



## **FAR EASTERN POLYCHEM INDUSTRIES LIMITED**

**(遠東化聚工業股份有限公司)\***

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 8012)**

### **HALF-YEARLY RESULTS FOR THE SIX MONTHS ENDED 30TH JUNE 2004**

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## **HALF-YEARLY RESULTS HIGHLIGHTS**

- Far Eastern Polychem Industries Limited (the “Company”) and its subsidiaries (together the “Group”) are principally engaged in the business of production and distribution of four major categories of polyester products, namely bottle-grade polyethylene terephthalate (“PET”) chips, polyester filaments and polyester staple fibers, and dyeing and finishing of polyester fabrics in the People’s Republic of China (the “PRC”).
- The Group achieved a turnover of approximately HK\$1,267 million for the six months ended 30th June 2004, with profit attributable to shareholders of approximately HK\$27 million, representing an increase of 32% and 165%, respectively, as compared to the same six-month period in the previous financial year.
- Earnings per share for the six months ended 30th June 2004 was HK\$0.06 (earnings per share for the six months ended 30th June 2003 was HK\$0.02).

## **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 2004 and, for comparison purposes, the audited consolidated balance sheet as at 31st December 2003 and figures for the corresponding period in the previous financial year in respect of the unaudited consolidated income statement, cash flow statement and statement of changes in equity as follows:

(a) Consolidated balance sheet

		As at	
	Note	30th June 2004 HK\$'000 (Unaudited)	31st December 2003 HK\$'000 (Audited)
<b>Fixed assets</b>	3	1,293,348	1,349,379
<b>Investment in an associated company</b>		83,001	84,343
<b>Other non-current assets</b>		11,388	11,608
<b>Current Assets</b>			
Cash and bank deposits		280,171	190,912
Trade and notes receivables	4	327,593	221,763
Deposits, prepayments and other receivables		93,872	71,569
Amount due from a related company	11	19,500	19,500
Inventories		<u>477,633</u>	<u>365,493</u>
Total current assets		<u>1,198,769</u>	<u>869,237</u>
<b>Current liabilities</b>			
Trade, other payables and accruals	5	(441,545)	(352,150)
Taxes payable		(22,461)	(13,958)
Dividends payable		(41,030)	—
Short-term bank loans		(185,171)	(123,708)
Long-term bank loans, current portion		<u>(127,840)</u>	<u>(94,000)</u>
Total current liabilities		<u>(818,047)</u>	<u>(583,816)</u>
<b>Net current assets</b>		380,722	285,421
<b>Total assets less current liabilities</b>		1,768,459	1,730,751
<b>Non-current liabilities</b>			
Long-term bank loans, non-current portion		(476,468)	(424,308)
Deferred tax liabilities		<u>(1,200)</u>	<u>(1,200)</u>
Total non-current liabilities		<u>(477,668)</u>	<u>(425,508)</u>
Minority interests		<u>(361)</u>	<u>(395)</u>
		<u>1,290,430</u>	<u>1,304,848</u>
Share capital		410,296	410,296
Reserves		<u>880,134</u>	<u>894,552</u>
<b>Shareholders' equity</b>		<u>1,290,430</u>	<u>1,304,848</u>

(b) Unaudited consolidated income statement

		For the six months ended 30th June		For the three months ended 30th June	
	Note	2004	2003	2004	2003
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
PET chips		790,294	584,244	405,590	285,199
Polyester filaments		117,993	104,127	63,175	54,942
Polyester staple fibers		189,291	156,767	105,592	77,139
Finished fabrics		<u>169,330</u>	<u>116,745</u>	<u>84,213</u>	<u>75,717</u>
Total turnover		1,266,908	961,883	658,570	492,997
Cost of sales		<u>(1,158,431)</u>	<u>(866,973)</u>	<u>(621,614)</u>	<u>(454,157)</u>
Gross profit		108,477	94,910	36,956	38,840
Distribution costs		(41,902)	(59,916)	(20,069)	(34,288)
Administrative costs		(30,110)	(27,307)	(13,558)	(12,919)
Other operating income		<u>8,339</u>	<u>11,606</u>	<u>4,174</u>	<u>8,938</u>
Profit from operations	6	44,804	19,293	7,503	571
Finance costs, net	7	(12,656)	(6,716)	(6,415)	(2,778)
Share of loss of an associated company		<u>(1,342)</u>	<u>—</u>	<u>(827)</u>	<u>—</u>
Profit before tax		30,806	12,577	261	(2,207)
Income tax expense	8	<u>(4,228)</u>	<u>(2,519)</u>	<u>(20)</u>	<u>(993)</u>
Profit after tax		26,578	10,058	241	(3,200)
Minority interests		<u>34</u>	<u>—</u>	<u>16</u>	<u>—</u>
Profit (Loss) attributable to shareholders		<u>26,612</u>	<u>10,058</u>	<u>257</u>	<u>(3,200)</u>
Earnings (Loss) per share (in HK\$)	9				
- Basic and diluted		<u>0.06</u>	<u>0.02</u>	<u>0.00</u>	<u>(0.01)</u>

(c) Unaudited consolidated statement of changes in equity

For the year ended 31st December 2003:

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Reserve fund <i>HK\$'000</i>	Revaluation reserve <i>HK\$'000</i>	Cumulative translation reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
Balance, 1st January 2003	410,296	523,001	86,370	5,645	2,169	292,975	1,320,456
Profit appropriation	—	—	16,276	—	—	(16,276)	—
Dividends	—	—	—	—	—	(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
Effect of translation of the financial statements of a foreign subsidiary	—	—	—	—	34	—	34
Profit for the six months ended 31st December 2003	—	—	—	—	—	15,330	15,330
Balance, 31st December 2003	<u>410,296</u>	<u>523,001</u>	<u>102,646</u>	<u>5,645</u>	<u>2,203</u>	<u>261,057</u>	<u>1,304,848</u>

For the six months ended 30th June 2004:

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Reserve fund <i>HK\$'000</i>	Revaluation reserve <i>HK\$'000</i>	Cumulative translation reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
Balance, 1st January 2004	410,296	523,001	102,646	5,645	2,203	261,057	1,304,848
Profit appropriation	—	—	5,684	—	—	(5,684)	—
Dividends	—	—	—	—	—	(41,030)	(41,030)
Profit for the six months ended 30th June 2004	—	—	—	—	—	26,612	26,612
Balance, 30th June 2004	<u>410,296</u>	<u>523,001</u>	<u>108,330</u>	<u>5,645</u>	<u>2,203</u>	<u>240,955</u>	<u>1,290,430</u>

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

	<b>For the six months ended 30th June</b>	
	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash used in operations	(22,302)	(52,300)
Interest paid	(10,973)	(11,824)
Income tax paid	<u>(6,566)</u>	<u>(1,994)</u>
Net cash used in operating activities	(39,841)	(66,118)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of fixed assets	(18,794)	(62,945)
Interest received	896	2,238
Investment in an associated company	—	(86,034)
Increase in other non-current assets	(465)	(1,355)
Net cash outflow from disposal of a subsidiary	<u>—</u>	<u>(13,060)</u>
Net cash used in investing activities	(18,363)	(161,156)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from short-term bank loans	148,603	538,310
Proceeds from long-term bank loans	180,000	46,754
Repayments of short-term bank loans	(87,140)	(507,632)
Repayments of long-term bank loans	(94,000)	—
Dividends paid	<u>—</u>	<u>(41,021)</u>
Net cash from financing activities	<u>147,463</u>	<u>36,411</u>
Net increase (decrease) in cash and cash equivalents	89,259	(190,863)
Cash and cash equivalents, beginning of the period	<u>190,912</u>	<u>345,717</u>
Cash and cash equivalents, end of the period	<u><u>280,171</u></u>	<u><u>154,854</u></u>

(e) **Notes to the unaudited consolidated 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 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 2003.

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 2004, additions to fixed assets amounted to HK\$19,089,000 (six months ended 30th June 2003: HK\$62,945,000).

4) **Trade and notes receivables**

	<b>As at</b>	
	<b>30th June 2004</b>	<b>31st December 2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Audited)</i>
<b>Accounts receivable</b>		
Current to 30 days	62,649	85,484
31 to 60 days	22,229	45,186
61 to 90 days	24,470	17,010
Over 90 days	<u>22,545</u>	<u>44,530</u>
	131,893	192,210
<b>Notes receivable</b>	199,009	29,553
Less: Provision for doubtful debts	<u>(3,309)</u>	<u>—</u>
	<u><u>327,593</u></u>	<u><u>221,763</u></u>

**Credit policy**

The Group adopts a prudent approach in granting credit to customers. No credit terms are granted to its PRC customers except for those with sound financial background and good repayment histories, to which the Group would grant credit terms ranging from 7 days to 60 days. For its overseas customers, the Group grants credit terms of 90 days to 120 days. In addition, a predetermined maximum credit limit has been set for each customer.

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

	<b>As at</b>	
	<b>30th June</b>	<b>31st December</b>
	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Audited)</i>
<b>Trade payables</b>		
Current to 30 days	139,021	105,993
31 to 90 days	156,300	167,365
Over 90 days	<u>70,725</u>	<u>23,239</u>
	366,046	296,597
<b>Other payables and accruals</b>	<u>75,499</u>	<u>55,553</u>
	<u><u>441,545</u></u>	<u><u>352,150</u></u>

6) **Profit from operations**

The following items have been included in arriving at profit from operations:

	<b>For the six months</b>	
	<b>ended 30th June</b>	
	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Cost of inventories	1,158,431	866,973
Staff costs	37,968	33,046
Depreciation on property, plant and equipment	73,717	65,169
Amortisation of land use rights	1,402	1,248
Amortisation of deferred assets	685	686
Provision for doubtful debts	3,309	—
Operating lease rentals on property	<u>1,887</u>	<u>1,937</u>

7) **Finance costs, net**

	<b>For the six months</b>	
	<b>ended 30th June</b>	
	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Interest expenses on borrowings wholly repayable within five years	10,973	11,812
Less: Amount capitalized as construction-in-progress	(295)	(1,016)
Interest income	(896)	(2,238)
Net foreign currency exchange losses (gains)	2,022	(4,001)
Other financial expenses	<u>852</u>	<u>2,159</u>
	<u><u>12,656</u></u>	<u><u>6,716</u></u>



8) **Income tax**

The Company is exempted from taxation in Bermuda until 2016. No Hong Kong profits tax was provided as the Group had no assessable profits arising in or deriving 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 "Law of Enterprise Income Tax for Enterprise with Foreign Investment" in the PRC, Far Eastern Industries (Shanghai) Ltd. ("FEIS"), the Company's major subsidiary in the PRC, 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 was the fifth profitable year for FEIS and accordingly FEIS was subject to EIT at a 50% reduced rate equivalent to 7.5%.

According to the relevant PRC rules and regulations, being qualified as a "High-technology Enterprise" (granted by the relevant local authorities on 20th December 2000), FEIS is entitled to a 50% reduced EIT rate, or subject to EIT at a rate of 10% if the reduced rate is lower than 10%, for an additional term of three years, after the end of the five year period during which FEIS enjoyed the preferential EIT treatment as stated above. The "High-technology Enterprise" status of FEIS is subject to review every year.

9) **Earnings per share**

The calculation of basic earnings per share for the six months ended 30th June 2004 was based on the unaudited consolidated profit attributable to shareholders of approximately HK\$26,612,000 (six months ended 30th June 2003: HK\$10,058,000) and on the weighted average number of 410,296,000 (six months ended 30th June 2003: 410,296,000) shares in issue during the period.

There were no potentially dilutive ordinary shares in existence during the period.

10) **Segmental information**

The Company and its subsidiaries operate principally in the production and distribution of PET chips, polyester filaments and polyester staple fibers, and 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 six months ended 30th June									
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
(Unaudited)	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	790,294	584,244	117,993	104,127	189,291	156,767	169,330	116,745	1,266,908	961,883
<b>Results</b>										
Gross profit (loss)	86,755	55,537	(1,699)	1,744	(2,617)	23,094	26,038	14,535	108,477	94,910
Unallocated corporate expenses									(63,673)	(75,617)
Profit from operations									44,804	19,293
Finance costs, net									(12,656)	(6,716)
Share of loss of an associated company									(1,342)	—
Profit before tax									30,806	12,577
Income tax expense									(4,228)	(2,519)
Profit after tax									26,578	10,058
Minority interests									34	—
Profit attributable to shareholders									<u>26,612</u>	<u>10,058</u>

11) **Related party transactions**

During the six months ended 30th June 2004, the technological licence fee paid to Far Eastern Investment (Holdings) Company Limited, a subsidiary of Far Eastern Textile Limited (“FET”), amounted to HK\$5,837,000 (six months ended 30th June 2003: HK\$5,836,000).

Amount due from a related company arose from the conditional disposals of the equity interests of two subsidiaries of the Company to Far EasTone Telecommunications Co., Ltd. (“Far EasTone”), a subsidiary of FET, in 2003. This balance bears interest at the 6-month London Inter-Bank Offer Rate plus 0.4% per annum. Since the date of the aforementioned conditional disposals, the control over the net assets and operations of the two subsidiaries has been effectively transferred to Far EasTone and the Company is indemnified against all liabilities applicable to the operations of these subsidiaries.

12) **Commitments**

(i) *Capital commitments*

As at 30th June 2004, the Group had the following capital commitments which were not provided for in its accounts:

	As at	
	30th June 2004	31st December 2003
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Authorised and contracted for		
— Acquisition of fixed assets	<u>85,177</u>	<u>71,753</u>

(ii) *Investment commitment*

As at 30th June 2004, the Group had an investment commitment in relation to the acquisition of certain business assets (comprising mainly fixed assets used in the production of polyester polymer) of Dupont Suzhou Polyester Co., Ltd. at a consideration not exceeding HK\$276,900,000. As at the date of this report, the completion of the aforementioned acquisition had yet to take place.

## **DIVIDEND**

The Directors do not recommend the payment of an interim dividend for the six months ended 30th June 2004. The Group did not declare any dividends for the corresponding six-month period in 2003.

On 10th March 2004, the Directors declared a final dividend of HK\$0.10 per ordinary share for the year ended 31st December 2003, totalling approximately HK\$41,030,000.

## **FINANCIAL PERFORMANCE**

The unaudited consolidated turnover of the Group for the six-month period ended 30th June 2004 was approximately HK\$1,267 million, representing an increase of 32% as compared to the corresponding six-month period in 2003. Unaudited consolidated gross profit and profit attributable to shareholders of the Group for the six-month period ended 30th June 2004 were approximately HK\$108 million and HK\$27 million respectively, representing increases of 14% and 165%, respectively, as compared to the six-month period ended 30th June 2003.

## **BUSINESS REVIEW**

### **Results improved on a reduction of the perceived threat of the Severe Acute Respiratory Syndrome (“SARS”)**

In 2004, on a reduction of the perceived threat of SARS and the benefits of a temporary stabilisation in the PRC polyester market during the first quarter, the Group achieved considerable growth in profitability during the first half of 2004 as compared to the same period in 2003. However, given the over-supply situation in the PRC and other market factors as explained below, polyester producers in the PRC are still in keen competition.

### **Surging oil prices resulted in significantly increased raw material costs**

Driven by various political and speculative factors, crude oil prices went above US\$41 per barrel during the second quarter of 2004 and reached their highest levels since the Gulf War in 1991. The average Brent Blend crude oil price increased from US\$32.0 per barrel in the first quarter of 2004 to US\$35.3 per barrel in the second quarter, representing a 10% increase within only a few months. Since the Group's raw materials are all petrochemical derivative products, the rising crude oil price inevitably led to an immediate rise in the Group's raw material costs.

The average purchase costs of pure terephthalic acid (“PTA”) and monoethylene glycol (“MEG”) during the second quarter of 2004 increased by 10% and 16%, respectively, over the first quarter of 2004 while the average selling price of the Group’s major product, PET chips, increased by only 2%. The unparalleled increases in raw material costs and product selling prices resulted in an erosion of the Group’s gross margin, which also explains the drop in profitability in the second quarter after a temporary rebound in the first quarter.

The average purchase costs of PTA and MEG during the first half of 2004 increased by 18% and 26%, respectively over the costs during the same period in 2003 but the selling price of PET chip increased by 24%. Since the Group consumes much more PTA than MEG in polyester production, the above price changes accounted for the increase in profitability of the Group in the first half of 2004, when compared to the first half of 2003.

### **Imbalance between demand and supply as a result of further increases in polyester production capacity in the PRC**

Despite the challenging market conditions, many large polyester producers had new production capacities coming on line during the second quarter of 2004, as a result of expansion plans committed in past years. The impact of these new facilities is twofold. First, the overall supply of polyester products increases immediately, making it more difficult to pass on incremental raw material costs to customers. Secondly, it creates more demand of PTA and MEG, the major raw materials for polyester production, which are already in tight supply. Consequently, the manufacturing costs increase with the raw material prices.

### **Impact of electricity supply interruption**

With the onset of summer, there is a phenomenal increase in commercial/residential use of air-conditioning which puts much pressure on electricity supply in the PRC. Consequently, various electricity bureaux in the PRC have implemented strategies to balance the supply and demand of electricity. These strategies include temporary suspension of electricity supply to certain factories on a scheduled basis and capping the electricity supply at a pre-determined level. Though these strategies do not directly affect the Group’s operation, they cause certain downstream weaving factories to scale down their production, which indirectly affected the Group’s margin as a result of sudden reductions in demand of polyester products for weaving use.

### **The PET chip market seems bearish after a temporary rebound in the first quarter of 2004**

After a prolonged period of depression in the PRC PET chip market in 2003, the market showed signs of stabilisation in the first quarter of 2004. The Group performed very well during that period and the profit earned accounted for a substantial portion of the profit for the first half of 2004. However, as new production capacities came into play progressively, the PET chip market has become as competitive as ever. The gross margin of PET chip sales during the second quarter of 2004 was 8%, which was significantly lower than the 14% recorded in the first quarter and was even lower than the 12% achieved during the second quarter of 2003 when the market was affected by SARS.

### **The Group's Filament SBU and Polyester Staple Fiber SBU continue to be affected by an excessive supply within the PRC**

Although the demand for polyester filaments and fibers has increased at a considerable rate, the production capacities for these products increased even faster. The excessive supply problem significantly impacted product prices, notwithstanding that the Group managed to raise its product prices continuously over the past year so as to pass on a portion of the incremental raw material costs. As a result, low, or even negative, product margins arose. Going forward, the Group will produce more specialty products which generally are less prone to squeeze on margin under adverse market conditions.

### **Re-adjustment to product mix of the Dyeing and Finishing SBU proved successful**

As a result of the extensive effort put into research and development, the Group's Dyeing and Finishing SBU has successfully re-adjusted its product mix and produced more specialty fabrics, such as fabrics for furnitures and curtains. Such products are produced through sophisticated manufacturing processes and subject to stringent quality control systems which typically cannot be offered by other fabric manufacturers in the PRC. Such high value-added specialty products are mainly exported to overseas markets and are well accepted by customers. Accordingly, the Dyeing and Finishing SBU managed to improve its gross profit margin from 12% in the first half of 2003 to 15% in the first half of 2004.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Turnover**

Net sales for PET chips increased 35% from HK\$584 million in the first half of 2003 to HK\$790 million in the first half of 2004. This was mainly attributable to the low volume of business during the second quarter of 2003 and the rise in selling prices of PET chips in 2004. When compared to the first half of 2003, the selling price and sales volume of PET chips during the first half of 2004 increased by 24% and 10% respectively.

Net sales of polyester filaments increased by 13% from HK\$104 million in the first half of 2003 to HK\$118 million in the first half of 2004. This was mainly attributed to an increase in unit selling prices by 13% during the first half of 2004, when compared to the same half-yearly period in 2003.

Net sales of polyester staple fibers increased by 21% from HK\$157 million in the first half of 2003 to HK\$189 million in the first half of 2004. As the Group's products are well accepted by the market, the sales volume increased by 21% in the first half of 2004 when compared to the first half of 2003 while unit selling prices only increased slightly.

Net sales of finished fabrics increased by a massive 45% from HK\$117 million in the first half of 2003 to HK\$169 million in the first half of 2004. This improvement was due to increase in the unit selling prices of finished fabrics by 11% and sales volume by 31% during the first half of 2004, when compared to the same period in 2003.

## **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 18% and 26%, respectively during the first half of 2004 when compared to the first half of 2003 and due to increase in sales volume, cost of sales increased 34% from HK\$867 million to HK\$1,158 million.

Although there was a mild increase in unit-selling prices for all of the Group's products, gross profit rate reduced from 10% in the first half of 2003 to 9% in the first half of 2004 since the increase in products' prices was outstripped by the increase in raw material costs.

## **Distribution costs and administrative expenses**

Distribution costs decreased by 30% during the first half of 2004, when compared to the first half of 2003. This was caused by saving in overseas transportation expenses as the Group's export ratio decreased to 14%, when compared to 26% during the first half of 2003.

Administrative expenses increased slightly by 10% which is in line with the increase in operation scale.

## **Profit attributable to shareholders**

Profit attributable to shareholders increased by 165% from HK\$10 million during the first half of 2003 to HK\$27 million during the first half of 2004. Net profit margin rate increased from 1% during the first half of 2003 to 2% during the first half of 2004. The increase in profit was mainly attributable to the poor performance in 2003 when the polyester industry was significantly affected by the SARS epidemic.

## **LIQUIDITY AND FINANCIAL RESOURCES**

### **Cash and cash equivalents**

As at 30th June 2004, the Group's cash and cash equivalents amounted to approximately HK\$280 million (31st December 2003: HK\$191 million), of which 37% were denominated in United States dollars, 55% were denominated in Renminbi and 8% were denominated in other currencies.

### **Cash flows**

Cash outflow from operations decreased from HK\$52 million in the first half of 2003 to HK\$22 million in the first half of 2004 which was mainly due to improvement in profitability.

Net cash used in investment activities decreased from HK\$161 million in the first half of 2003 to HK\$18 million in the first half of 2004. The large amount used in 2003 was due to the investment in an associated company which engages in construction and operation of a PTA plant in the PRC.

During the first half of 2004, approximately HK\$181 million bank loans were repaid and approximately HK\$329 million of bank loans were obtained.

### **Borrowings**

As at 30th June 2004, the Group's borrowings amounted to approximately HK\$789 million (31st December 2003: HK\$642 million). Approximately 42% (31st December 2003: 44%) of the Group's borrowings were denominated in Renminbi while 58% (31st December 2003: 56%) of the Group's borrowings were denominated in United States dollars. Approximately 42% (31st December, 2003: 47%) of the Group's borrowings were at fixed interest rates and 58% (31st December 2003: 53%) were at floating rates. As at 30th June 2004, approximately 77% (31st December 2003: 81%) of the Group's borrowings were long-term borrowings and 60% (31st December 2003: 66%) of the total borrowings were not repayable within one year.

As at 30th June 2004, the net debt to equity ratio was approximately 39% (31st December 2003: 35%). Gross debt to equity ratio was approximately 61% (31st December 2003: 49%). Earnings before interest, taxation, depreciation and amortisation covered the gross interest expense by 9.5 times (six months ended 30th June 2003: 8.0 times).

The Group's capital expenditure for the first half of 2004 amounted to HK\$19 million (compared to HK\$63 million for the first half of 2003), which was funded by borrowings.

Committed borrowing facilities that are available to the Group companies, but not drawn as at 30th June 2004 amounted to HK\$1,460 million (31st December 2003: HK\$1,451 million).

### **TREASURY POLICIES AND CAPITAL STRUCTURE**

The Group adopts a prudent approach towards treasury and funding policies, with a focus on risk management and those transactions that are directly related to the underlying business of the Group. In addition, the Group intends to maintain a balanced loan portfolio in terms of currencies and interest rate structures to reduce the risks associated with currency or interest rate fluctuations.

### **FUTURE PROSPECTS**

#### **The acquisition of polymerization facilities from Dupont Suzhou Polyester Company Limited ("DSPC")**

In 2004, the Group obtained all necessary government approvals and fulfilled all conditions, as stated in the acquisition agreement entered into in 2002 in connection with the acquisition of polymerization facilities from DSPC. As at the date of this report, the completion of this acquisition had yet to take place. The facilities, which cost approximately US\$33 million, will provide the Group with an additional 100,000 tonnes per year of polymerization production capacity and ease the Group's production bottleneck in base polymers. Such acquisition provides an important basis for the Group's future development.

### **The investment in a joint venture to produce PTA in the PRC**

In 2003, the Group formed a joint venture with two connected parties to establish and operate a new PTA plant adjacent to the Group's existing manufacturing facilities in Pudong, Shanghai. This PTA plant is now under construction and is expected to commence operation by the end of 2005. Since PTA is a fundamental raw material for manufacturing polyester products, this investment will enable the Group to vertically integrate its production process. The Group is confident that it will also improve its production efficiency and, as a result, strengthen its competitiveness.

### **Small scale polyester producers temporary suspended or scaled down their operations**

After running at losses for a long period, many small scale polyester producers in the PRC had suspended or scaled down their operations by July 2004, which gave room for the industry to clear up inventories. In addition, due to the extremely tight supply of PTA and MEG, some polyester producers encountered difficulty in sourcing adequate supply of these important raw materials for polyester production and this factor also contributed to the reduction in production scale as mentioned above. The above phenomenon comes within the expectation of the Group and is considered to be a positive factor for the long-term development of the PRC polyester industry as a whole. Having long-term relationship with PTA and MEG suppliers and being a major polyester producer, the Group is confident of being able to secure adequate supplies of the major raw materials at competitive rates.

### **Expansion of production capacities**

Despite the challenging market conditions in the PRC, the Group is now formulating a capital expansion plan to upgrade the production facilities of its various SBUs. The plan is expected to take place over the remainder of 2004 and in 2005. It is intended that the plan will allow the Group to further improve its economies of scale, streamline its production process to enhance product quality and strengthen its position as one of the industry leaders in the PRC.

### **DIRECTORS' INTERESTS IN SECURITIES**

At 30th June 2004, the interests and short positions of the Directors and chief executive in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Exchange pursuant to Rule 5.40 of the GEM Listing Rules were as follows:



## Associated Corporation

*Long positions in common shares of FET (Note)*

Name of director	Number of common shares				Total	Approximate percentage of issued share capital
	Personal interests	Family interests	Corporate interests	Other interests		
Mr. Shu-Tong Hsu	66,807,468	Nil	Nil	Nil	66,807,648	1.9%
Mr. Jar-Yi Shih	1,562,152	25,129,017	Nil	Nil	26,691,169	0.7%
Mr. Champion Lee	243	Nil	Nil	Nil	243	0.0%
Mr. Chin-Sen Tu	241	Nil	Nil	Nil	241	0.0%
Mr. Shaw-Y Wang	110,356	Nil	Nil	Nil	110,356	0.0%
Mr. Lih-Teh Chang	20,657	Nil	Nil	Nil	20,657	0.0%

*Note:*

FET is an associated corporation of the Company as FET is the Company's ultimate holding company. As at 30th June 2004, 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 2004, approximately 2.6% of the total issued common shares of FET.

Save as disclosed above, none of the Directors or the chief executive had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Exchange pursuant to Rule 5.40 of the GEM Listing Rules.

## 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 June 2004 or at any time during the six months ended 30th June 2004.

## DIRECTORS' RIGHTS TO PURCHASE SHARES OR DEBENTURES

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

As at 30th June 2004, no options had been granted under the Company's share option scheme.

## SUBSTANTIAL SHAREHOLDERS

As at 30th June 2004, the following persons (other than the Directors and chief executive of the Company) were the substantial shareholders of the Company who had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

### *Long positions in Shares*

<b>Name</b>	<b>Capacity</b>	<b>Number and class of shares</b>	<b>Approximate percentage of interest</b>
FET ( <i>Note 1</i> )	Beneficial Owner	263,400,800 ordinary shares	64.2%
Yuang Ding Investment Corporation (“YDIC”)	Beneficial Owner	191,870,160 ordinary shares	46.8%
Everest Textile Co. Ltd. (“Everest Textile”) ( <i>Note 2</i> )	Beneficial Owner	69,750,000 ordinary shares	17.0%
Everest Investment (Holding) Limited (“Everest Investment”)	Beneficial Owner	69,750,000 ordinary shares	17.0%

### *Notes:*

1. FET is interested in approximately 99.99% of the issued share capital of YDIC and is accordingly deemed to have an interest in the Company’s shares in which YDIC has an interest. FET owns approximately 89.5% of the issued share capital of Far Eastern Investment (Holdings) Company Limited (“FEIH”) and is accordingly taken to be interested in the Company’s shares in which FEIH has an interest.
2. Everest Textile is interested 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.

## INTERESTS DISCLOSEABLE UNDER THE SFO

As at 30th June 2004, the following persons (other than the substantial shareholders, the Directors and chief executive of the Company) had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

### *Long positions in Shares*

<b>Name</b>	<b>Capacity</b>	<b>Number and class of shares</b>	<b>Approximate percentage of interest</b>
Far Eastern Investment (Holdings) Company Limited (“FEIH”)( <i>Note 1</i> )	Founder of Trust	24,733,040 ordinary shares	6.0%
Glorious Victory Limited ( <i>Note 2</i> )	Beneficial Owner	24,733,040 ordinary shares	6.0%
HSBC International Trustee Limited ( <i>Note 3</i> )	Trustee	24,733,040 ordinary shares	6.0%

#### *Notes:*

1. 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, the entire share capital of which is held under The Kai Yuan Trust.
2. Glorious Victory Limited is interested in approximately 6% of the entire issued share capital of the Company. The entire issued share capital of Glorious Victory Limited is in turn held under The Kai Yuan Trust.
3. 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.

Save as disclosed above, the Company had no notice of any interests required to be recorded in the register required to be kept under Section 336 of the SFO as at 30th June 2004.

### **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 2004, FET produced 344,348 tonnes of polyester polymer, 132,841 tonnes of various types of PET chips (for PET bottles, food and industrial packaging), 117,602 tonnes of polyester staple fibers, 74,425 tonnes of pre-oriented yarn (POY), 32,662 tonnes of draw textured yarn (DTY), 177,252 bales of yarn, 19,061 thousand yards of finished fabrics and 177,758 thousand pieces of PET preforms. Everest Textile also produced 11,029 tonnes of polyester filaments and 40,134 thousand yards of finished fabrics.

Save as disclosed above, as at 30th June 2004, the Directors were not aware of any other business or interest of each Director and management shareholder, and their respective associates, that competes or may compete with the business of the Group.

#### *Notes:*

1. As at 30th June 2004, 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 2004, Mr. Shu-Tong Hsn, 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 5.34 to 5.45 of the GEM Listing Rules throughout the six-month period ended 30th June 2004.

## **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 reports 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 two independent non-executive Directors, Mr. Ying-Ho Wong, Kennedy, and Mr. Shih-Hung Chan and a non-executive Director, Mr. Shaw-Y Wang. The audit committee has met nineteen times since its formation. The results of the Group for the six months ended 30th June 2004 have been reviewed by the audit committee.

## **CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS**

During the six months ended 30th June 2004, the Company continued to adopt a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company has made specific enquiry of all Directors, and the Company is not aware of any non-compliance with the required standard of dealings or otherwise in connection with its code of conduct regarding securities transactions by Directors.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s shares during the six months ended 30th June 2004.

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

Taipei, 10th August 2004

*As at the date of this announcement, Mr. Shu-Tong Hsu, Mr. Jar-Yi Shih, Mr. Champion Lee, Mr. Lih-Teh Chang and Mr. Chin-Sen Tu are Executive Directors of the Company; Mr. Shaw-Y Wang is a Non-executive Director; Mr. Tak-Lung Tsim, Mr. Ying-Ho Wong and Mr. Shih-Hung Chan are Independent Non-executive Directors.*

*This announcement will remain on the GEM website on the “Latest Company Announcements” page for at least 7 days from the date of its posting.*

*\* For identification purposes only*