



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 2003

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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.

HALF-YEARLY RESULTS HIGHLIGHTS

- Far Eastern Polychem Industries Limited (the “Company”) and its subsidiaries (together the “Group”) are principally engaged in the production and distribution of four major categories of polyester products in the People’s Republic of China (the “PRC”), namely bottle-grade polyethylene terephthalate (“PET”) chips, polyester filaments and polyester staple fibers, and the dyeing and finishing of polyester fabrics.
- The Group achieved a turnover of approximately HK\$961,883,000 for the six months ended 30th June 2003, with profit attributable to shareholders of approximately HK\$10,058,000, representing an increase of 6% and a decrease of 87%, respectively, as compared to the same half-yearly period in the previous financial year.
- The Group achieved a turnover of approximately HK\$492,997,000 for the three months ended 30th June 2003, with loss attributable to shareholders of approximately HK\$3,200,000, representing an increase of 1% and a decrease of 107%, respectively, as compared to the same quarterly period in the previous financial year.
- Earnings per share for the six months ended 30th June 2003 was HK\$0.02 (Earnings per share for the six months ended 30th June 2002 was HK\$0.19).

INTERIM FINANCIAL STATEMENTS (UNAUDITED)

The directors of the Company (the “Directors”) have the pleasure of presenting the unaudited consolidated financial statements of the Group for the six months ended 30th June 2003 and, for comparison purposes, the audited consolidated balance sheet as at 31st December 2002 and figures for the corresponding period last year in respect of the unaudited consolidated profit and loss account, cash flow statement and statement of changes in equity as follows:

(a) Consolidated balance sheet

		As at	
	<i>Note</i>	30th June 2003	31st December 2002
		<i>HK\$'000</i>	<i>HK\$'000</i>
		<i>(Unaudited)</i>	<i>(Audited)</i>
Fixed assets	3	1,405,694	1,428,749
Investment in an associated company		86,034	—
Receivable from a related company		19,500	—
Other non-current assets		12,553	11,517
Current assets			
Cash and bank deposits		154,854	345,717
Trade and notes receivables	4	199,243	214,828
Inventories		388,487	313,312
Other current assets		59,952	51,704
Total current assets		<u>802,536</u>	<u>925,561</u>
Current liabilities			
Trade, other payables and accruals	5	(307,516)	(379,207)
Short-term bank loans		(209,809)	(179,131)
Long-term bank loans, current portion		(140,060)	(46,060)
Income tax payable		—	(14,279)
Total current liabilities		<u>(657,385)</u>	<u>(618,677)</u>
Net current assets		145,151	306,884
Total assets less current liabilities		1,668,932	1,747,150
Non-current liabilities			
Long-term bank loans		(378,248)	(425,494)
Deferred tax liabilities		(1,200)	(1,200)
Net assets		<u>1,289,484</u>	<u>1,320,456</u>
Share capital		410,296	410,296
Reserves		879,188	910,160
Shareholders' equity		<u>1,289,484</u>	<u>1,320,456</u>

(b) Unaudited consolidated profit and loss account

		For the six months ended 30th June		For the three months ended 30th June	
	<i>Note</i>	2003	2002	2003	2002
		<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>
PET chips		584,244	603,278	285,199	318,009
Polyester filaments		104,127	86,101	54,942	48,135
Polyester staple fibers		156,767	110,185	77,139	60,148
Finished fabrics		116,745	105,125	75,717	63,961
Total turnover	6	961,883	904,689	492,997	490,253
Cost of sales	7	(866,973)	(748,109)	(454,157)	(400,652)
Gross profit		94,910	156,580	38,840	89,601
Other operating income	8	11,606	4,217	8,938	1,401
Distribution costs	9	(59,916)	(52,027)	(34,288)	(29,445)
Administrative costs	10	(27,307)	(18,213)	(12,919)	(10,315)
Profit from operations		19,293	90,557	571	51,242
Finance costs, net	11	(6,716)	(7,678)	(2,778)	(2,252)
Profit before tax		12,577	82,879	(2,207)	48,990
Income tax expense	12	(2,519)	(6,318)	(993)	(3,786)
Profit (Loss) attributable to shareholders		10,058	76,561	(3,200)	45,204
Earnings (Loss) per share (in HK\$)	13				
— Basic		0.02	0.19	(0.01)	0.11
— Fully diluted		NA	NA	NA	NA

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

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Reserve fund <i>HK\$'000</i>	Revaluation reserve <i>HK\$'000</i>	Translation reserve <i>HK\$'000</i>	Retained earnings <i>HK\$'000</i>	Total <i>HK\$'000</i>
Balance, 1st January 2002	410,296	523,001	52,649	5,645	2,169	346,748	1,340,508
Profit appropriation	—	—	33,721	—	—	(33,721)	—
Dividends declared	—	—	—	—	—	(102,574)	(102,574)
Profit for the six months ended 30th June 2002	—	—	—	—	—	76,561	76,561
Balance, 30th June 2002	410,296	523,001	86,370	5,645	2,169	287,014	1,314,495
Profit for the six months ended 31st December 2002	—	—	—	—	—	5,961	5,961
Balance, 31st December 2002	410,296	523,001	86,370	5,645	2,169	292,975	1,320,456
Profit appropriation	—	—	16,276	—	—	(16,276)	—
Dividends declared	—	—	—	—	—	(41,030)	(41,030)
Profit for the six months ended 30th June 2003	—	—	—	—	—	10,058	10,058
Balance, 30th June 2003	410,296	523,001	102,646	5,645	2,169	245,727	1,289,484

(d) Unaudited consolidated cash flow statement**For the six months ended
30th June**

	<i>Note</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash (used in) generated from operations		(52,300)	139,194
Interest paid		(11,824)	(13,560)
Income tax paid		(1,994)	(5,392)
		<hr/>	<hr/>
Net cash (outflow) inflow from operations		(66,118)	120,242
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of fixed assets		(62,945)	(63,183)
Interest received		2,238	2,785
Investment in an associated company		(86,034)	—
Increase in other non-current assets		(1,355)	—
Net cash outflow from disposal of a subsidiary	14	(13,060)	—
		<hr/>	<hr/>
Net cash used in investing activities		(161,156)	(60,398)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from short-term bank loans		538,310	315,562
Proceeds from long-term bank loans		46,754	156,041
Repayment of short-term bank loans		(507,632)	(403,532)
Repayment of long-term bank loans		—	(91,180)
Dividends paid		(41,021)	—
		<hr/>	<hr/>
Net cash from (used in) financing activities		36,411	(23,109)
Net (decrease) increase in cash and cash equivalents		(190,863)	36,735
Cash and cash equivalents, beginning of the period		345,717	347,511
		<hr/>	<hr/>
Cash and cash equivalents, end of the period		154,854	384,246
		<hr/> <hr/>	<hr/> <hr/>

(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, the disclosure requirements of the Rules Governing the Listing of Securities on the GEM of the Exchange.

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.

The accounting policies and methods of computation used in the preparation of the interim unaudited financial statements are consistent with those used in the annual financial statements as at and for the year ended 31st December 2002.

2) **Principles of consolidation**

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

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) **Fixed assets**

During the six months ended 30th June 2003, additions to fixed assets amounted to HK\$62,945,000 (2002: HK\$63,183,000).

4) **Trade and notes receivables**

	As at	
	30th June 2003	31st December 2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Audited)</i>
Trade receivables		
Current to 30 days	41,556	65,553
31 to 60 days	44,629	33,007
Over 60 days	96,023	45,505
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	182,208	144,065
Notes receivable	17,035	70,763
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	199,243	214,828
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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 would grant credit terms from 90 to 120 days. In addition, a predetermined maximum credit limit is set for each customer.

5) Trade, other payables and accruals

	As at	
	30th June 2003 HK\$'000 (Unaudited)	31st December 2002 HK\$'000 (Audited)
Trade payables		
Current to 30 days	135,516	236,856
31 to 60 days	27,636	9,037
Over 60 days	106,860	46,879
	<hr/>	<hr/>
	270,012	292,772
Other payables and accruals	37,504	86,435
	<hr/>	<hr/>
	<u>307,516</u>	<u>379,207</u>

6) 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.

7) Cost of sales

	For the six months ended 30th June	
	2003 HK\$'000 (Unaudited)	2002 HK\$'000 (Unaudited)
Depreciation on fixed assets	65,169	64,203
Amortization of land use rights and deferred assets	842	1,868
Cost of inventories	707,456	590,660
Personnel expenses	19,475	14,803
Others	74,031	76,575
	<hr/>	<hr/>
	<u>866,973</u>	<u>748,109</u>

8) **Other operating income**

	For the six months ended	
	30th June	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Gain on disposal of scrap materials	6,313	4,394
Gain on disposal of a subsidiary	4,347	—
Other operating income (expense)	946	(177)
	<u>11,606</u>	<u>4,217</u>

9) **Distribution costs**

	For the six months ended	
	30th June	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Personnel expenses	7,663	6,729
Transportation expenses	35,732	34,573
Others	16,521	10,725
	<u>59,916</u>	<u>52,027</u>

10) **Administrative costs**

	For the six months ended	
	30th June	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Depreciation on fixed assets	4,484	2,522
Amortization of land use rights	406	416
Personnel expenses	11,509	6,739
Directors' fees	582	582
Consulting and legal fees	1,990	940
Others	8,336	7,014
	<u>27,307</u>	<u>18,213</u>

11) Finance costs, net

	For the six months ended	
	30th June	
	2003	2002
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interest income	(2,238)	(2,785)
Interest expense on borrowings	11,812	13,560
Less: Amount capitalized as construction-in-progress	(1,016)	(1,325)
Net foreign currency exchange gain	(4,001)	(2,529)
Others	2,159	757
	<u>6,716</u>	<u>7,678</u>

12) Income tax expense

The Company is exempted from taxation in Bermuda until 2016. No Hong Kong profits tax was provided as no assessable profits was earned in or derived from Hong Kong.

Pursuant to the relevant laws and regulations in the PRC, the Company's subsidiaries registered in the PRC are subject to PRC enterprise income tax ("EIT") on the taxable income as reported in their PRC statutory accounts adjusted in accordance with relevant PRC income tax laws. Furthermore, in accordance with the PRC "Law of Enterprise Income Tax for Enterprise with Foreign Investment", Far Eastern Industries (Shanghai) Limited ("FEIS"), the Company's major PRC subsidiary, is entitled to full exemption from EIT for the first two years and a 50% reduction in EIT for the next three years, commencing from the first profitable year after offsetting all tax losses carried forward from the previous five years. Being registered in a designated high-technology development zone in the PRC, FEIS enjoys a preferable EIT rate of 15%. 2003 is the fifth profitable year of FEIS and it is subject to EIT at a 50% reduced rate of 7.5%.

According to relevant PRC rules and regulations, being qualified as a "High-technology Enterprise" (granted by relevant local authorities on 20th December 2000), FEIS is entitled to the 50% reduced EIT rate for an additional three years, after the end of the five years preferential EIT treatment as stated above. The "High-technology Enterprise" status is subject to review every two years.

There was no significant unprovided deferred taxation as at 30th June 2003.

13) Earnings per share

The calculation of the earnings per share for the six months ended 30th June 2003 and 30th June 2002, was based on the unaudited consolidated profit attributable to shareholders of approximately HK\$10,058,000 and HK\$76,561,000, respectively, and 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.

14) **Note to unaudited consolidated cash flow statement — Disposal of a subsidiary**

For the six months ended

30th June

2003

HK\$'000

(Unaudited)

Net assets disposed of:

Fixed assets	14,918
Cash and bank deposits	13,060
Trade receivables	832
Trade payables	(13,657)

15,153

Gain on disposal	4,347
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Recorded as receivable from a related company	19,500
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Net cash outflow from disposal of a subsidiary

Cash consideration	—
Cash and bank deposits disposed of	(13,060)

Net cash outflow from disposal of a subsidiary	(13,060)
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15) Segmental information

The Company and its subsidiaries operate principally in the production and distribution of PET chips, polyester filaments and polyester staple fibers, and the dyeing and finishing of polyester textile products and have four reportable segments based on the Company's four strategic business units ("SBU"), namely the Chip SBU, the Filament SBU, the Polyester Staple Fiber SBU and the Dyeing and Finishing SBU which are managed separately.

Business segments

	Chip SBU		Filament SBU		Polyester Staple Fiber SBU		Dyeing and Finishing SBU		Consolidated	
	For the six months ended 30th June									
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue										
Turnover from										
external sales	584,244	603,278	104,127	86,101	156,767	110,185	116,745	105,125	961,883	904,689
Results										
Gross profit	55,537	133,623	1,744	6,195	23,094	12,276	14,535	4,486	94,910	156,580
Unallocated corporate expenses									(75,617)	(66,023)
Profit from operations									19,293	90,557
Finance costs									(6,716)	(7,678)
Profit before tax									12,577	82,879
Income tax expense									(2,519)	(6,318)
Profit attributable to shareholders									10,058	76,561

16) Related party transactions

- (i) During the six months ended 30th June 2003, technological license fee paid to Far Eastern Investment (Holdings) Company Limited, a fellow subsidiary, amounted to HK\$5,836,000 (2002: HK\$5,836,000).
- (ii) During the six months ended 30th June 2003, the Company entered into a conditional sale and purchase agreement with Far EasTone Telecommunications Co., Ltd. ("Far EasTone"), a fellow subsidiary, for the disposal of a then subsidiary of the Company, Far Eastern Info Service (Holding) Limited ("FEISH"), to Far EasTone. The consideration for the disposal is an aggregate sum of HK\$19,500,000 plus interest and HK\$902,000 in respect of the establishment cost of FEISH. Completion of the above sale and purchase agreement is conditional upon, amongst other things, Far EasTone obtaining all necessary governmental approvals. From the date of the above sale and purchase agreement, the business of FEISH is conducted to Far EasTone's order and at Far EasTone's expense, with the Company being indemnified against all liabilities applicable to the business of FEISH.

17) Commitments

(i) Capital commitments

As at 30th June 2003, the Group had the following capital commitments which were not provided for in the accounts:

	As at	
	30th June 2003	31st December 2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Audited)</i>
Authorised and contracted for		
— Acquisition of fixed assets	<u>30,347</u>	<u>189,689</u>

(ii) Investment commitments

In 2002, a wholly owned subsidiary of the Company entered into an agreement with Dupont Suzhou Polyester Company Limited (“DSPC”) in connection with the acquisition of certain business assets of DSPC, mainly the fixed assets used in the production of polyester polymers of DSPC in Suzhou, the PRC, for a consideration of not more than HK\$293,436,000. Completion of the above agreement shall take place after the conditions set out in the agreement have been fulfilled which include, amongst other things, obtaining all necessary governmental approvals. At the date of this report, certain governmental approvals are still outstanding.

DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30th June 2003. The Group did not declare any dividends for the corresponding six-month period in 2002.

On 14th March 2003, the Directors declared a final dividend of HK\$0.10 per ordinary share for the year ended 31st December 2002, totalling approximately HK\$41,030,000. This dividend has been fully paid.

FINANCIAL PERFORMANCE

The unaudited consolidated turnover of the Group for the six months ended 30th June 2003 was approximately HK\$961,883,000, representing an increase of 6% as compared to the corresponding six-month period in 2002. Unaudited consolidated gross profit and profit attributable to shareholders of the Group for the six-month period ended 30th June 2003 was approximately HK\$94,910,000 and HK\$10,058,000 respectively, representing a decrease of 39% and 87%, respectively as compared to the six-month period ended 30th June 2002.

The unaudited consolidated turnover of the Group for the three-month period 30th June 2003 was approximately HK\$492,997,000, representing an increase of 1% as compared to the corresponding three-month period in 2002. Unaudited consolidated gross profit and loss attributable to shareholders of the Group for the three-month period ended 30th June 2003 was approximately HK\$38,840,000 and HK\$3,200,000, representing a decrease of 57% and 107%, respectively, as compared to the three-month period ended 30th June 2002.

BUSINESS REVIEW

The polyester market in the People's Republic of China (the "PRC") was seriously affected by the Severe Acute Respiratory Syndrome ("SARS") epidemic during the second quarter of 2003

The recent outbreak of the SARS epidemic has been affecting the performance of enterprises across all industries in the PRC. Gross Domestic Product ("GDP") only grew at a rate of 6.7% during the second quarter of 2003, which was the lowest since 1992. Although the economy rebounded sharply in June, economic activities were minimal during April and May, when the effect of SARS was at its peak. As certain of the Group's customers were only operating at one-third of normal level, the Group's performance during the second quarter of 2003 was inevitably affected. Sales volume for PET chips decreased by 14% during the second quarter of 2003, when compared to the same quarterly period in 2002.

Despite a temporary rebound during the first quarter of 2003, the unit selling prices of PET chips declined significantly in the second quarter

The unit-selling price of PET chips rebounded sharply during the first quarter of 2003 as a result of the escalating PTA and MEG costs arising as a consequence of the US-lead coalition war against Iraq. However, it declined significantly in the second quarter as PTA and MEG costs fell back on the cessation of hostilities in Iraq. Together with the outbreak of SARS, which strangled consumer spending in the PRC, unit-selling prices for PET chips declined at a rate faster than that of PTA and MEG costs and as such, the Group experienced further pressure on margins. The situation improved in June after the threat of the SARS epidemic was lifted.

The performance of polyester staple fibers continues to improve

Despite a temporary setback during April and May as a result of the SARS epidemic, the sale of polyester staple fibers was back on track in June. Sales volume and unit selling prices of the Group's polyester staple fibers improved in the second quarter of 2003 when compare to the same quarterly period in 2002. The Group's products were well accepted by the market after a prolonged period of market testing. The Directors expect an increasing demand for high-quality conjugate fibers in the PRC as the economy continues to expand and living standards continue to improve. In view of this, the Group plans to double its existing production capacity of polyester staple fibers in 2004.

The Filament SBU and the Polyester Staple Fiber SBU recorded improved results in the first half of 2003

As the Group has re-positioned itself on producing high value-added specialty filament and fiber products such as the sea-island and quick dry filaments and fabrics, the performance of the Filament SBU and the Polyester Staple Fiber SBU continue to improve during the first half of 2003. Although double-digit growth in demand is expected again this year, the filament and fiber market in the PRC will remain competitive as additional production capacities will come on line in the near future.

The independent shareholders of the Company approved the investment in a joint venture to engage in the production of PTA in the PRC

In anticipation of the growing demand for PTA in the PRC, the Group entered into a joint venture agreement between Ding Yuang International Investment Corporation and Oriental Union Chemical Corporation, both connected parties of the Company, on 13th May 2003. The joint venture is to establish and operate a new PTA plant adjacent to the Group's existing facilities in Pudong, Shanghai. The Group's investment in the project amounted to USD11.09 million (which represents approximately 10.9% equity interest in the joint venture). The independent shareholders of the Company duly approved the investment on 11th June 2003 at an extraordinary general meeting.

FUTURE PROSPECTS

The polyester market in the PRC will remain competitive amid rising raw material costs and increasing production capacities

Although the demand for polyester products is expected to sustain a double-digit growth again this year, in view of the fact that production capacities will continue to increase, the Directors expect the polyester market in the PRC, in particular, that of PET chips, filaments and fabrics, will remain competitive. Raw material costs, in particular that of MEG, are likely to show an upward trend again due to the existence of a general production bottleneck. Within this

challenging environment, the Group will continue to position itself as a high-quality, value-added and specialty polyester products producer.

With the threat of SARS appearing to have passed, coupled with the peak season in summer, the Directors expect the gross profit margin to improve in the third quarter of 2003.

The Group will continue to focus on specialty products

As noted above, the Group will remain focused on producing high quality, value-added products with higher margins. At the same time, the Directors believe that polyester staple fiber is likely to become a major growth driver in the near future. In this regard, the management will continuously monitor and re-assess the market so as to achieve an optimum product mix, with a view to maximize the Group's profitability.

The acquisition of Business Assets of DuPont Suzhou Polyester Corporation ("DSPC") will complete in the third quarter of 2003

The Directors expect the acquisition of the Business Assets of DSPC (as previously announced in 2002) to complete in the third quarter of 2003. The investment, amounting to US\$20 million, will enable the Group to obtain additional polymerization capacity of at least 100,000 tonnes per annum. Such acquisition will ease the bottleneck associated with the Group's current production process, increase the Group's production capacity and, as such, is considered to be a major part of the Group's expansion plans.

MANAGEMENT DISCUSSION AND ANALYSIS

Business environment

China's economy grew at a rate of approximately 8.2% during the first half of 2003. Although the overall consumer spending remained strong, the economy was dampened by the SARS epidemic during the second quarter of 2003, during which China recorded a GDP growth rate of 6.7%, the lowest since 1992. The polyester market, in particular that of PET chips in the PRC, remained highly competitive, as domestic supply outstripped domestic demand. The Directors expect high-quality polyester staple fiber to be one of the Group's future key profit drivers. Domestic demand grew at a rate of 17% over the past year, and the Group is expecting to increase its market share in the future.

Cost of the Group's major raw materials, PTA and MEG were extremely volatile during the first half of 2003. PTA costs increased significantly during the first quarter due to the war in Iraq and the increasing demand in the PRC, but fell back during the second quarter after the war in Iraq ended. MEG costs, however, were kept at high levels due to worldwide production bottlenecks. As the Group encountered another wave of margin squeeze, the gross profit rate declined from 17% during the first half of 2002 to 10% during the first half of 2003.

Turnover

Net sales for PET resins decreased 3% from HK\$603 million in the first half of 2002 to HK\$584 million in the first half of 2003. This was mainly attributable to the effect of the SARS epidemic during the second quarter of 2003. Although unit selling prices for PET resins increased by 9%, sales volume dropped by 12% in the second quarter of 2003, when compared to the same quarterly period in 2002.

Net sales of polyester filaments increased by 21% from HK\$86 million in the first half of 2002 to HK\$104 million in the first half of 2003. This was mainly attributed to an increase in sales volume by 5% and an increase in unit selling prices by 15% during the first half of 2003, when compared to the same half-yearly period in 2002.

Net sales of polyester staple fibers increased by a massive 42% from HK\$110 million in the first half of 2002 to HK\$157 million in the first half of 2003. As the Group's products are well accepted by the market, the unit selling prices and the sales volume increased by 15% and 17%, respectively in the first half of 2003 when compared to the first half of 2002.

Net sales of finished fabrics increased by 11% from HK\$105 million in the first half of 2002 to HK\$117 million in the first half of 2003. 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 22% during the first half of 2003, when compared to the same period in 2002. However, the improvement was offset by the fact that fewer fabrics were sold, as sales volume decreased by 10%.

Cost of sales

The Group's cost of sales was mainly affected by the costs of PTA and MEG. As the costs of PTA and MEG increased significantly by 32% and 51%, respectively during the first half of 2003 when compared to the first half of 2002, cost of sales increased 16% from HK\$748 million to HK\$867 million. The increase in PTA and MEG costs resulted from the war in Iraq, the increasing demand for PTA in the PRC and the worldwide production bottlenecks of MEG.

Although there was a mild increase in unit-selling prices for all of the Group's products, gross profit rate reduced from 17% in the first half of 2002 to 10% in the first half of 2003 since the increase in products' prices was outstripped by the increase in raw material costs.

Distribution costs, administrative expenses, other income and finance costs

Distribution costs increased by 15% during the first half of 2003, when compared to the first half of 2002. This was caused by the increase in overseas transportation expenses as the Group's export ratio increased to 26%, when compared to 21% during the first half of 2002.

Administrative expenses increased significantly by 50% due to the increased personnel, research and development and depreciation expenses incurred in relation to new specialty products introduced by the Group since the middle of 2002.

Other operating income increased significantly by 175%, due to the gain on disposal of a subsidiary, Far Eastern Info Service (Holding) Limited (“FEISH”) which amounted to HK\$4,347,000.

Profit attributable to shareholders

Profit attributable to shareholders decreased by 87% from HK\$77 million during the first half of 2002 to HK\$10 million during the first half of 2003. Net profit margin rate decreased from 8% during the first half of 2002 to 1% during the first half of 2003. The decline in profit was mainly attributable to the significant increase in raw material costs, causing a margin squeeze which in turn led to a significant decrease in gross profit.

GROUP LIQUIDITY AND FINANCIAL RESOURCES

Cash and cash equivalents

As at 30th June 2003, the Group’s cash and cash equivalents amounted to approximately HK\$155 million (compared to HK\$346 million as at 31st December 2002), of which 70% were denominated in United States dollars, 23% were denominated in Renminbi and 5% were denominated in Euros.

Cash flows

Cash generated from operations decreased from HK\$139 million in the first half of 2002 to cash outflow from operations amounted to HK\$52 million in the first half of 2003. This was mainly due to (1) the Group’s decrease in profit attributable to shareholders and (2) the effect that the SARS epidemic had on the consumer sentiment in the PRC, which led to a substantial increase in inventories.

Net cash used in investment activities increased from HK\$60 million in the first half of 2002 to HK\$161 million in the first half of 2003. This was mainly due to (1) the major investment in a joint venture to produce PTA; and (2) the disposal of a subsidiary which led to a net cash outflow.

During the first half of 2003, approximately HK\$508 million short-term bank loans were repaid and approximately HK\$585 million of bank loans were obtained.

Borrowings

As at 30th June 2003, the Group's borrowings amounted to approximately HK\$728 million (compared to HK\$651 million as at 31st December 2002). Approximately 43% of the Group's borrowings were denominated in Renminbi and 57% in United States dollars. All of the Group's total borrowings were at fixed rates.

As at 30th June 2003, the net debt to equity ratio was approximately 44% (compared to 23% as at 31st December 2002). Gross debt to equity ratio was approximately 56% (compared to 49% as at 31st December 2002). Earnings before interest, taxation, depreciation and amortization covered the gross interest expense for the first half of 2003 by 8.0 times (compared to 10.3 times in the year 2002).

The Group's total capital expenditure for the first half of 2003 amounted to HK\$63 million (compared to HK\$63 million for the first half of 2002), which was funded by bank borrowings and internally generated cash. The capital expenditure for the first half of 2003 was mainly incurred for the acquisition of machinery for the Filament SBU and the Dyeing and Finishing SBU. Capital expenditure for the whole year of 2003 is expected to be approximately HK\$119 million.

Committed borrowing facilities that are available to the Group companies, but not drawn as at 30th June 2003, amounted to HK\$1,456 million (compared to HK\$2,092 million as at 31st December 2002).

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 that 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 2003, the Group has no significant exposure under foreign exchange contracts.

DISCLOSURE ON DIRECTORS' INTERESTS

(I) Directors' interest in securities

As at 30th June 2003, the following Directors were interested, or were deemed to be interested, in the following interests and short positions in the shares, debentures or underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO")), notifiable to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, and as recorded in the Register of Directors' Interests required to be maintained by the Company pursuant to Section 352 of the SFO:

The Company

Long positions in shares of the Company ("Shares")

None of the Directors were interested or deemed to be interested in long positions in Shares.

Long positions in underlying Shares of equity derivatives

None of the Directors were interested or deemed to be interested in long positions in underlying Shares of equity derivatives.

Short positions in underlying Shares of equity derivatives

None of the Directors were interested or deemed to be interested in short positions in underlying Shares of equity derivatives.

Associated Corporations

Long positions in shares of Far Eastern Textile Limited (“FET”) (Note 1)

Name of director	Number of shares				Total
	Personal interests	Family interests	Corporate interests	Other interests	
Mr. Shu-Tong Hsu	62,436,886	Nil	Nil	Nil	62,436,886
Mr. Jar-Yi Shih	1,459,956	25,989,736	Nil	Nil	27,449,692
Mr. Champion Lee	228	Nil	Nil	Nil	228
Mr. Chin-Sen Tu	226	Nil	Nil	Nil	226
Mr. Shaw-Y Wang	103,137	Nil	Nil	Nil	103,137
Mr. Lih-Teh Chang	19,306	Nil	Nil	Nil	19,306

Note:

1. FET is an associated corporation of the Company as FET is the Company’s ultimate holding company. As at 30th June 2003, FET had a 64.2% interest in the Company, comprising (i) a direct interest of 11.4%; (ii) an indirect interest of 46.8% through its controlling shareholding in Yuang Ding Investment Corporation; and (iii) an indirect interest (arising by virtue of FET’s status as the discretionary object of a discretionary trust) of 6%.

In aggregate, the above interests represented, as at 30th June 2003, approximately 2.7% of the total issued common shares of FET.

Long positions in underlying shares of equity derivatives of FET

None of the Directors were interested or deemed to be interested in long positions in underlying shares of equity derivatives of FET.

Short positions in underlying shares of equity derivatives of FET

None of the Directors were interested or deemed to be interested in short positions in underlying shares of equity derivatives of FET.

Save as disclosed above, the Company had no notice of any interests required to be recorded under Section 352 of the SFO as at 30th June 2003.

(II) 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 2003 or at any time during the six months ended 30th June 2003.

(III) Directors' right 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 30th June 2003, no options had been granted under the Company's share option scheme.

DISCLOSURE OF SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 30th June 2003, the following shareholders (not being Directors or chief executives of the Company) were or interested, or were deemed to be interested, in the following interests and short positions in the shares, debentures or underlying shares of the Company or its associated corporations (within the meaning of Part XV of the SFO), notifiable to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO, and as recorded in the Register of Substantial Shareholders' Interests required to be maintained by the Company pursuant to Section 336 of the SFO:

Long positions in Shares

Name	Capacity	Number of issued shares	Percentage shareholding
Far Eastern Textile Limited ("FET") (Note 1)	Beneficial Owner	263,400,800	64.2%
Yuang Ding Investment Corporation	Beneficial Owner	191,870,160	46.8%
Everest Investment (Holding) Limited	Beneficial Owner	69,750,000	17.0%
Everest Textile Co. Ltd ("Everest Textile") (Note 2)	Beneficial Owner	69,750,000	17.0%
Far Eastern Investment (Holdings) Limited ("FEIH") (Note 3)	Beneficial Owner	24,733,040	6.0%
Glorious Victory Limited (Note 4)	Beneficial Owner	24,733,040	6.0%
HSBC International Trustee Limited (Note 5)	Trustee	24,733,040	6.0%

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. FET owns 87.7% of the issued share capital of FEIH and is accordingly taken to be interested in the Company’s shares in which FEIH 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.
3. FEIH as the founder of The Kai Yuan Trust, is deemed to have an interest in the shares of the Company held by Glorious Victory Limited, being the subject matter of The Kai Yuan Trust.
4. Glorious Victory Limited has interests in approximately 6% of the entire issued share capital of the Company. The entire share capital of Glorious Victory Limited is in turn held under The Kai Yuan Trust.
5. HSBC International Trustee Limited is the trustee of The Kai Yuan Trust and as such is deemed to be interested in the shares of the Company held by Glorious Victory Limited.

Long positions in underlying Shares of equity derivatives

No notifiable interest (long positions) in underlying Shares of equity derivatives were held by substantial shareholders.

Short positions in underlying Shares of equity derivatives

No notifiable interest (short positions) in underlying Shares of equity derivatives were held by substantial shareholders.

Save as disclosed above, the Company had no notice of any interests required to be recorded under Section 336 of the SFO as at 30th June 2003.

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 2003, FET produced approximately 340,494 tonnes of polyester polymer, 126,557 tonnes of various types of PET chips (for PET bottles, food and industrial packaging), 115,227 tonnes of polyester staple fiber, 77,066 tonnes of pre-oriented yarn (POY), 31,702 tonnes of draw textured yarn (DTY) , 176,979 bales of yarn, 17,000 yards of finished fabrics and 177,429 million pieces of PET preforms. Everest Textile also produced approximately 11,979 tonnes of polyester filament and 26,378 yards of finished fabrics.

Save as disclosed above, as at 30th June 2003, 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 2003, 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 2003, 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.

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 fifteen 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 2003.

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

Taipei, 14th August 2003