



# 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 NINE MONTHS ENDED 30TH SEPTEMBER 2003

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## 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 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\$1,504 million for the nine months ended 30th September 2003, with profit attributable to shareholders of approximately HK\$3 million, representing an increase of 4% and a decrease of 96%, respectively, as compared to the same nine-month period in the previous financial year.
- The Group achieved a turnover of approximately HK\$542 million for the three months ended 30th September 2003, with loss attributable to shareholders of approximately HK\$7 million, representing an increase of 1% and a decrease of 145%, respectively, as compared to the same three-month period in the previous financial year.
- Earnings per share for the nine months ended 30th September 2003 was HK\$0.01 (earnings per share for the nine months ended 30th September 2002 was HK\$0.22).

## 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 nine months ended 30th September 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 statements and statement of changes in equity as follows:

### (a) Consolidated balance sheet

		As at	
	<i>Note</i>	<b>30th September 2003</b> <i>HK\$'000</i> (Unaudited)	<b>31st December 2002</b> <i>HK\$'000</i> (Audited)
<b>Fixed assets</b>	3	1,389,951	1,428,749
<b>Investment in an associated company</b>		85,462	—
<b>Receivable from a related company</b>	16	19,500	—
<b>Other non-current assets</b>		11,952	11,517
<b>Current Assets</b>			
Cash and bank deposits		188,982	345,717
Trade and notes receivables	4	175,261	214,828
Inventories		406,932	313,312
Other current assets		<u>63,393</u>	<u>51,704</u>
<b>Total current assets</b>		<u>834,568</u>	<u>925,561</u>
<b>Current liabilities</b>			
Trade, other payables and accruals	5	(416,608)	(379,207)
Short-term bank loans		(168,357)	(179,131)
Long-term bank loans, current portion		(94,000)	(46,060)
Taxes payable		<u>(273)</u>	<u>(14,279)</u>
<b>Total current liabilities</b>		<u>(679,238)</u>	<u>(618,677)</u>

	As at	
<i>Note</i>	<b>30th September 2003</b> <i>HK\$'000</i> (Unaudited)	<b>31st December 2002</b> <i>HK\$'000</i> (Audited)
<b>Net current assets</b>	155,330	306,884
<b>Total assets less current liabilities</b>	1,662,195	1,747,150
<b>Non-current liabilities</b>		
Long-term bank loans	(378,248)	(425,494)
Deferred tax liabilities	<u>(1,200)</u>	<u>(1,200)</u>
<b>Net assets</b>	<u>1,282,747</u>	<u>1,320,456</u>
Share capital	410,296	410,296
Reserves	<u>872,451</u>	<u>910,160</u>
<b>Shareholders' equity</b>	<u>1,282,747</u>	<u>1,320,456</u>

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

	<i>Note</i>	<b>For the nine months ended 30th September</b>		<b>For the three months ended 30th September</b>	
		<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
PET chips		919,561	916,672	335,317	313,394
Polyester filaments		163,452	147,732	59,325	61,631
Polyester staple fibers		246,608	195,529	89,841	85,344
Finished fabrics		<u>174,516</u>	<u>183,078</u>	<u>57,771</u>	<u>77,953</u>
Total turnover	6	1,504,137	1,443,011	542,254	538,322
Cost of sales	7	<u>(1,373,137)</u>	<u>(1,231,806)</u>	<u>(506,164)</u>	<u>(483,697)</u>
Gross profit		131,000	211,205	36,090	54,625
Other operating income	8	16,906	7,360	5,300	3,143
Distribution costs	9	(85,659)	(76,557)	(25,743)	(24,530)
Administrative expenses	10	<u>(40,058)</u>	<u>(29,417)</u>	<u>(12,751)</u>	<u>(11,204)</u>
Profit from operations		22,189	112,591	2,896	22,034
Finance costs, net	11	(15,181)	(13,647)	(8,465)	(5,969)
Share of loss of an associated company		<u>(1,011)</u>	<u>—</u>	<u>(1,011)</u>	<u>—</u>
Profit (Loss) before tax		5,997	98,944	(6,580)	16,065
Income tax expense	12	<u>(2,712)</u>	<u>(7,445)</u>	<u>(193)</u>	<u>(1,127)</u>
Profit (Loss) attributable to shareholders		<u>3,285</u>	<u>91,499</u>	<u>(6,773)</u>	<u>14,938</u>
Earnings (Loss) per share (in HK\$)	13				
- Basic		<u>0.01</u>	<u>0.22</u>	<u>(0.02)</u>	<u>0.04</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>	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 nine months ended 30th September 2002	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>91,499</u>	<u>91,499</u>
Balance, 30th September 2002	410,296	523,001	86,370	5,645	2,169	301,952	1,329,433
Loss for the three months ended 31st December 2002	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(8,977)</u>	<u>(8,977)</u>
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)
Effect of translation of the financial statements of a foreign subsidiary	—	—	—	—	36	—	36
Profit for the nine months ended 30th September 2003	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>3,285</u>	<u>3,285</u>
Balance, 30th September 2003	<u>410,296</u>	<u>523,001</u>	<u>102,646</u>	<u>5,645</u>	<u>2,205</u>	<u>238,954</u>	<u>1,282,747</u>

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

**For the nine months ended  
30th September**

	<i>Note</i>	<b>2003</b> <i>HK\$'000</i>	<b>2002</b> <i>HK\$'000</i>
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Cash generated from operations		90,608	213,494
Interest paid		(17,295)	(20,212)
Income tax paid		<u>(2,519)</u>	<u>(16,959)</u>
Net cash from operating activities		70,794	176,323
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Purchase of fixed assets		(82,132)	(88,213)
Proceeds from disposals of fixed assets		2,175	—
Interest received		1,489	3,667
Investment in an associated company		(86,473)	—
Decrease in other non-current assets		1,546	—
Net cash outflow from disposal of a subsidiary	14	<u>(13,060)</u>	<u>—</u>
Net cash used in investing activities		(176,455)	(84,546)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from short-term bank loans		684,826	603,044
Proceeds from long-term bank loans		46,754	203,040
Repayment of short-term bank loans		(695,600)	(721,970)
Repayment of long-term bank loans		(46,060)	(162,107)
Dividends paid		<u>(41,030)</u>	<u>(102,574)</u>
Net cash used in financing activities		(51,110)	(180,567)
Net decrease in cash and cash equivalents		(156,771)	(88,790)
Effect of foreign exchange rate changes		36	—
Cash and cash equivalents, beginning of the period		<u>345,717</u>	<u>347,511</u>
Cash and cash equivalents, end of the period		<u><u>188,982</u></u>	<u><u>258,721</u></u>

## **(e) NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

### **1) Basis of presentation**

The unaudited financial statements have been prepared in accordance with the International Financial Reporting Standards, as published by the International Accounting Standards Board, and 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 nine months ended 30th September 2003, additions to fixed assets amounted to HK\$81,510,000 (2002: HK\$88,213,000).



#### 4) Trade and notes receivables

	As at	
	30th September 2003 <i>HK\$'000</i> <i>(Unaudited)</i>	31st December 2002 <i>HK\$'000</i> <i>(Audited)</i>
<b>Accounts receivable</b>		
Current to 30 days	81,398	65,553
31 to 60 days	31,060	33,007
Over 60 days	<u>54,955</u>	<u>45,505</u>
	167,413	144,065
<b>Notes receivable</b>	<u>7,848</u>	<u>70,763</u>
	<u><u>175,261</u></u>	<u><u>214,828</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 up to 120 days. In addition, a predetermined maximum credit limit has been set for each customer.

#### 5) Trade, other payables and accruals

	As at	
	30th September 2003 <i>HK\$'000</i> <i>(Unaudited)</i>	31st December 2002 <i>HK\$'000</i> <i>(Audited)</i>
<b>Trade payables</b>		
Current to 30 days	156,176	236,856
31 to 60 days	99,587	9,037
Over 60 days	<u>113,913</u>	<u>46,879</u>
	369,676	292,772
<b>Other payables and accruals</b>	<u>46,932</u>	<u>86,435</u>
	<u><u>416,608</u></u>	<u><u>379,207</u></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 nine months ended  
30th September**  
**2003**                      **2002**  
*HK\$'000*                      *HK\$'000*  
*(Unaudited)*                      *(Unaudited)*

Cost of inventories	1,096,919	966,587
Depreciation on fixed assets	98,397	95,084
Amortization of land use rights and deferred assets	2,382	2,390
Personnel expenses	24,665	22,101
Others	<u>150,774</u>	<u>145,644</u>
	<u><u>1,373,137</u></u>	<u><u>1,231,806</u></u>

8) **Other operating income**

**For the nine months ended  
30th September**  
**2003**                      **2002**  
*HK\$'000*                      *HK\$'000*  
*(Unaudited)*                      *(Unaudited)*

Gain on disposal of scrap materials	10,035	7,104
Gain on disposal of a subsidiary	4,347	—
Other operating income	<u>2,524</u>	<u>256</u>
	<u><u>16,906</u></u>	<u><u>7,360</u></u>

9) **Distribution costs**

**For the nine months ended  
30th September**  
**2003**                      **2002**  
*HK\$'000*                      *HK\$'000*  
*(Unaudited)*                      *(Unaudited)*

Personnel expenses	10,444	12,473
Transportation expenses	56,013	53,895
Others	<u>19,202</u>	<u>10,189</u>
	<u><u>85,659</u></u>	<u><u>76,557</u></u>

10) **Administrative expenses**

**For the nine months ended  
30th September**  
**2003**                      **2002**  
*HK\$'000*                      *HK\$'000*  
*(Unaudited)*                      *(Unaudited)*

Personnel expenses	16,628	10,809
Directors' fees	1,169	873
Depreciation on fixed assets	5,210	3,044
Amortization of land use rights	1,912	1,346
Rental expenses	2,745	1,893
Travelling and entertainment expenses	1,709	3,149
Consulting and legal fees	2,367	1,500
Others	<u>8,318</u>	<u>6,803</u>
	<u>40,058</u>	<u>29,417</u>

11) **Finance costs, net**

**For the nine months ended  
30th September**  
**2003**                      **2002**  
*HK\$'000*                      *HK\$'000*  
*(Unaudited)*                      *(Unaudited)*

Interest income	(1,489)	(3,667)
Interest expense on borrowings	17,295	20,212
Less: Amount capitalized as construction-in-progress	(1,712)	(1,889)
Foreign currency exchange gain, net	(2,456)	(2,306)
Bank charges	<u>3,543</u>	<u>1,297</u>
	<u>15,181</u>	<u>13,647</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 September 2003.

### 13) Earnings per share

The calculation of the earnings per share for the nine months ended 30th September 2003 and 2002 was based on the unaudited consolidated profit attributable to shareholders of approximately HK\$3,285,000 and HK\$91,499,000, 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 the unaudited consolidated cash flow statement - Disposal of a subsidiary

	<b>For the nine months ended 30th September 2003</b> <i>HK\$'000</i> (Unaudited)
<b>Net assets disposed of:</b>	
Fixed assets	14,918
Cash and bank deposits	13,060
Trade receivables	832
Trade payables	<u>(13,657)</u>
	15,153
Gain on disposal	<u>4,347</u>
Recorded as receivable from a related company	<u>19,500</u>
<b>Net cash outflow from disposal of a subsidiary</b>	
Cash consideration	—
Cash and bank deposits disposed of	<u>(13,060)</u>
Net cash outflow from disposal of a subsidiary	<u><u>(13,060)</u></u>

## 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 fabrics 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 nine months ended 30th September									
	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
<b>Revenue</b>										
Turnover from external sales	919,561	916,672	163,452	147,732	246,608	195,529	174,516	183,078	1,504,137	1,443,011
<b>Results</b>										
Gross profit	83,973	164,954	6,412	12,056	20,927	18,347	19,688	15,848	131,000	211,205
Unallocated corporate expenses									(108,811)	(98,614)
Profit from operations									22,189	112,591
Finance costs, net									(15,181)	(13,647)
Share of loss of an associated company									(1,011)	—
Profit before tax									5,997	98,944
Income tax expense									(2,712)	(7,445)
Profit attributable to shareholders									<u>3,285</u>	<u>91,499</u>

## 16) Related party transactions

- (i) During the nine months ended 30th September 2003, technological licence fee paid to Far Eastern Investment (Holdings) Company Limited, a fellow subsidiary, in the amount of HK\$8,755,000 (2002: HK\$8,753,000).
- (ii) On 7th May 2003, the Company entered into a joint venture agreement with Ding Yuang International Investment Corporation and Oriental Union Chemical Corporation, a fellow subsidiary and an associated company of the ultimate holding company, respectively. The agreement relates to the proposed development of a new purified terephthalic acid production plant in the PRC, through investment in a joint venture, and was approved by the Company's independent shareholders on 11th June 2003. Prior to 30th September 2003, in accordance with the joint venture agreement, the Company had contributed capital to the joint venture in the aggregate amount of approximately US\$11 million for an equity interest of 21.7% in the joint venture.

(iii) On 28th May 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 has been 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 September 2003, the Group had the following capital commitments which were not provided for in the accounts:

	<b>As at</b>	
	<b>30th September</b>	<b>31st December</b>
	<b>2003</b>	<b>2002</b>
	<i>HK\$’000</i>	<i>HK\$’000</i>
	(Unaudited)	(Audited)
Authorised and contracted for		
- Acquisition of fixed assets	<u>23,384</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 nine months ended 30th September 2003. The Group did not declare any dividends for the corresponding nine-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 nine months ended 30th September 2003 was approximately HK\$1,504 million, representing an increase of 4% as compared to the corresponding nine-month period in 2002. Unaudited consolidated gross profit and profit attributable to shareholders of the Group for the nine months ended 30th September 2003 was approximately HK\$131 million and HK\$3 million, respectively, representing a decrease of 38% and 96%, respectively, as compared to the nine months ended 30th September 2002.

The unaudited consolidated turnover of the Group for the three-month period 30th September 2003 was approximately HK\$542 million, 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 September 2003 was approximately HK\$36 million and HK\$7 million, respectively, representing a decrease of 34% and 145%, respectively, as compared to the three-month period ended 30th September 2002.

## BUSINESS REVIEW

### **The polyester market in the PRC was seriously affected by the Severe Acute Respiratory Syndrome (“SARS”) epidemic**

The outbreak of SARS during the year seriously affected the performance of enterprises across all industries in the PRC. For instance, certain of the Group’s customers only operated at one-third of their normal levels during the period when SARS was most prevalent. As a result, the Group’s performance was affected.

After the threat of SARS eased, and in light of the prolonged period of low volume in business activity, the polyester market in the PRC became increasingly competitive. Many polyester producers aiming to recapture lost business and/or clear backlogged inventories reduced their prices, thereby creating further pressure on product margins.

### **Although there were increases in the unit selling prices of PET chips and the filaments, the Group’s profitability was affected by the continuously high raw material costs**

The unit selling prices of the Group’s major products, PET chips and filaments, rose by 10% and 14%, respectively, during the nine months ended

30th September 2003, as compared to the same period in 2002. However, due to the production bottlenecks of various upstream petrochemical products, unit costs of the Group's major raw materials, purified terephthalic acid ("PTA") and mono-ethylene glycol ("MEG") increased by 22% and 41%, respectively, during the nine months ended 30th September 2003 when compared to the same period in 2002. Accordingly, the Group's profitability was inevitably affected. Overall gross margin declined from 15% for the nine months ended 30th September 2002 to 9% for the same period in 2003.

### **Performance of the Group's other product lines continues to improve**

In order to maximize the Group's profitability, the Group adjusts its product mix and focus on high value-added specialty products, such as conjugate fibers and furniture fabrics on a timely basis. As a result, the performance of the Group's Polyester Staple Fiber SBU and the Dyeing and Finishing SBU continue to improve. Such improvements serve to offset the effect of escalating raw material costs during the nine months ended 30th September 2003.

### **Distribution costs increased in line with the increase in turnover but administrative expenses increased significantly due to additional expenses incurred in relation to new specialty products introduced**

Distribution costs increased by 12% during the nine months ended 30th September 2003, when compared to the same period in 2002. The rate of increase was in line with the increase in turnover and export sales. On the other hand, administrative expenses increased by 36% during the nine months ended 30th September 2003 when compared to the same period in 2002. This was mainly due to increased personnel, research and development and depreciation expenses incurred in relation to new specialty products introduced by the Group.

## **FUTURE PROSPECTS**

### **The polyester market in the PRC will remain competitive due to rising raw material costs and increasing production capacities**

Although the demand for polyester products is expected to sustain a double-digit growth in the near future, in view of the increasing production capacities, the Directors expect the polyester market in the PRC, in particular, that for PET chips, filaments and fibers, to remain competitive. Costs of major raw materials, PTA and MEG, are likely to remain high either due to a general production bottleneck or high feedstock cost. Within this challenging



environment, the Group will continue to position itself as a high-quality and specialty polyester products producer to produce value-added products with higher margins. In addition, the management will continuously monitor and re-assess the market so as to achieve an optimal product mix, with a view to maximizing the Group's profitability and return to shareholders.

### **The Group will continue its capital expansion plan to achieve better economies of scale**

Amid fierce competition, the Directors are optimistic about the future of the PRC polyester industry as the economy and demand for polyester products continue to grow at a fast pace. In addition to integrating the Group's products vertically by participating in a joint venture, which will produce PTA commencing the second half of 2005, the Group will also expand its capacity for the existing products in order to achieve better economies of scale and, hence, further promote the Group's competitiveness.

As a major part of the Group's capital expansion plan, the Directors expect the acquisition of the Business Assets of DSPC (as previously announced) to be completed in the fourth quarter of 2003. The investment, amounting to US\$20 million, will enable the Group to obtain additional polymerization capacity of approximately 100,000 tonnes per annum. Such acquisition will ease the bottleneck associated with the Group's current production process and increase the Group's production capacity.

## **DISCLOSURE ON DIRECTORS' INTERESTS**

### **(I) Directors' interest in securities**

As at 30th September 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	66,807,468	Nil	Nil	Nil	66,807,468
Mr. Jar-Yi Shih	1,562,152	27,809,017	Nil	Nil	29,371,169
Mr. Champion Lee	243	Nil	Nil	Nil	243
Mr. Chin-Sen Tu	241	Nil	Nil	Nil	241
Mr. Shaw-Y Wang	110,356	Nil	Nil	Nil	110,356
Mr. Lih-Teh Chang	20,657	Nil	Nil	Nil	20,657

*Note:*

1. FET is an associated corporation of the Company as FET is the Company’s ultimate holding company. As at 30th September 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 September 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 September 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 subsidiaries was a party and in which any of the Directors had a material interest, either directly or indirectly, subsisted at 30th September 2003 or at any time during the nine months ended 30th September 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 subsidiaries, to subscribe for shares in the Company.

As at 30th September 2003, no options had been granted under the Company's share option scheme.

## DISCLOSURE OF SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 30th September 2003, the following shareholders (not being Directors or chief executives of the Company) 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 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 shares	Approximate percentage of interest
Far Eastern Textile Limited ("FET") ( <i>Note 1</i> )	Beneficial Owner	263,400,800	64.2%
Yuang Ding Investment Corporation ("YDIC")	Beneficial Owner	191,870,160	46.8%
Everest Investment (Holding) Limited ("Everest Investment")	Beneficial Owner	69,750,000	17.0%
Everest Textile Co. Ltd. ("Everest Textile") ( <i>Note 2</i> )	Beneficial Owner	69,750,000	17.0%
Far Eastern Investment (Holdings) Limited ("FEIH") ( <i>Note 3</i> )	Beneficial Owner	24,733,040	6.0%
Glorious Victory Limited ( <i>Note 4</i> )	Beneficial Owner	24,733,040	6.0%
HSBC International Trustee Limited ( <i>Note 5</i> )	Trustee	24,733,040	6.0%

#### *Notes:*

1. FET has interests in 99.99% of the entire issued share capital of 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 has interests in the entire issued share capital of 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 September 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 nine months ended 30th September 2003, FET produced approximately 520,847 tonnes of polyester polymer, 193,378 tonnes of various types of PET chips (for PET bottles, food and industrial packaging), 179,759 tonnes of polyester staple fibers, 118,295 tonnes of pre-oriented yarn (POY), 46,525 tonnes of draw textured yarn (DTY), 269,323 bales of yarn, 24,950 thousand yards of finished fabrics and 275,806 thousand pieces of PET preforms. Everest Textile also produced approximately 17,594 tonnes of polyester filaments and 40,651 thousand yards of finished fabrics.

Save as disclosed above, as at 30th September 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 September 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 September 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 sixteen times since its formation.

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

Neither the Company nor its subsidiaries has purchased, sold or redeemed any of the Company’s shares during the period from 31st January 2000 (date of listing) to 30th September 2003.

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

Taipei, 14th November, 2003

*This report 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*