



Far Eastern
Polychem
Industries
Limited

FAR EASTERN POLYCHEM INDUSTRIES LIMITED

(遠 東 化 聚 工 業 股 份 有 限 公 司) *

(Incorporated in Bermuda with limited liability)

QUARTERLY RESULTS FOR THE THREE MONTHS ENDED 31ST MARCH, 2002

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE HONG KONG EXCHANGES AND CLEARING LIMITED (THE “EXCHANGE”)

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

** For identification only*

The Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

This report, for which the directors of Far Eastern Polychem Industries Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Exchange (the “GEM Listing Rules”) for the purpose of giving 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 subsidiaries (together the “Group”) are principally engaged in the production and distribution of three major categories of polyester products in the People’s Republic of China (the “PRC”), namely bottle-grade polyethylene terephthalate (“PET”) chips, polyester filament and polyester staple fiber, and the dyeing and finishing of polyester fabrics.
- The Group achieved a turnover of approximately HK\$ 414,436,000 for the three months ended 31st March, 2002, with profit attributable to shareholders of approximately HK\$ 31,357,000, representing an increase of 33% and a decrease of 46%, respectively, as compared to the same quarterly period in the previous financial year.
- Earnings per share for the three months ended 31st March, 2002 was HK\$0.08 (Earnings per share for the three months ended 31st March, 2001 was HK\$ 0.14).

QUARTERLY FINANCIAL STATEMENTS (UNAUDITED)

The directors of the Company (the “Directors”) have the pleasure of presenting the consolidated financial statements of the Group for the three months ended 31st March, 2002 and the comparative figures as at 31st December, 2001 for the consolidated balance sheet and for the corresponding period of last year for the unaudited consolidated profit and loss account, statements of changes in equity and cash flow statements as follows:

(a) Consolidated balance sheet

	As at	
	31st March, 2002	31st December, 2001
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Fixed assets	1,462,720	1,448,850
Deferred assets	11,204	9,824
Other long-term assets	3,064	3,064
Current assets	840,637	795,870
Current liabilities	(667,262)	(548,248)
Net current assets	173,375	247,622
Total assets less current liabilities	1,650,363	1,709,360
Long-term bank loans	(379,872)	(367,652)
Deferred taxation	(1,200)	(1,200)
Net Assets	1,269,291	1,340,508
Share Capital	410,296	410,296
Reserves	858,995	930,212
Shareholders' equity	1,269,291	1,340,508

(b) Unaudited consolidated profit and loss account

		For the three months ended	
		31st March	
	<i>Notes</i>	2002	2001
		<i>HK\$'000</i>	<i>HK\$'000</i>
		<i>(Unaudited)</i>	<i>(Unaudited)</i>
			<i>(Note 6)</i>
PET chips		285,269	211,522
Polyester filaments		37,966	49,070
Finished fabrics		41,164	52,175
Polyester staple fibers		50,037	—
		<hr/>	<hr/>
Total turnover	1	414,436	312,767
Cost of sales		(347,457)	(240,620)
		<hr/>	<hr/>
Gross profit		66,979	72,147
Other operating income		2,816	2,385
Distribution costs	2	(22,582)	(3,945)
Administrative costs		(7,898)	(6,196)
		<hr/>	<hr/>
Profit from operations		39,315	64,391
Finance cost, net	3	(5,426)	(1,894)
		<hr/>	<hr/>
Profit before tax		33,889	62,497
Income tax expense	4	(2,532)	(4,576)
		<hr/>	<hr/>
Profit attributable to shareholders		31,357	57,921
		<hr/> <hr/>	<hr/> <hr/>
Earnings per share (in HK\$)			
- Basic	5	0.08	0.14
		<hr/> <hr/>	<hr/> <hr/>
- Fully diluted		NA	NA
		<hr/> <hr/>	<hr/> <hr/>

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

For the year ended 31st December, 2001:-

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Staff welfare fund and reserve <i>HK\$'000</i>	Revaluation reserve <i>HK\$'000</i>	Retained profit <i>HK\$'000</i>	Cumulative translation adjustments <i>HK\$'000</i>	Hedging reserve <i>HK\$'000</i>	Total <i>HK\$'000</i>
Balance, 1st January, 2001	410,296	523,001	20,107	5,645	288,923	2,169	(9,689)	1,240,452
Profit appropriation	—	—	32,542	—	(32,542)	—	—	—
Dividends declared	—	—	—	—	(114,883)	—	—	(114,883)
Profit for the three months ended 31st March, 2001	—	—	—	—	57,922	—	—	57,922
Balance, 31st March, 2001	410,296	523,001	52,649	5,645	199,420	2,169	(9,689)	1,183,491
Profit for the nine months ended 31st December, 2001	—	—	—	—	147,328	—	—	147,328
Cash flows hedges transferred to property plant and equipment	—	—	—	—	—	—	9,689	9,689
Balance, 31st December, 2001	410,296	523,001	52,649	5,645	346,748	2,169	—	1,340,508

For the three months ended 31st March, 2002

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Staff welfare fund and reserve <i>HK\$'000</i>	Revaluation reserve <i>HK\$'000</i>	Retained profit <i>HK\$'000</i>	Cumulative translation adjustments <i>HK\$'000</i>	Total <i>HK\$'000</i>
Balance, 1st January, 2002	410,296	523,001	52,649	5,645	346,748	2,169	1,340,508
Dividends declared	—	—	—	—	(102,574)	—	(102,574)
Profit for the three months ended 31st March, 2001	—	—	—	—	31,357	—	31,357
Balance, 31st March, 2002	410,296	523,001	52,649	5,645	275,531	2,169	1,269,291

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

	For the three months ended	
	31st March, 2002	31st March, 2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
CASH FLOW FROM OPERATING ACTIVITIES	63,875	81,296
Interest paid	(7,538)	(6,138)
Taxes paid	(8,568)	—
Net cash from operating activities	<u>47,769</u>	<u>75,158</u>
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(47,158)	(72,646)
Interest received	1,437	4,549
Net cash used in investing activities	<u>(45,721)</u>	<u>(68,097)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term bank loans	239,610	42,300
Proceeds from long-term bank loans	212,440	—
Repayment of short-term bank loans	(292,732)	(18,800)
Repayment of long-term bank loans	(137,240)	—
Net cash used in financing activities	<u>22,078</u>	<u>23,500</u>
Net increase in cash and cash equivalents	24,126	30,561
Cash and cash equivalents, beginning of the period	<u>347,511</u>	<u>358,179</u>
Cash and cash equivalents, end of the period	<u><u>371,637</u></u>	<u><u>388,740</u></u>

Notes:

1) **Turnover**

Turnover comprises sale of goods which are recognized when delivery has taken place and transfer of risks and rewards has been completed. The sales amount recognized excludes value-added or other sales taxes and is after deduction of any trade discounts.

2) **Distribution costs comprised:**

	For the three months ended 31st March	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Personnel expenses	2,055	612
Transportation expenses	19,182	2,414
Others	1,345	919
	<u>22,582</u>	<u>3,945</u>

3) **Finance Cost, net comprised**

	For the three months ended 31st March	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest income	(1,437)	(4,549)
Interest expense on borrowings	6,940	8,862
Less: Amount capitalized as construction-in-progress	(598)	(2,724)
Exchange loss, net	281	98
Bank charges	312	207
Other financial income	(72)	—
	<u>5,426</u>	<u>1,894</u>

4) **Taxation**

The Company was incorporated under the laws of Bermuda and, under prevailing 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) Limited ("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 2002 is the second 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, 2002.

According to relevant PRC rules and regulations, FEIS, as a "High-technology Enterprise" and residing in a designated high-technology zone, is entitled to an extended preferential EIT rate comprising a 50% reduction, for the next three years following the expiration of the aforesaid five year period of preferential EIT enjoyment. 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, 2002 because there were no significant temporary differences.

5) **Earnings per share**

The calculation of the earnings per share for the three months ended 31st March, 2002 and 31st March, 2001, respectively was based on the unaudited consolidated profit attributable to shareholders of approximately HK\$31,357,000 and HK\$ 57,922,000 respectively and on the weighted average number of 410,296,000 shares in issue during both periods.

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

- 6) Certain comparative figures have been reclassified to conform to current period presentation.

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the three months ended 31st March, 2002.

The Group did not declare any dividends for the corresponding three-month period in 2001.

FINANCIAL PERFORMANCE

The unaudited consolidated turnover of the Group for the three-month period ended 31st March, 2002 was approximately HK\$414,436,000, representing an increase of 33% as compared to the corresponding quarterly period in 2001. Unaudited consolidated gross profit and profit attributable to shareholders of the Group for the three-month period ended 31st March, 2002 was approximately HK\$ 66,979,000 and HK\$31,357,000 respectively, representing a decrease of 7% and 46%, respectively as compared to the quarterly period ended 31st March, 2001.

BUSINESS REVIEW

The Group experienced margin squeeze during the first quarter of 2002

As a result of political tension in the Middle East, crude oil prices rose significantly during the first quarter of 2002. Traded at around US\$20 per barrel at the end of 2001, crude oil was traded at approximately US\$26 per barrel at the end of April 2002. However, although country like Iraq called for cut in oil exports, countries within the Organization of Petroleum Exporting Countries (“OPEC”), such as Saudi Arabia, promised a stable oil market. The Directors expect a stable crude oil market will be maintained in the near future.

The price hike in crude oil has created an impact on the price of the Group’s major raw material, purified terephthalic acid (“PTA”), the price of which also surged during the first quarter of 2002. Together with the fact that the selling prices of the Group’s major product, PET resins, declined to its lowest level since the Group commenced operations in 1998, the Group’s gross profit rate declined from 23% in the first quarter of 2001 to 16% in the first quarter of 2002.

Selling expenses rose significantly amid the increase in crude oil prices and the increase in the Group’s export ratio

Transportation expenses increased as the Group’s export ratio increased from 13% during the first quarter of 2001 to approximately 25% during the first quarter of 2002 in view of the increase in production capacities of polyester products in the PRC. In addition, the increase in crude oil prices, together with the increase in insurance premium after the terrorist attacks in the United States led to a significant increase in freight charges. As such, transportation expenses increased seven times during the first quarter of 2002, when compare with the corresponding period in 2001.

Selling prices of PET resins kept at a low level, but seemingly bottoming out

During the first quarter of 2002, selling prices of PET resins declined to the lowest level since the Group commenced its operations in 1998. This was due to an expectation of a substantial increase in the production capacity in the PRC, coupled with the fact that the first quarter of the year was a traditional slack season for PET resins. However, the selling prices of PET resins started to pick up in March 2002. The Directors believe that the selling prices of PET resins are bottoming out, and are expected to rise in the second quarter of 2002 amid an increase in PTA's costs. However, whether the rebound in PET resins prices is sustainable in the second half of 2002 depends on future performance of the additional production capacities in the PRC.

Markets for the Group's other products remained sluggish

The PRC markets of the Group's other products, namely polyester filaments, polyester staple fibers and finished fabrics remained sluggish during the first quarter of 2002. However, as capacities expansion of such products in China was limited during the past few years, the Directors remain conservatively optimistic about the future outlook of the products. The timing of the picking up of the markets depends on the rate of China's economy growth and the rate of elimination of inefficient, small-scale manufacturers in the PRC.

FUTURE PROSPECTS

Continue to focus on high value-added specialty products

Albeit the adverse market conditions, the Group will continue to focus on specialty products, which offer higher margins and comparatively inelastic selling prices. In this regard, the Group will focus on products such as hot-filled bottle grade and carbonated PET chips, sea-island polyester filaments and conjugate fibers. Such products require high level of technology that is not readily available in the PRC.

Acquisition of polymerization facilities from DuPont Suzhou Polyester Company Limited ("DSPC")

As the construction of the Group's new polyester staple-fiber plant completed in 2001, and the construction of a new PET sheet plant will be completed in the first half of 2002, the Group's demand on polyester polymers will continue to grow in the near future. The Group's existing rated polyester polymer production capacity of approximately 120,000 metric tones will not be able to satisfy the Group's continuously expanding production of various types of polyester products by the end of 2002.

On 15th April, 2002, the Company entered into an agreement with DuPont Suzhou Polyester Company Limited (“DSPC”) to acquire its polymerization facilities at a consideration of US\$35.12 million (“Acquisition Agreement”). In addition, the Company will also acquire raw materials and work-in-progress from DSPC by the date of completion of the Acquisition Agreement at a consideration of not more than US\$2.5 million. The acquisition of polymerization facilities of DSPC provides the Group with an additional annual production capacity of polyester polymers of approximately 100,000 metric tonnes. The acquisition of additional polymerization facilities enables the Group to capitalize the growing demand of polyester products in the PRC. The Directors also consider that the acquisition of additional polymerization facilities is important for the Group to strengthen its leadership position in the PRC PET resins market and to maintain its position as one of the major polyester products producers in the PRC.

DIRECTORS’ INTERESTS IN SECURITIES

As at 31st March, 2002, the following Directors had or were deemed to have interests in the securities of the Company under the Securities (Disclosure of Interest) Ordinance (the “SDI Ordinance”) by virtue of their shareholdings in Far Eastern Textile Limited (“FET”) (an associated corporation within the meaning of the SDI Ordinance), as recorded in the Register of Directors’ Interests maintained by the Company pursuant to Section 29 of the SDI Ordinance:

Common 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 to be recorded under Section 29 of the SDI Ordinance as at 31st March, 2002.

Notes:

FET is regarded as one of the initial management shareholders (as defined in the GEM Listing Rules) of the Company. As at 31st March, 2002, 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 had a material interest, either directly or indirectly, subsisted at 31st March, 2002 or at any time during the three months ended 31st March, 2002.

DIRECTORS' RIGHTS TO PURCHASE SHARES OR DEBENTURES

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

As at 31st March, 2002, no options had been granted under the Company's share option scheme.

SUBSTANTIAL SHAREHOLDERS

As at 31st March, 2002, according to the register required to be maintained under section 16(1) of the SDI Ordinance, the Company had been notified of the following interests (not being Directors or chief executives of the Company) in 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 interests required to be recorded under Section 16(1) of the SDI Ordinance as at 31st March, 2002.

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, 2002, FET produced approximately 166,643 tonnes of polyester polymer, 59,540 tonnes of various types of PET chips (for PET bottles, food and industrial packaging), 54,238 tonnes of polyester staple fibre, 45,082 tonnes of POY, 19,347 tonnes of DTY, 88,047 bales of yarn, 11,213,000 yards of finished fabrics and 63 million pieces of PET preforms. Everest Textile also produced approximately 6,250 tonnes of polyester filament and 11,446,000 yards of finished fabrics.

Save as disclosed above, as at 31st March, 2002, the Directors were not aware of any other business or interest of each Director and management shareholder, and the respective associates of each, that competes or may compete with the business of the Group.

Notes:

1. As at 31st March, 2002, 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, 2002, Mr. Jar-Yi Shih and Mr. Chin-Sen Tu were also directors of Everest Textile.

CORPORATE GOVERNANCE

In the opinion of the Directors, the Company has complied with the “Board Practices and Procedures” as set out in Rules 5.28 to 5.39 of the GEM Listing Rules throughout the period.

SPONSOR’S INTERESTS

As at 31st March, 2002, the Company’s sponsor, The Hongkong and Shanghai Banking Corporation Limited (“HSBC”), were interested in 11,182,000 shares of HK\$1.00 each in the issued share capital of the Company. As at that date, an employee 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 was interested in a total of 20,000 shares in the issued share capital of the Company. None of HSBC nor any of its executive directors had any interests in the issued share capital of the Company as at 31st March, 2002.

Pursuant to the sponsor agreement dated 11th January, 2000 (“Sponsor Agreement”) entered into between the Company and HSBC Investment Bank Asia Limited and a novation agreement subsequently signed on 29th January, 2001, HSBC is entitled to receive a fee for acting as the Company’s retained sponsor for the period from 12th January, 2000 to 31st December, 2002.

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-yearly reports and quarterly reports and to provide advice and comments thereon to the board of Directors. The audit committee is also responsible for reviewing and supervising the Company's financial reporting and internal control procedures. The audit committee comprises three non-executive Directors, namely Mr. Shaw-Y Wang, Mr. Ying-Ho Wong, Kennedy, and Mr. Shih-Hung Chan. The audit committee has met ten times since its formation.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor its subsidiaries had purchased, sold or redeemed any of the Company's shares during the period from 31st January, 2000 (date of listing) to 31st March, 2002.

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

Taipei,
13th May, 2002