

FAR EASTERN POLYCHEM INDUSTRIES LIMITED
(遠東化聚工業股份有限公司)*
(Incorporated in Bermuda with limited liability)

HALF-YEARLY RESULTS FOR THE SIX MONTHS ENDED 30TH JUNE, 2002

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This announcement, 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 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.

HALF YEARLY RESULTS HIGHLIGHTS

- Far Eastern Polychem Industries Limited (the “Company”) and its subsidiary (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\$ 904,689,000 for the six months ended 30th June, 2002, with profit attributable to shareholders of approximately HK\$ 76,561,000, representing an increase of 36% and a decrease of 39%, respectively, as compared to the same half-yearly period in the previous financial year.
- The Group achieved a turnover of approximately HK\$ 490,253,000 for the three months ended 30th June, 2002, with profit attributable to shareholders of approximately HK\$ 45,206,000, representing an increase of 40% and a decrease of 34%, respectively, as compared to the same three-month period in the previous financial year.
- Earnings per share for the six months ended 30th June, 2002 was HK\$0.19 (Earnings per share for the six months ended 30th June, 2001 was HK\$ 0.31).

INTERIM FINANCIAL STATEMENTS (UNAUDITED)

The directors of the Company (the “Directors”) have the pleasure of presenting the consolidated financial statements of the Group for the six months ended 30th June, 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, statement of changes in equity and cash flow statements as follows:

(a) Consolidated balance sheet

		As at	
	<i>Notes</i>	30th June, 2002 HK\$'000 (Unaudited)	31st December, 2001 HK\$'000 (Audited)
Fixed Assets		1,454,557	1,448,851
Other non-current assets		12,203	12,888
Current Assets			
Cash at bank and in hand		402,141	347,511
Trade receivables	3	168,056	141,678
Inventories		267,065	237,838
Other current assets		<u>28,665</u>	<u>70,107</u>
Total current assets		<u>865,927</u>	<u>797,134</u>
Current liabilities			
Trade payables	4	(314,558)	(302,417)
Short-term bank loans		(151,148)	(239,118)
Income tax payable		(16,193)	(7,977)
Dividends payable		<u>(102,580)</u>	<u>—</u>
Total current liabilities		<u>(584,479)</u>	<u>(549,512)</u>
Net current assets		281,448	247,622
Total assets less current liabilities		1,748,208	1,709,361
Non-current liabilities			
Long-term bank loans		(432,513)	(367,653)
Deferred tax liabilities		<u>(1,200)</u>	<u>(1,200)</u>
Net assets		<u>1,314,495</u>	<u>1,340,508</u>
Share capital		410,296	410,296
Reserves		<u>904,199</u>	<u>930,212</u>
Shareholders' equity		<u>1,314,495</u>	<u>1,340,508</u>

(b) Unaudited consolidated profit and loss account

		For the six months		For the three months	
		ended 30th June		ended 30th June	
	<i>Notes</i>	2002	2001	2002	2001
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
			<i>(Note 14)</i>		<i>(Note 14)</i>
PET chips		603,278	450,790	318,009	239,268
Polyester filaments		86,101	98,231	48,135	49,161
Finished fabrics		105,125	114,864	63,961	62,689
Polyester staple fibers		<u>110,185</u>	<u>—</u>	<u>60,148</u>	<u>—</u>
Total turnover	5	904,689	663,885	490,253	351,118
Cost of sales	6	<u>(748,109)</u>	<u>(502,205)</u>	<u>(400,652)</u>	<u>(261,585)</u>
Gross profit		156,580	161,680	89,601	89,533
Other operating income	7	4,217	3,407	1,401	1,022
Distribution costs	8	<u>(52,027)</u>	<u>(11,566)</u>	<u>(29,445)</u>	<u>(7,620)</u>
Administrative costs	9	<u>(18,213)</u>	<u>(13,278)</u>	<u>(10,315)</u>	<u>(7,083)</u>
Profit from operations		90,557	140,243	51,242	75,852
Finance cost, net	10	<u>(7,678)</u>	<u>(3,592)</u>	<u>(2,252)</u>	<u>(1,701)</u>
Profit before tax		82,879	136,651	48,990	74,151
Income tax expense	11	<u>(6,318)</u>	<u>(10,244)</u>	<u>(3,786)</u>	<u>(5,668)</u>
Profit attributable to shareholders		<u>76,561</u>	<u>126,407</u>	<u>45,204</u>	<u>68,483</u>
Earnings per share (in HK\$)	12				
- Basic		<u>0.19</u>	<u>0.31</u>	<u>0.11</u>	<u>0.17</u>
- Fully diluted		<u>NA</u>	<u>NA</u>	<u>NA</u>	<u>NA</u>

(c) Unaudited consolidated statement of changes in equity

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Staff welfare fund and reserve fund <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 six months ended 30th June, 2001	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>126,407</u>	<u>—</u>	<u>—</u>	<u>126,407</u>
Balance, 30th June, 2001	410,296	523,001	52,649	5,645	267,905	2,169	—	1,251,976
Profit for the six months ended 31st December, 2001	—	—	—	—	78,843	—	—	78,843
Cash flow hedges transferred to fixed assets	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>9,689</u>	<u>9,689</u>
Balance, 31st December, 2001	410,296	523,001	52,649	5,645	346,748	2,169	—	1,340,508
Profit appropriation	—	—	33,721	—	(33,721)	—	—	—
Dividends declared	—	—	—	—	(102,574)	—	—	(102,574)
Profit for the six months ended 30th June, 2002	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>76,561</u>	<u>—</u>	<u>—</u>	<u>76,561</u>
Balance, 30th June, 2002	<u>410,296</u>	<u>523,001</u>	<u>86,370</u>	<u>5,645</u>	<u>287,014</u>	<u>2,169</u>	<u>—</u>	<u>1,314,495</u>

(d) Unaudited consolidated cash flow statements

	For the six months ended	
	30th June,	30th June,
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
		(Note 14)
CASH FLOW FROM OPERATING ACTIVITIES	139,194	229,278
Interest paid	(13,560)	(10,854)
Taxes paid	<u>(5,392)</u>	<u>—</u>
Net cash from operating activities	120,242	218,424
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(63,183)	(208,860)
Interest received	<u>2,785</u>	<u>8,308</u>
Net cash used in investing activities	(60,398)	(200,552)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term bank loans	315,562	227,480
Proceeds from long-term bank loans	156,041	—
Repayment of short-term bank loans	(403,532)	(65,800)
Repayment of long-term bank loans	(91,180)	—
Dividends paid	<u>—</u>	<u>(114,883)</u>
Net cash from financing activities	(23,109)	46,797
Net increase in cash and cash equivalents	36,735	64,669
Effects on changes of foreign currencies translation	—	307
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>384,246</u>	<u>423,155</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, as published by the International Accounting Standards Board, effective as at 30th June, 2002, the disclosure requirements of the GEM Listing Rules.

The unaudited financial statements have been prepared under the historical cost convention except for buildings included in fixed assets, which have been stated at revalued amount.

2) Principles of consolidation

The unaudited consolidated financial statements include those of the Company and its subsidiary.

All significant intercompany balances and transactions, including intercompany profits and unrealized profits and losses are eliminated on consolidation. Unaudited consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

3) Trade receivables

	30th June, 2002 <i>HK\$'000</i> <i>(Unaudited)</i>	As at 31st December, 2001 <i>HK\$'000</i> <i>(Audited)</i>
Accounts receivable		
Current to 30 days	47,851	49,319
31 to 60 days	33,639	37,069
Over 60 days	<u>6,865</u>	<u>25,252</u>
	88,355	111,640
Notes receivable	<u>79,701</u>	<u>30,038</u>
	<u><u>168,056</u></u>	<u><u>141,678</u></u>

Credit policy

The Group adopted a prudent approach in granting credit to customers. No credit terms were granted to 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 grant credit terms of 90 days. In addition, a predetermined maximum credit limit has been set for each customer.

4) **Trade payables**

	30th June, 2002 <i>HK\$'000</i> <i>(Unaudited)</i>	As at 31st December, 2001 <i>HK\$'000</i> <i>(Audited)</i>
Trade payables		
Current to 30 days	196,814	169,551
31 to 60 days	23,114	41,826
Over 60 days	<u>37,262</u>	<u>17,643</u>
	257,190	229,020
Other payables and accruals	<u>57,368</u>	<u>73,397</u>
	<u><u>314,558</u></u>	<u><u>302,417</u></u>

5) **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.

6) **Cost of sales**

	For the six months ended 30th June 2002 <i>HK\$'000</i> <i>(Unaudited)</i>	2001 <i>HK\$'000</i> <i>(Unaudited)</i>
Depreciation on fixed assets	64,203	46,052
Amortization of land use rights and deferred assets	1,868	5,024
Cost of inventories	590,660	371,414
Personnel expenses	14,803	14,343
Others	<u>76,575</u>	<u>65,372</u>
	<u><u>748,109</u></u>	<u><u>502,205</u></u>

7) **Other operating income**

	For the six months ended 30th June 2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
		<i>(Note 14)</i>
Gain on disposal of scrap materials	4,394	3,523
Other operating expenses	<u>(177)</u>	<u>(116)</u>
	<u>4,217</u>	<u>3,407</u>

8) **Distribution costs**

	For the six months ended 30th June 2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Personnel expenses	1,007	1,549
Transportation expenses	34,573	7,781
Others	<u>16,447</u>	<u>2,236</u>
	<u>52,027</u>	<u>11,566</u>

9) **Administrative costs**

	For the six months ended 30th June 2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Depreciation on fixed assets	2,522	1,477
Amortization of land use rights	416	135
Personnel expenses	6,739	6,923
Directors' fees	582	582
Consulting and legal fees	940	933
Others	<u>7,014</u>	<u>3,228</u>
	<u>18,213</u>	<u>13,278</u>

10) Finance cost, net

	For the six months ended 30th June	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
		<i>(Note 14)</i>
Interest income	(2,785)	(8,308)
Interest expense on borrowings	13,560	17,532
Less: Amount capitalized as		
construction-in-progress	(1,325)	(6,678)
Net foreign currency exchange (gain) loss	(2,529)	665
Others	<u>757</u>	<u>381</u>
	<u><u>7,678</u></u>	<u><u>3,592</u></u>

11) Income tax expense

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 was the fourth 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 six months ended 30th June, 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 six months ended 30th June, 2002 because there were no significant temporary differences.

12) Earnings per share

The calculation of the earnings per share for the six months ended 30th June, 2002 and 30th June, 2001, respectively was based on the unaudited consolidated profit attributable to shareholders of approximately HK\$ 76,561,000 and HK\$ 126,407,000 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.

13) Segmental Information

The Company and its subsidiary operate principally in the production and distribution of PET chips, polyester filament and staple fiber, and the dyeing and finishing of polyeser textile products and have four reportable segments based on the Company’s four strategic business units (“SBUs”), namely the chip SBU, the Filament SBU, the Polyester Staple Fiber SBU and the Dyeing end Finishing SBU which are managed separately.

Business Segments

	Chip SBU		Filament SBU		Dyeing and Finishing SBU		Polyester staple Fiber SBU		Consolidated	
	2002 (\$'000)	2001 (\$'000)	2002 (\$'000)	2001 (\$'000)	2002 (\$'000)	2001 (\$'000)	2002 (\$'000)	2001 (\$'000)	2002 (\$'000)	2001 (\$'000)
	For the six months ended 30th June									
Revenue										
Turnover from external sales	603,278	450,790	86,101	98,231	105,125	114,864	110,185	—	904,689	663,885
Results										
Gross profit	133,623	135,940	6,195	3,618	4,486	22,124	12,276	—	156,580	161,680
Unallocated corporate expenses									(66,023)	(21,437)
Profit from operations									90,557	140,243
Finance cost									(7,678)	(3,592)

	Chip SBU		Filament SBU		Dyeing and Finishing SBU		Polyester staple Fiber SBU		Consolidated	
	For the six months ended 30th June									
	2002 (\$'000)	2001 (\$'000)	2002 (\$'000)	2001 (\$'000)	2002 (\$'000)	2001 (\$'000)	2002 (\$'000)	2001 (\$'000)	2002 (\$'000)	2001 (\$'000)
Profit before tax									82,879	136,651
Taxation									(6,318)	(10,244)
Profit for the period									<u>76,561</u>	<u>126,407</u>
Other Information										
Segment assets	895,560	672,232	297,287	342,703	432,029	555,987	289,640	—	1,914,516	1,570,922
Unallocated corporate assets									418,171	632,118
Total assets									<u>2,332,687</u>	<u>2,203,040</u>
Segment liabilities	278,911	267,677	129,707	184,638	286,711	380,021	203,218	64,011	898,547	896,347
Unallocated corporate liabilities									119,643	54,412
Total liabilities									<u>1,018,190</u>	<u>950,759</u>
Capital expenditure	41,222	105,547	2,451	178	6,455	3,051	3,510	86,407	53,538	195,183
Unallocated corporate capital expenditure									9,645	13,677
Total capital expenditure									<u>63,183</u>	<u>208,860</u>
Depreciation and amortization	20,703	13,172	11,732	11,591	13,802	13,172	7,591	—	53,828	37,935
Unallocated depreciation and amortization									15,181	14,753
Total depreciation and amortization									<u>69,009</u>	<u>52,688</u>

Geographical segments

	PRC		Europe		Others		Total	
	For the six months ended 30th June							
	2002 (\$'000)	2001 (\$'000)	2002 (\$'000)	2001 (\$'000)	2002 (\$'000)	2001 (\$'000)	2002 (\$'000)	2001 (\$'000)
Revenue from external customers	681,621	557,663	132,597	39,833	90,471	66,389	<u>904,689</u>	<u>663,885</u>

All of the Group's assets, liabilities and capital expenditure were located in the PRC.

14) Comparative figures

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 six months ended 30th June, 2002.

The Group did not declare any dividends for the corresponding six-month period in 2001, the quarterly period ended 31st March, 2002 and the corresponding quarterly period in 2001.

FINANCIAL PERFORMANCE

The unaudited consolidated turnover of the Group for the six-month period 30th June, 2002 was approximately HK\$904,689,000, representing an increase of 36% as compared to the corresponding six-month period in 2001. Unaudited consolidated gross profit and profit attributable to shareholders of the Group for the six-month period ended 30th June, 2002 was approximately HK\$ 156,580,000 and HK\$ 76,561,000 respectively, representing a decrease of 3% and 39%, respectively as compared to the six-month period ended 30th June, 2001.

The unaudited consolidated turnover of the Group for the three-month period 30th June, 2002 was approximately HK\$ 490,253,000, representing an increase of 40% as compared to the corresponding three-month period in 2001. Unaudited consolidated gross profit and profit attributable to shareholders of the Group for the three-month period ended 30th June, 2002 was

approximately HK\$ 89,601,000 and HK\$ 45,204,000 respectively. Gross profit was approximately the same and the profit attributable to shareholders has decreased 34% as compared to the three-month period ended 30th June, 2001.

BUSINESS REVIEW

There were signs of recovery for the PET resins market in the PRC, however, the Directors do not expect a significant rebound in the second half of 2002

Although the PET resins market in the PRC remained weak during the second quarter of 2002, there were signs of recovery. The unit selling prices of PET resins increased when compared to the previous quarterly period. Whether the recovery will be sustained into the second half of 2002 depends on various factors including performance of the additional PET resins capacity, the trend of purified terephthalic acid (“PTA”) costs and the rate of consolidation of the PET resins market in the PRC. In light of weak consumer confidence on a global scale, the Directors expect the polyester market in the PRC will remain sluggish in the second half of 2002.

Performance of additional PET resins capacity

Although surplus PET resins capacity in the PRC had previously been forecasted by the Company, the Directors believe that the surplus will not threaten the Group’s target market. Much of the additional capacity has been applied towards the production of water-grade bottles, whereas the Group targets its production towards chips for more sophisticated carbonated soda bottles and hot-filled bottles. For competing PRC-based entities to attain the efficiency levels of the Group and obtain certifications for their products equivalent to those obtained by the Group will, the Directors believe, take several more years. Accordingly, the Directors expect that the effects, in the near to mid-term, of additional PET resins capacity on the Group’s performance will be largely mitigated.

Trend of PTA costs

As a result of the escalating paraxylene (“PX”) prices, unplanned demands and delay in capacity expansion, PTA costs rebounded significantly to around USD 580 per metric ton during the second quarter of 2002. The performance of the Group was thus affected, as the rise in unit selling prices of PET chips was offset by the rise in PTA costs. However, the Directors believe that the rise in

PTA costs should be short-lived, as the global PTA capacities are expected to increase in the second half of 2002. There is evidence that PTA costs are beginning to fall as the current spot price is around USD500 per metric ton. The Directors believe the downward trend will continue in the near future.

In view of the stabilizing unit selling prices, the decline in PTA costs should mitigate the margin squeeze experienced by the Group during the previous year.

Rate of consolidation of the PET resins market in the PRC

Historically, the PET resins market in the PRC has been very fragmented. It has consisted of few major producers and numerous small-scale producers, the latter usually operating at a very inefficient level. The recent slump in the PET resins market has already caused certain small inefficient polyester producers to close down. Amid China's World Trade Organization ("WTO") accession, and the additional PET resins production capacity, the Directors expect that the PET resins market in the PRC will continue to consolidate.

Polyester staple fibers expected to be a key growth driver

As the global production capacities in polyester staple fibers continue to consolidate, it is expected that the polyester staple fibers market in the PRC will turn around during the second half of 2002. The Directors anticipate that polyester staple fibers will be one of the Group's major growth drivers. The Group is concentrating on non-woven conjugate staple fibers used in toy-stuffing, thermal bond and chemical bond, which are high value-added specialty products. Currently, China is importing conjugate fibers at a rate of 60,000 tons per year, which means that domestic demand is still outstripping domestic supply. The Group's goal will be to satisfy part of that demand.

Positioning itself as a high-quality, value-added and specialty polyester products producer

The Group will continue to position itself as a high-quality, value-added and specialty polyester products producer. Backed up by the most advanced technology, the Group achieves economies of scale and the Directors believe it to be one of the most efficient producers within the polyester industry. The Group will continue to perform research and development in order to create new applications, and therefore generate new demand for its polyester products.

Expansion of base polymer production capacity to over 600,000 tons per year in the next two years

In addition to the current products, namely PET chips, polyester filaments and staple fibers and finished fabrics, the Group plans to produce a wider range of polyester products, including high value-added PET sheets and PET preforms. The Group's current base polymer production capacity will not be adequate to meet future requirements. The Group is in the process of acquiring the polymerization facilities of DuPont Suzhou Polyester Company Limited, which would provide additional base polymer production capacity of 100,000 tons per year. In addition, the Group plans to expand its own base polymer facilities, which will provide additional capacities of approximately 200,000 tons per year. The Group is aiming to possess a base polymer production capacity of over 600,000 tones per year in 2004.

Continuous process improvement

After concerted efforts to alter the product mix and re-align the of production process, the performance of the finished fabrics strategic business unit ("SBU") improved gradually during the second quarter of 2002. Further steps are planned to improve the product mix and production process of the SBU with a view to maximizing shareholders' value.

MANAGEMENT DISCUSSION AND ANALYSIS

Business environment

China's economy recorded a growth rate of approximately 7% during the first half of 2002. However, unlike the overall market, the polyester sector was sluggish during the second quarter of 2002. Although domestic demand for PET resins, the Group's major product, continues to grow, the unit selling prices were dampened by the anticipated increase in production capacities. Domestic supply started to outstrip domestic demand. The unit selling prices, however, rebounded sharply in May and June of 2002 as a result of increases in PTA costs.

Cost of the Group's major raw material, PTA, increased significantly from approximately USD 400 per metric ton at the beginning of April, 2002 to approximately USD 580 per metric ton towards the end of June, 2002. However, a downward trend in PTA costs is expected during the second half of 2002.

As the increase in unit selling prices of PET resins was offset by the increase in PTA costs, gross profit margins for PET resins remained relatively low at 17%.

Turnover

Net sales for PET resins increased 40% from HK\$ 451 million in the first half of 2001 to HK\$603 million in the first half of 2002. This was mainly attributable to the increase in the Group's production capacities. As the Chip SBU was operating and selling at over 100% of its rated capacities, the sales volume of PET resins increased 80% during the first half of 2002, when compared to the first half of 2001. The average selling prices of PET resins, however, declined by 26% in the first half of 2002, resulting in an overall increase in turnover of PET resins of 40%.

Net sales of polyester filaments decreased by 12% from HK\$ 98 million in the first half of 2001 to HK\$86 million in the first half of 2002. Although it is apparent that the China polyester filament market is bottoming out, it remained sluggish during the first half of 2002. As the Group continued to shuffle its product mix in order to maximize the profit, less polyester filaments were sold. Sales volume decreased by 11% during the first half of 2002 as compared to the first half of 2001. The unit selling prices, on the other hand, declined slightly by 2% which demonstrated the comparatively price inelasticity of the Group's polyester filament products.

Net sales of finished fabrics decreased by 9% from HK\$ 115 million in the first half of 2001 to HK\$105 million in the first half of 2002. Amid the Group's efforts in re-engineering the operations of the dyeing and finishing SBU, the unit selling prices of finished fabrics improved by 11% during the first half of 2002, when compared to the same period in 2001. However, the improvement was offset by the fact that fewer fabrics were sold. Sales volume decreased by 17%.

Net sales of polyester staple fibers amounted to HK\$110 million. Since the polyester staple fibers SBU has only commenced operations in October of 2001, the Group continued to test the market during the first half of 2002. Approximately 16,000 tonnes of polyester staple fibers were sold at an average unit-selling price of Rmb 7,240 per ton.

Cost of sales

The Group's cost of sales was mainly affected by the costs of PTA and MEG, while the cost of MEG remained stable during the first half of 2001; the cost of PTA rebounded sharply during the same period. When compared to the first half of 2001, the costs of PTA and MEG declined by 14% and 17%, respectively.

Due to an increase in production volume, in particular, PET resins, the Group's cost of sales increased 49% from HK\$ 502 million during the first half of 2001 to HK\$ 748 million during the first half of 2002. However, the extent of the decline in PET resins unit-selling prices during the previous year outstripped the decline in the Group's costs of raw materials, led to a significant margin squeeze. The gross profit margin declined from 24% in the first half of 2001 to 17% in the first half of 2002.

Distribution costs, administrative expenses, other income and finance costs

As a result of the declining domestic market, the Group's export ratio continued to increase from 16% during the first half of 2001 to 25% during the first half of 2002. In addition, as the market shifted from a seller-oriented mode to a buyer-oriented mode, the Group had to bear more sales transportation and freight costs. Moreover, the increase in crude oil prices and insurance premium after the terrorist attack in the United States caused the distribution costs to increase 4.3 times from HK\$ 12 million during the first half of 2001 to HK\$ 52 million during the first half of 2002.

Administrative expenses increased by 37% from HK\$13 million during the first half of 2001 to HK\$18 million during the first half of 2002 due to the addition of the polyester staple fiber SBU and the research and development division.

Net finance costs increased as less interest income was earned due to a decrease in interest rates.

Profit attributable to shareholders

Profit attributable to shareholders decreased by 39% from HK\$ 126 million during the first half of 2001 to HK\$ 76 million during the first half of 2002. Net profit margin rate decreased by 10.5% from 19% during the first half of 2001 to 8.5% during the first half of 2002. The decline in profit was mainly attributable to (1) a decrease in unit selling prices and gross profit rates of the Group's products, in particular PET resins; and (2) a substantial increase in the Group's distribution costs.

GROUP LIQUIDITY AND FINANCIAL RESOURCES

Cash and cash equivalents

As at 30th June, 2002, the Group's cash and cash equivalents amounted to approximately HK\$ 384 million (compared to HK\$ 348 million as at 31st December, 2001) and of which 73% were denominated in United States dollars, 22% were denominated in Renminbi and 5% were denominated in Euros.

Cash flows

Cash generated from operations decreased from HK\$ 218 million in the first half of 2001 to HK\$120 million in the first half of 2002. This was mainly attributable to (1) a decrease in the Group's profit attributable to shareholders, (2) an increase in the Group's turnover, increase in the Group's export ratio and with it, a larger portion of sales on credit, which in turn led to an increase in debtors, and (3) the addition of the polyester staple fiber SBU, which resulted in an increased inventory level during the first half of 2002.

Net cash used in investment activities decreased from HK\$201 million in the first half of 2001 to HK\$60 million in the first half of 2002. The decrease was mainly due to the fact that the main investment activity during the first half of 2001 was the construction of polyester staple fiber plant, which has already been completed during the third quarter of 2001. Whereas, the main investment activities for the first half of 2002 was the capital expenditure for the PET preform plant and other ancillary facilities, which required a much smaller capital outlay than the polyester staple fiber plant.

During the first half of 2002, approximately HK\$ 88 million short-term bank loans were repaid and approximately HK\$ 65 million long-term bank loans were obtained.

Borrowings

As at 30th June, 2002, the Group's borrowings amounted to approximately HK\$584 million (compared to HK\$607 million as at 31st December, 2001). Approximately 53% of the Group's borrowings were denominated in Renminbi, 42% in Hong Kong dollars and 5% in United States dollars. Approximately 53% of the Group's total borrowings were at fixed rates.

As at 30th June, 2002, the net debt to equity ratio was approximately 15% (compared to 19% as at 31st December, 2001). Gross debt to equity ratio was approximately 44% (compared to 45% as at 31st December, 2001). Earnings before interest, taxation, depreciation and amortization covered the gross interest expense for the first half of 2002 by 12.1 times (compared to 9.8 times in the year 2001).

The Group's total capital expenditure for the first half of 2002 amounted to HK\$ 63 million (compared to HK\$209 million for the first half of 2001), which was funded by borrowings and internally generated cash. The capital

expenditure for the first half of 2002 was mainly incurred in the construction of the PET performs plant, and other ancillary facilities for the filament SBU. Capital expenditure in the second half of 2002 is expected to be HK\$ 39 million.

Committed borrowing facilities that are available to the Group companies, but not drawn as at 30th June, 2002, amounted to HK\$1,599million (compared to HK\$1,319 million as at 31st December, 2001).

TREASURY POLICIES AND CAPITAL STRUCTURE

The Group's overall treasury and funding policies are prudent, with a focus on risk management and those transactions that are directly related to the underlying business of the Group. Assets which are denominated in currencies other than Hong Kong and United States dollars, in particular, Renminbi assets, are hedged with the appropriate level of borrowings in Renminbi and bank deposits in United States dollars. When necessary, forward exchange contracts will be used to hedge against foreign currency exposures. As at 30th June, 2002, the Group had no significant exposure under foreign exchange contracts.

USE OF PROCEEDS

Over the period from 31st January, 2000 (date of listing) to 30th June, 2002, the Group has substantially utilized the proceeds from the initial public offering of its new shares on GEM. The use of proceeds was in line with the information as set out in the section headed "Summary" in the Prospectus dated 20th January, 2000.

DIRECTORS' INTERESTS IN SECURITIES

As at 30th June, 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	59,463,701	Nil	Nil	Nil	59,463,701
Mr. Jar-Yi Shih	1,390,435	Nil	Nil	Nil	1,390,435
Mr. Champion Lee	218	Nil	Nil	Nil	218
Mr. Chin-Sen Tu	216	Nil	Nil	Nil	216
Mr. Shaw-Y Wang	98,226	Nil	Nil	Nil	98,226
Mr. Lih-Teh Chang	18,387	Nil	Nil	Nil	18,387

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 30th June, 2002.

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 30th June, 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 announcement, 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 30th June, 2002 or at any time during the six months ended 30th June, 2002.

DIRECTORS' RIGHTS TO PURCHASE SHARES OR DEBENTURES

The Company has a share option scheme 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 30th June, 2002, no options had been granted under the Company's share option scheme.

SUBSTANTIAL SHAREHOLDERS

As at 30th June, 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 30th June, 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 six months ended 30th June, 2002, FET produced approximately 349,542,482 tonnes of polyester polymer, 124,116,016 tonnes of various types of PET chips (for PET bottles, food and industrial packaging), 115,743,342 tonnes of polyester staple fibre, 92,139,252 tonnes of POY, 39,223,460 tonnes of DTY, 178,283 bales of yarn, 22,990,628 yards of finished fabrics and 154 million pieces of PET preforms. Everest Textile also produced approximately 12,685 tonnes of polyester filament and 23,874,000 yards of finished fabrics.

Save as disclosed above, as at 30th June, 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 30th June, 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 30th June, 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 30th June, 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, 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 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 30th June, 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 eleven 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 30th June, 2002.

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

Taipei,
9th August, 2002

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

** for identification purposes only*