



# **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)**

## **QUARTERLY RESULTS FOR THE NINE MONTHS ENDED 30TH SEPTEMBER 2004**

### **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “EXCHANGE”)**

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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 financial 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 is not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

## **QUARTERLY RESULTS HIGHLIGHTS**

- Far Eastern Polychem Industries Limited (the “Company”) and its subsidiaries (together the “Group”) are principally engaged in the 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\$1,947 million for the nine months ended 30th September 2004, with profit attributable to shareholders of approximately HK\$23 million, representing an increase of 29% and 588%, respectively, as compared to the same nine-month period in the previous financial year.
- Earnings per share for the nine months ended 30th September 2004 was HK\$0.06 (earnings per share for the nine months ended 30th September 2003 was HK\$0.01).

## 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 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	
	<i>Note</i>	<b>30th September 2004</b>	<b>31st December 2003</b>
		<i>HK\$'000</i> <i>(Unaudited)</i>	<i>HK\$'000</i> <i>(Audited)</i>
<b>Fixed assets</b>	3	1,433,721	1,349,379
<b>Investment in an associated company</b>		81,909	84,343
<b>Other non-current assets</b>		10,890	11,608
<b>Current Assets</b>			
Cash and bank deposits		361,860	190,912
Trade and notes receivables	4	352,991	221,763
Deposits, prepayments and other receivables		59,264	71,569
Amount due from a related company		—	19,500
Inventories		497,783	365,493
Total current assets		<u>1,271,898</u>	<u>869,237</u>
<b>Current liabilities</b>			
Trade, other payables and accruals	5	(453,735)	(352,150)
Taxes payable		(96)	(13,958)
Short-term bank loans		(194,505)	(123,708)
Long-term bank loans, current portion		(144,760)	(94,000)
Total current liabilities		<u>(793,096)</u>	<u>(583,816)</u>
<b>Net current assets</b>		478,802	285,421
<b>Total assets less current liabilities</b>		2,005,322	1,730,751
<b>Non-current liabilities</b>			
Long-term bank loans, non-current portion		(678,548)	(424,308)
Deferred tax liabilities		(1,200)	(1,200)
Total non-current liabilities		<u>(679,748)</u>	<u>(425,508)</u>
Minority interests		(39,291)	(395)
		<u>1,286,283</u>	<u>1,304,848</u>
Share capital		410,296	410,296
Reserves		875,987	894,552
<b>Shareholders' equity</b>		<u>1,286,283</u>	<u>1,304,848</u>

(b) Unaudited consolidated income statement

	Note	For the nine months ended 30th September		For the three months ended 30th September	
		2004	2003	2004	2003
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
PET chips		1,198,333	919,561	408,039	335,317
Polyester filaments		173,076	163,452	55,083	59,325
Polyester staple fibers		326,102	246,608	136,811	89,841
Finished fabrics		248,365	174,516	79,035	57,771
Others		748	—	748	—
Total turnover		1,946,624	1,504,137	679,716	542,254
Cost of sales		(1,801,116)	(1,373,137)	(642,685)	(506,164)
Gross profit		145,508	131,000	37,031	36,090
Distribution costs		(66,259)	(85,659)	(24,357)	(25,743)
Administrative costs		(45,467)	(40,058)	(15,357)	(12,751)
Other operating income		13,044	16,906	4,705	5,300
Profit from operations	6	46,826	22,189	2,022	2,896
Finance costs, net	7	(17,405)	(15,181)	(4,749)	(8,465)
Share of loss of an associated company		(2,434)	(1,011)	(1,092)	(1,011)
Profit (Loss) before tax		26,987	5,997	(3,819)	(6,580)
Income tax expense	8	(4,501)	(2,712)	(273)	(193)
Profit (Loss) after tax		22,486	3,285	(4,092)	(6,773)
Minority interests		104	—	70	—
Profit (Loss) attributable to shareholders		22,590	3,285	(4,022)	(6,773)
Earnings (Loss) per share (in HK\$)	9				
- Basic and diluted		0.06	0.01	(0.01)	(0.02)

(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)
Effect of translation of the financial statements of a foreign subsidiary	—	—	—	—	36	—	36
Profit for the nine months ended 30th September 2003	—	—	—	—	—	3,285	3,285
Balance, 30th September 2003	410,296	523,001	102,646	5,645	2,205	238,954	1,282,747
Effect of translation of the financial statements of a foreign subsidiary	—	—	—	—	(2)	—	(2)
Profit for the three months ended 31st December 2003	—	—	—	—	—	22,103	22,103
Balance, 31st December 2003	410,296	523,001	102,646	5,645	2,203	261,057	1,304,848

**For the nine months ended 30th September 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)
Effect of translation of the financial statements of foreign subsidiaries	—	—	—	—	(125)	—	(125)
Profit for the nine months ended 30th September 2004	—	—	—	—	—	22,590	22,590
Balance, 30th September 2004	410,296	523,001	108,330	5,645	2,078	236,933	1,286,283

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

	<b>For the nine months ended 30th September</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) from operations	(2,427)	90,608
Interest paid	(18,051)	(17,295)
Income tax paid	(6,566)	(2,519)
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Net cash (used in) from operating activities	(27,044)	70,794
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of fixed assets	(197,082)	(82,132)
Proceeds from disposals of fixed assets	—	2,175
Interest received	2,242	1,489
Investment in an associated company	—	(86,473)
(Increase) Decrease in other non-current assets	(310)	1,546
Decrease in amount due from a related company	19,500	—
Net cash outflow from disposal of a subsidiary	—	(13,060)
	<hr/>	<hr/>
Net cash used in investing activities	(175,650)	(176,455)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from short-term bank loans	268,736	684,826
Proceeds from long-term bank loans	399,000	46,754
Repayments of short-term bank loans	(197,939)	(695,600)
Repayments of long-term bank loans	(94,000)	(46,060)
Dividends paid	(41,030)	(41,030)
Cash contributed by minority interests	39,000	—
	<hr/>	<hr/>
Net cash from (used in) financing activities	373,767	(51,110)
Net increase (decrease) in cash and cash equivalents	171,073	(156,771)
Effect of foreign exchange rate changes	(125)	36
Cash and cash equivalents, beginning of the period	190,912	345,717
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Cash and cash equivalents, end of the period	<u>361,860</u>	<u>188,982</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 nine months ended 30th September 2004, additions to fixed assets amounted to HK\$199,130,000 (nine months ended 30th September 2003: HK\$81,510,000).

4) **Trade and notes receivables**

	As at	
	<b>30th September 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	96,653	85,484
31 to 60 days	40,326	45,186
61 to 90 days	27,493	17,010
Over 90 days	27,668	44,530
	<hr/>	<hr/>
	192,140	192,210
<b>Notes receivable</b>	164,469	29,553
Less: Provision for doubtful debts	(3,618)	—
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	352,991	221,763
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**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**

	As at	
	<b>30th September 2004</b>	<b>31st December 2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Audited)</i>
<b>Trade payables</b>		
Current to 30 days	189,374	105,993
31 to 90 days	169,186	167,365
Over 90 days	30,925	23,239
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	389,485	296,597
<b>Other payables and accruals</b>	64,250	55,553
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	453,735	352,150
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6) **Profit from operations**

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

	<b>For the nine months ended 30th September</b>	
	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Cost of inventories	1,801,116	1,373,137
Staff costs	56,967	44,663
Depreciation on property, plant and equipment	110,599	103,607
Amortisation of land use rights	2,091	1,924
Amortisation of deferred assets	1,028	1,028
Provision for doubtful debts	3,618	—
Operating lease rentals on property	3,013	2,158
	<u>1,988,332</u>	<u>1,638,517</u>

7) **Finance costs, net**

	<b>For the nine months ended 30th September</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	18,051	17,295
Less: Amount capitalized as construction-in-progress	(2,048)	(1,712)
Interest income	(2,242)	(1,489)
Net foreign currency exchange losses (gains)	2,172	(2,456)
Other financial expenses	1,472	3,543
	<u>17,405</u>	<u>15,181</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 nine months ended 30th September 2004 was based on the unaudited consolidated profit attributable to shareholders of approximately HK\$22,590,000 (nine months ended 30th September 2003: HK\$3,285,000) and on the weighted average number of 410,296,000 (nine months ended 30th September 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		Other operations		Consolidated	
	For the nine months ended 30th September											
	2004	2003	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	HK\$'000	HK\$'000
<b>Revenue</b>												
Turnover from												
external sales	1,198,333	919,561	173,076	163,452	326,102	246,608	248,365	174,516	748	—	1,946,624	1,504,137
<b>Results</b>												
Gross profit (loss)	116,674	83,973	(1,456)	6,412	(3,435)	20,927	32,977	19,688	748	—	145,508	131,000
Unallocated corporate expenses											(98,682)	(108,811)
Profit from operations											46,826	22,189
Finance costs, net											(17,405)	(15,181)
Share of loss of an associated company											(2,434)	(1,011)
Profit before tax											26,987	5,997
Income tax expense											(4,501)	(2,712)
Profit after tax											22,486	3,285
Minority interests											104	—
Profit attributable to shareholders											22,590	3,285

## 11) Related party transactions

During the nine months ended 30th September 2004, the technological licence fee paid to Far Eastern Investment (Holdings) Company Limited, a subsidiary of Far Eastern Textile Limited ("FET"), amounted to HK\$8,756,000 (nine months ended 30th September 2003: HK\$8,755,000).

## 12) Commitments

### (i) *Capital commitments*

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

	As at	
	<b>30th September 2004</b>	<b>31st December 2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Audited)</i>
Authorised and contracted for		
— Acquisition of fixed assets	<u>108,980</u>	<u>71,753</u>

### (ii) *Investment commitment*

As at 30th September 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 of HK\$249,600,000. The completion of the aforementioned acquisition took place on 1st November 2004 and HK\$62,400,000 of the consideration had already been paid as at the date of this report.

## **DIVIDEND**

The Directors do not recommend the payment of an interim dividend for the nine months ended 30th September 2004. The Group did not declare any dividends for the corresponding nine-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 nine-month period ended 30th September 2004 was approximately HK\$1,947 million, representing an increase of 29% as compared to the corresponding nine-month period in 2003. Unaudited consolidated gross profit of the Group and profit attributable to shareholders of the Company for the nine-month period ended 30th September 2004 were approximately HK\$146 million and HK\$23 million respectively, representing increases of 11% and 588%, respectively, as compared to the nine-month period ended 30th September 2003.

## **BUSINESS REVIEW**

### **Improvement in profitability**

In 2004, with the Severe Acute Respiratory Syndrome epidemic retreating further into history 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 nine months ended 30th September 2004 as compared to the same period in 2003. The growth in profitability can be attributed to increases in gross profit achieved by the Group's Chip Strategic Business Unit ("SBU") and Dyeing and Finishing SBU from 9% for the nine months ended 30th September 2003 to 10% for the corresponding period in 2004 and from 11% to 13%, respectively. However, given the significant over-supply situation in the PRC, polyester producers in the PRC will be operating against a back-drop of severe market pressure in the near future.

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

Although the demand for polyester filaments and fibers has increased at a considerable rate in the PRC, the production capacities for these products has increased even faster. The excessive supply problem adds pressure to product prices by making it more difficult to pass on the rising raw material costs to customers and as a result low, or sometimes negative, profit margins arises. To address this problem, the Group is committed to producing more specialty products which generally are less prone to squeeze on margin under adverse market conditions. In addition, the Group will monitor the market situation and make appropriate and timely product shifts to generate better returns.

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

Driven by various political and speculative factors, New York Mercantile Exchange crude oil future prices went close to US\$50 per barrel during the third quarter of 2004 and hit approximately US\$55 per barrel in October 2004. 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 nine months ended 30th September 2004 increased by 23% and 29%, respectively, over the corresponding period in 2003 while the average selling price of certain of the Group's products increased at a lesser rate, which explains the drop in profitability in the second and third quarters after a temporary rebound in the first quarter.

## **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. In addition, the completion of this acquisition took place on 1st November 2004. The facilities, which cost approximately US\$32 million, 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. The Group is currently in the process of integrating the facilities with the Group’s production lines and such facilities are expected to be put into full scale operation in early 2005.

### **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 in early 2006. Since PTA is a fundamental raw material for manufacturing polyester products, this investment will enable the Group to vertically integrate its production process. The Directors are confident that it will also improve the Group’s production efficiency and, as a result, strengthen its competitiveness.

### **Small scale polyester producers suspending or scaling down their operations**

As a result of the over-supply of polyester products in the PRC, a lot of small scale polyester producers have been selling their products at gross losses. These producers price their products simply based on their variable production costs while ignoring those costs associated with other fixed or non-cash overheads and with the goal of converting their on-hand inventories into cashflow so as to maintain operations or service bank loans. However, after running at losses for a long period, many small scale polyester producers in the PRC have suspended or scaled down their operations. In addition, due to the extremely tight supply of PTA and MEG, some polyester producers have encountered difficulty in sourcing adequate supplies of these important raw materials at reasonable prices and this factor also contributed to the reduction in production scale as mentioned above. The above phenomenon, anticipated by the Directors (and which they have commented on in previous reports), is considered by the Directors to be a positive factor for the long-term development of the PRC polyester industry as a whole. Having long-term relationships with PTA and MEG suppliers and being a major polyester producer, the Directors remain confident of being able, for the foreseeable future, 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 upgrading the production facilities of its various SBUs. The upgrade is expected to take place over the remainder of 2004 and in 2005. It is intended that the upgrade 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 September 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 Far Eastern Textile Limited ("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	71,465,952	Nil	Nil	Nil	71,465,952	1.9%
Mr. Jar-Yi Shih	1,671,080	25,881,263	Nil	Nil	27,552,343	0.7%
Mr. Champion Lee	259	Nil	Nil	Nil	259	0.0%
Mr. Chin-Sen Tu	257	Nil	Nil	Nil	257	0.0%
Mr. Shaw-Y Wang	118,051	Nil	Nil	Nil	118,051	0.0%
Mr. Lih-Teh Chang	22,097	Nil	Nil	Nil	22,097	0.0%

*Note:*

FET is an associated corporation of the Company as FET is the Company's ultimate holding company. As at 30th September 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 September 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 September 2004 or at any time during the nine months ended 30th September 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 September 2004, no options had been granted under the Company's share option scheme.



## SUBSTANTIAL SHAREHOLDERS

As at 30th September 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 September 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”) (Note 1)	Founder of Trust	24,733,040 ordinary shares	6.0%
Glorious Victory Limited (Note 2)	Beneficial Owner	24,733,040 ordinary shares	6.0%
HSBC International Trustee Limited (Note 3)	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 September 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 nine months ended 30th September 2004, FET produced 518,996 tonnes of polyester polymer, 202,196 tonnes of various types of PET chips (for PET bottles, food and industrial packaging), 175,015 tonnes of polyester staple fibers, 117,007 tonnes of pre-oriented yarn (POY), 48,122 tonnes of draw textured yarn (DTY), 267,130 bales of yarn, 25,410 thousand yards of finished fabrics and 293,372 thousand pieces of PET preforms. Everest Textile also produced 17,664 tonnes of polyester filaments and 60,513 thousand yards of finished fabrics.

Save as disclosed above, as at 30th September 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 September 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 September 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 nine-month period ended 30th September 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 twenty times since its formation. The results of the Group for the nine months ended 30th September 2004 have been reviewed by the audit committee.

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

During the nine months ended 30th September 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 nine months ended 30th September 2004.

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

Taipei, 4th November 2004

*As at the date of this report, 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; and Mr. Tak-Lung Tsim, Mr. Ying-Ho Wong and Mr. Shih-Hung Chan are Independent Non-executive Directors.*

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