies translation	—	173
Cash and cash equivalents, beginning of the period	<u>358,179</u>	<u>181,949</u>
Cash and cash equivalents, end of the period	<u><u>388,740</u></u>	<u><u>417,648</u></u>

Notes:

1) Movements in reserves are as follow:

(a) For the year ended 31st December, 2000:-

	Contributed surplus HK\$'000	Share premium HK\$'000	Staff welfare fund and reserve HK\$'000	Revaluation reserve HK\$'000	Retained profit HK\$'000	Cumulative translation adjustments HK\$'000	Total HK\$'000
Balance, 1st January, 2000	310,825	—	—	5,645	88,892	2,001	407,363
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	—	—	—	—	63,724
Capitalization of contributed surplus for the issuance of 4,019,580 new shares	(310,825)	—	—	—	—	(1,818)	(312,643)
Profit appropriation	—	—	20,107	—	(20,107)	—	—
Redenomination of shares from US\$10 to HK\$1	—	—	—	—	—	1,222	1,222
Profit for three months ended 31st March, 2000	—	—	—	—	36,169	—	36,169
Translation change for the three months ended 31st March, 2000	—	—	—	—	—	769 769	—
Balance, 31st March, 2000	—	523,181	20,107	5,645	104,954	2,174	656,061
Profit for the nine months ended 31st December, 2000	—	—	—	—	183,969	—	183,969
Additional expenditure on issue of shares	—	(180)	—	—	—	—	(180)
Deferred item on forward contracts for hedging purpose	—	—	—	—	—	(9,689)	(9,689)
Translation change for the nine months ended 31st December, 2000	—	—	—	—	—	(5)	(5)
Balance, 31st December, 2000	—	523,001	20,107	5,645	288,923	(7,520)	830,156

(b) For the three months ended 31st March, 2001

	Staff welfare			Cumulative		Total
	Share	fund and	Revaluation	Retained	translation	
	premium	reserve fund	reserve	profit	adjustments	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance, 1st January, 2001	523,001	20,107	5,645	288,923	(7,520)	830,156
Profit appropriation	—	32,542	—	(32,542)	—	—
Dividends declared	—	—	—	(114,883)	—	(114,883)
Profit for three months ended						
31st March, 2001	—	—	—	57,922	—	57,922
Balance, 31st March, 2001	523,001	52,649	5,645	199,420	(7,520)	773,195

2) Turnover

Turnover comprises (a) 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; and (b) processing fee which is recognized when the processing activities are completed and goods are delivered. The processing fee recognized excludes value-added or other taxes and is after deduction of any trade discounts.

3) Taxation

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

The Company's subsidiary, Far Eastern Industries (Shanghai) Ltd. ("FEIS"), as a wholly foreign owned enterprise, is subject to PRC enterprise income tax ("EIT") on the taxable income as reported in its statutory financial statements adjusted in accordance with relevant income tax laws. The applicable EIT rate under local treatment is 15%. And local income tax rate is 3%. However, there is no assurance that FEIS will continue to enjoy the reduced EIT rate of 15% in the future. Furthermore, according to "Income Tax Law of the PRC for Enterprises with Foreign Investment and Foreign enterprises", FEIS is entitled to full exemption from EIT for the first two profit-making years and a 50% reduction in EIT for the following three years, commencing from the first profitable year after off-setting all tax losses carried forward from previous years. For this purpose, income tax losses can be carried forward for five years. As 1999 was the first profit-making year of FEIS after off-setting previous years' losses, a provision for EIT at a rate of 7.5% has been made for the three months ended 31st March, 2001.

According to relevant PRC rules and regulations, being qualified as a “High-technology Enterprise” and residing in a designated high-technology zone, FEIS is entitled to an extended preferential EIT rate comprising a 50% reduction, for the next three years, after the aforesaid five year period of preferential EIT enjoyment ends. The “High-technology Enterprise” status of FEIS is subject to review every two years.

FEIS is also subject to a value-added tax (“VAT”), the principal indirect PRC tax which is charged on top of the selling price at a general rate of 17%. An input credit is available whereby VAT previously paid on purchases of semi-finished products or raw materials etc. can be used to off-set the VAT on sales to determine the net VAT payable.

There was no significant unprovided deferred taxation for the three months ended 31st March, 2001 because there were no significant temporary differences.

4) Earnings per share

The calculation of the earnings per share for the three months ended 31st March, 2001 and for the three months ended 31st March, 2000 was based on the unaudited consolidated profit attributable to shareholders of approximately HK\$57,922,000 and HK\$36,169,000 respectively, and on the weighted average numbers of 410,296,000 shares and 379,475,234 shares in issue respectively, during both periods.

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

- 5) Certain comparative figures for the three months ended 31st March, 2000 have been reclassified to conform to the presentation for the three months ended 31st March, 2001.

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the three months ended 31st March, 2001.

The Group did not declare any dividends for the corresponding three month period in 2000.

FINANCIAL PERFORMANCE

The unaudited consolidated turnover of the Group for the three-month period ended 31st March, 2001 was approximately HK\$312,767,000, representing a 7% increase as compared to the corresponding three-month period in 2000. Unaudited consolidated gross profit and profit attributable to shareholders of the Group for the three-month period ended 31st March, 2001 was approximately HK\$72,147,000 and HK\$57,922,000 respectively, representing a 33% and a 60% increase respectively as compared to the three-month period ended 31st March, 2000.

BUSINESS REVIEW

The Group's strong growth in earnings continued during the first quarter of the year 2001 for the following reasons:

Continuing growth in demand of polyester bottle-grade chips and value-added fabrics in the PRC

During the first quarter of 2001, the production output of polyester bottle-grade chips failed to satisfy the rapidly growing demand as a result of the strong economic growth in the PRC. As a result, the selling prices and the quantities sold of the Group's products, in particular, non-textile PET chips and value-added fabrics, increased substantially as compared to the corresponding three-month period ended 31st March, 2000. The Directors believe that such situation will remain the same in the near future.

Production costs and selling and administrative expenses were kept at a low level

The Group was able to maintain low production costs through exercising stringent controls over the purchasing costs of raw materials, the production overheads and selling and administrative expenses. The Group constantly monitors the productivity of its workforce and the production costs of its products. The relatively stable crude oil price during the first quarter of 2001 also created a favorable operating environment for the Group. Gross profit increased from 18% during the first quarter of 2000 to 23% during the first quarter of 2001.

Continuously re-adjusting its product mix in order to maximize profits

The Group's management has closely monitored the shift in polyester consumption pattern to re-adjust its product mix accordingly. The focus was on developing and producing high value-added products with high profit margins. Accordingly, there was substantial improvement in the Group's gross profit margin during the first quarter of 2001.

Operational re-engineering continues at the Dyeing and Finishing strategic business unit ("SBU")

As a result of an operational re-engineering during the second half of 2000, the gross profit margin of the Dyeing and Finishing SBU improved tremendously from 15% during the first quarter of 2000 to 27% during the first quarter of 2001. In the near future, the Dyeing and Finishing SBU will continue to increase its contribution to the revenue of the Group.

FUTURE PROSPECTS

Stable gross profit margin expected for the remaining period of 2001

The Directors anticipate that the crude oil price, and the prices of the Group's major raw materials, namely purified terephthalic acid ("PTA") and mono ethylene glycol ("MEG") will remain stable for the remaining period of 2001. As the demand of polyester and petrochemical products is greater than the supply of such products in the PRC, and the Group produces polyester products of high quality, the Directors are confident that the gross profit margin of the Group's products will improve further towards the end of 2001.

Additional plots of land reserved for the future expansion of the Pudong complex

The management showed their commitment to the Group's capacity expansion program by reserving two additional plots of land with an area of 190,000 square metres adjacent to the existing Pudong complex. In addition, the polyester non-woven fibre plant and the PET preform plant are under construction according to schedule. The polyester non-woven fibre plant and the PET preform plant are scheduled for operation during the fourth quarter of 2001 and the fourth quarter of 2002, respectively.

DIRECTORS' INTERESTS IN SECURITIES

As at 31st March, 2001, the following Directors had or were deemed to have interests in the securities of the Company under the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), by virtue of their respective shareholdings in Far Eastern Textile Limited ("FET"), as recorded in the register of directors' interests maintained by the Company pursuant to Section 29 of the SDI Ordinance:

Shares in FET:

Name of director	Number of shares				Total
	Personal interests	Family interests	Corporate interests	Other interests	
Mr. Shu-Tong Hsu	57,148,611	Nil	Nil	Nil	57,148,611
Mr. Jar-Yi Shih	1,336,302	Nil	Nil	Nil	1,336,302
Mr. Champion Lee	210	Nil	Nil	Nil	210
Mr. Chin-Sen Tu	208	Nil	Nil	Nil	208
Mr. Shaw-Y Wang	94,402	Nil	Nil	Nil	94,402
Mr. Lih-Teh Chang	17,672	Nil	Nil	Nil	17,672

Save as disclosed above, the Company had no notice of any other interests which were required to be recorded under Section 29 of the SDI Ordinance as at 31st March, 2001.

Notes:

FET is regarded as one of the initial management shareholders (as such term is defined in the GEM Listing Rules) of the Company. As at 31st March, 2001, FET had a 58.2% interest (including a direct interest of 11.4% and an indirect interest of 46.8% through its 99.99% shareholding in Yuang Ding Investment Corporation) in the Company.

In aggregate, the above interests represented, as at the date of this report, approximately 1.9% of the total issued common shares of FET.

DIRECTORS' INTERESTS IN CONTRACTS

No contract, commitment or agreement of significance in relation to the Company's business, to which the Company or its subsidiary was a party and in which any of the Directors of the Company had a material interest, either directly or indirectly, subsisted at 31st March, 2001 or at any time during the year 2001.

DIRECTORS' RIGHTS TO PURCHASE SHARES OR DEBENTURES

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

As at 31st March, 2001, no options had been granted under the Company's share option scheme.

SUBSTANTIAL SHAREHOLDERS

As at 31st March, 2001, according to the register required to be maintained under section 16(1) of the SDI Ordinance, the Company had been notified of the following (not being Directors or chief executive of the Company) interests being 10% or more of the issued share capital of the Company:

Name	Number of issued shares	Percentage shareholding
FET (<i>Note 1</i>)	238,667,760	58.2%
Yuang Ding Investment Corporation	191,870,160	46.8%
Everest Investment (Holding) Limited	69,750,000	17.0%
Everest Textile Co. Ltd. (<i>Note 2</i>)	69,750,000	17.0%

Save as disclosed above, the Company had no notice of any other interests required to be recorded under Section 16(1) of the SDI Ordinance as at 31st March, 2001.

Notes:

1. FET has interests in 99.99% of the entire issued share capital of Yuang Ding Investment Corporation (“YDIC”) and is accordingly deemed to have an interest in the Company’s shares in which YDIC is deemed to have an interest.
2. Everest Textile Co. Ltd. (“Everest Textile”) has interests in the entire issued share capital of Everest Investment (Holding) Limited (“Everest Investment”) and is accordingly deemed to have an interest in the Company’s shares in which Everest Investment is deemed to have an interest.

COMPETING INTERESTS

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

During the three months ended 31st March, 2001, FET produced approximately 178,453 tonnes of polyester polymer, 55,313 tonnes of various types of PET chips (for PET bottles, food and industrial packaging), 54,443 tonnes of polyester staple fibre, 54,162 tonnes of pre-oriented yarn, 22,850 tonnes of drawn texture yarn, 99,747 bales of yarn, 2,107,000 yards of finished fabrics and 14.5 million pieces of PET preforms. Everest Textile also produced approximately 8,031 tonnes of polyester filament and 17,843,000 yards of finished fabrics.

Save as disclosed above, as at 31st March, 2001, the Directors were not aware of any other business or interest of each of the Directors and each management shareholders, and their respective associates of each of them, that competes or may compete with the business of the Group.

Notes:

1. As at 31st March, 2001, Mr. Shu-Tong Hsu, Mr. Jar-Yi Shih, Mr. Champion Lee, Mr. Chin-Sen Tu and Mr. Shaw-Y Wang, who were Directors of the Company, were also directors of FET.
2. As at 31st March, 2001, Mr. Jar-Yi Shih and Mr. Chin-Sen Tu were also directors of Everest Textile.

SPONSOR'S INTERESTS

As notified by the Company's retained sponsor, The Hongkong and Shanghai Banking Corporation Limited ("HSBC"), associates (as defined in Note 3 to Rule 6.35 of the GEM Listing Rules) of HSBC held a total of 11,182,000 shares of HK\$1.00 each in the issued share capital of the Company as at 31st March, 2001. As at that date, employees of HSBC (as referred to in Note 3 to rule 6.35 of the GEM Listing Rules) who were involved in providing advice to the Company were interested in a total of 22,000 shares in the issued share capital of the Company.

Pursuant to the sponsor agreement dated 11th January, 2000 ("Sponsor Agreement") entered into between the Company and HSBC Investment Bank Asia Limited ("HIBA") and the novation agreement dated 29th January, 2001 entered into between the Company, HIBA and HSBC, HSBC will receive a fee for acting as the Company's retained sponsor for the period from 12th January, 2000 to 31st December, 2002.

Save for the above, HSBC has no other interest in the Company as at 31st March, 2001.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference based upon the guidelines published by the Hong Kong Society of Accountants. The primary duties of the audit committee are to review the Company's annual report and accounts, half-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 six times since its formation.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor its subsidiary has purchased, sold or redeemed any of the Company's shares during the period from 31st January, 2000 (date of listing) to 31st March, 2001.

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

Taipei,
8th May, 2001