



## 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)

### FINAL RESULTS FOR THE YEAR ENDED 31ST DECEMBER 2004

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## YEARLY RESULTS HIGHLIGHTS

- Far Eastern Polychem Industries Limited (the “Company”) and its subsidiaries (together the “Group”) are principally engaged in the production and distribution of four major categories of polyester products, namely bottle-grade polyethylene terephthalate (“PET”) chips, polyester filaments and polyester staple fibers, and the dyeing and finishing of polyester fabrics in the People’s Republic of China (the “PRC”).
- The Group achieved a turnover of approximately HK\$2,602 million for the year ended 31st December 2004, with profit attributable to shareholders of approximately HK\$28 million, representing an increase of 25% and 9%, respectively, as compared to the year ended 31st December 2003.
- Earnings per share for the year ended 31st December 2004 was HK\$0.067 (Earnings per share for the year ended 31st December 2003 was HK\$0.062).

## YEARLY FINANCIAL STATEMENTS (AUDITED)

The directors of the Company (the “Director”) have the pleasure of presenting the audited consolidated financial statements of the Group for the year ended 31st December 2004 and, for comparison purposes, the audited consolidated balance sheet as at 31st December 2003 and figures for the year ended 31st December 2003 in respect of the audited consolidated income statement, statement of changes in shareholders’ equity and cash flow statement as follows:

### (a) Audited consolidated balance sheet

	<b>As at</b>	
<i>Note</i>	<b>31st December</b>	
	<b>2004</b>	<b>2003</b>
	<i>HK\$’000</i>	<i>HK\$’000</i>
<b>Non-current assets</b>		
Investment in an associate	80,694	84,343
Available-for-sale investments	3,009	4,419
Property, plant and equipment	1,742,616	1,237,512
Land use rights	136,199	111,867
Deferred assets	5,712	7,082
Other non-current assets	300	107
	<u>1,968,530</u>	<u>1,445,330</u>

		<b>As at</b>	
		<b>31st December</b>	
	<i>Note</i>	<b>2004</b>	<b>2003</b>
		<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Current assets</b>			
Inventories		663,968	365,493
Deposits, prepayments and other receivables		35,944	71,569
Trade and notes receivables	2	406,350	221,763
Amount due from a related company		—	19,500
Tax recoverable		7,466	—
Cash and bank deposits		<u>323,050</u>	<u>190,912</u>
		<u>1,436,778</u>	<u>869,237</u>
<b>Current liabilities</b>			
Trade payables	3	561,422	296,597
Other payables and accruals		79,665	55,553
Taxes payable		74	13,958
Short-term bank loans		295,645	123,708
Long-term bank loans, current portion		<u>343,023</u>	<u>94,000</u>
		<u>1,279,829</u>	<u>583,816</u>
<b>Net current asset</b>		<u>156,949</u>	<u>285,421</u>
<b>Total assets less current liabilities</b>		<u>2,125,479</u>	<u>1,730,751</u>
<b>Non-current liabilities</b>			
Long-term bank loans, non-current portion		776,765	424,308
Deferred tax liabilities		<u>3,394</u>	<u>1,200</u>
Total non-current liabilities		<u>780,159</u>	<u>425,508</u>
Minority interest		<u>39,316</u>	<u>395</u>
<b>Net assets</b>		<u><u>1,306,004</u></u>	<u><u>1,304,848</u></u>
<b>Represented by:</b>			
Share capital		410,296	410,296
Reserves		<u>895,708</u>	<u>894,552</u>
		<u><u>1,306,004</u></u>	<u><u>1,304,848</u></u>

(b) **Audited consolidated income statement**

		<b>For the year ended</b>	
		<b>31st December</b>	
	<i>Note</i>	<b>2004</b>	<b>2003</b>
		<i>HK\$'000</i>	<i>HK\$'000</i>
PET chips		1,589,314	1,283,084
Polyester filaments		226,373	221,137
Polyester staple fibers		423,286	320,864
Finished fabrics		362,312	255,409
Others		<u>748</u>	<u>—</u>
Total Sales, net		2,602,033	2,080,494
Cost of sales		<u>(2,390,037)</u>	<u>(1,898,894)</u>
<b>Gross profit</b>		211,996	181,600
Other operating income	4	17,077	17,507
Distribution costs		(105,824)	(124,230)
Administrative expenses		<u>(68,684)</u>	<u>(54,493)</u>
<b>Profit from operations</b>	5	54,565	20,384
Other income		—	21,456
Finance costs, net	6	(17,826)	(11,599)
Share of result of an associate before tax		<u>(3,649)</u>	<u>(2,130)</u>
<b>Profit before tax</b>		33,090	28,111
Income tax expense	7	<u>(5,509)</u>	<u>(2,751)</u>
<b>Profit before minority interest</b>		27,581	25,360
Minority interest		<u>79</u>	<u>28</u>
<b>Profit attributable to shareholders</b>		<u>27,660</u>	<u>25,388</u>
Basic earnings per share	8(a)	<u>\$0.067</u>	<u>\$0.062</u>
Diluted earnings per share	8(b)	<u>N/A</u>	<u>N/A</u>

(c) **Audited consolidated statement of changes in shareholders' equity**

	Share capital \$'000	Share premium \$'000	Statutory reserve fund \$'000	Revaluation reserve \$'000	Cumulative translation adjustments \$'000	Retained earnings \$'000	Total reserve \$'000	Total equity \$'000
Balance as at 1st January 2003	410,296	523,001	86,370	5,645	2,169	292,975	910,160	1,320,456
Profit for the year	—	—	—	—	—	25,388	25,388	25,388
Profit appropriation	—	—	16,276	—	—	(16,276)	—	—
Dividends	—	—	—	—	—	(41,030)	(41,030)	(41,030)
Translation adjustments	—	—	—	—	34	—	34	34
Balance as at 31st December 2003	410,296	523,001	102,646	5,645	2,203	261,057	894,552	1,304,848
Profit for the year	—	—	—	—	—	27,660	27,660	27,660
Profit appropriation	—	—	5,684	—	—	(5,684)	—	—
Dividends	—	—	—	—	—	(41,030)	(41,030)	(41,030)
Surplus on revaluation of buildings	—	—	—	15,299	—	—	15,299	15,299
Realisation of revaluation reserve due to additional depreciation	—	—	—	(1,411)	—	1,411	—	—
Translation adjustments	—	—	—	—	(773)	—	(773)	(773)
Balance as at 31st December 2004	<u>410,296</u>	<u>523,001</u>	<u>108,330</u>	<u>19,533</u>	<u>1,430</u>	<u>243,414</u>	<u>895,708</u>	<u>1,306,004</u>

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

		<b>For the year ended</b>	
		<b>31st December</b>	
	<i>Note</i>	<b>2004</b>	<b>2003</b>
		<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Cash flows from operating activities</b>			
Cash generated from operations		31,638	90,977
Interest paid		(28,547)	(22,544)
Income tax paid		<u>(6,837)</u>	<u>(2,355)</u>
Net cash (used in) generated from operations		<u>(3,746)</u>	<u>66,078</u>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(630,091)	(72,393)
Purchase of land use rights		(27,232)	(4,619)
Proceeds from disposals of property, plant and equipment		—	478
Investment in an associate		—	(86,473)
(Increase) decrease in other non-current assets		(193)	1,547
Decrease in amount due from a related company		19,500	—
Interest received		3,286	2,879
Net cash outflow from disposal of subsidiaries	10	<u>—</u>	<u>(13,060)</u>
Net cash used in investing activities		<u>(634,730)</u>	<u>(171,641)</u>
<b>Cash flows from financing activities</b>			
Proceeds from short-term bank loans		346,216	769,695
Proceeds from long-term bank loans		695,480	92,814
Repayments of short-term bank loans		(174,279)	(825,118)
Repayments of long-term bank loans		(94,000)	(46,060)
Capital contributed by minority interest		39,000	423
Dividends paid		<u>(41,030)</u>	<u>(41,030)</u>
Net cash generated from (used in) financing activities		<u>771,387</u>	<u>(49,276)</u>
<b>Effect of exchange rate changes</b>		<u>(773)</u>	<u>34</u>
<b>Net increase (decrease) in cash and cash equivalents</b>		132,138	(154,805)
Cash and cash equivalents at beginning of year		<u>190,912</u>	<u>345,717</u>
<b>Cash and cash equivalents at end of year</b>		<u><u>323,050</u></u>	<u><u>190,912</u></u>

(e) **Notes to the audited financial statements**

1) **Basis of presentation**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited. The consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of buildings.

2) **Trade and note receivables**

	<b>As at</b>	
	<b>31st December</b>	
	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables		
Current to 30 days	109,527	85,484
31 to 60 days	105,070	45,186
61 to 90 days	49,717	17,010
91 to 120 days	<u>27,766</u>	<u>44,530</u>
	292,080	192,210
Less: provision for doubtful debts	<u>(4,224)</u>	<u>—</u>
	287,856	192,210
Notes receivable	<u>118,494</u>	<u>29,553</u>
	<u>406,350</u>	<u>221,763</u>

**Credit policy**

No credit terms were granted to the PRC customers except for those with sound financial background and good repayment histories, for which the Group would grant credit terms ranging from 7 days to 60 days. For overseas customers, the Group would grant credit terms from 90 to 120 days. In addition, a predetermined maximum credit limit is set for each customer.

**Concentrations of credit risk**

Concentrations of credit risk with respect to trade receivables are limited due to the Group’s large number of customers, who are internationally dispersed, cover the spectrum of manufacturing and distribution and have a variety of end markets in which they sell. Due to these factors, management believes that no additional credit risk beyond amounts provided for collection losses, if any, is inherent in the Group’s trade receivables.

3) **Trade payables**

	<b>As at</b>	
	<b>31st December</b>	
	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Trade payables</b>		
Current to 30 days	224,155	105,993
31 to 90 days	274,597	167,365
Over 90 days	<u>62,670</u>	<u>23,239</u>
	<u>561,422</u>	<u>296,597</u>

4) **Other operating income**

Other operating income mainly represents income from sales of scrap materials.

5) **Profit from operations**

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

	<b>For the year ended</b>	
	<b>31st December</b>	
	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost of inventories recognised as expense (included in 'Cost of sales')	2,193,946	1,724,939
Staff costs		
— wages and salaries	74,608	61,554
— pension costs (defined contribution plan)	4,433	4,086
Depreciation on property, plant and equipment	147,933	141,029
Amortisation of land use rights (included in 'Administrative expenses')	2,900	2,601
Amortisation of deferred assets (included in 'Cost of sales')	1,370	1,371
Operating lease rentals on property	4,375	4,551
Impairment charges for bad and doubtful debts (included in administrative expense)	4,224	—
Write down of inventories to net realisable value	7,228	—
Provision for impairment of available-for-sale investments	1,410	—
Auditors' remuneration	437	380
Loss (gain) on disposals of property, plant and equipment	61	(353)
Gain on disposal of subsidiaries	<u>—</u>	<u>4,347</u>



6) **Finance costs, net**

	<b>For the year ended</b>	
	<b>31st December</b>	
	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest expenses on bank loans wholly repayable within five years	28,547	22,544
Less: Amount capitalised as construction-in-progress	(5,514)	(2,291)
Interest income	(3,286)	(2,879)
Net foreign currency exchange gains	(3,818)	(11,136)
Other financial expenses	<u>1,897</u>	<u>5,361</u>
	<u>17,826</u>	<u>11,599</u>

7) **Income tax expense**

The Company is exempted from taxation in Bermuda.

No Hong Kong profits tax was provided as the Group had no assessable profits arising in or deriving from Hong Kong.

The Company's subsidiaries registered in the PRC are subject to Enterprise Income Tax ("EIT") on the taxation income as reported in their PRC statutory accounts adjusted in accordance with relevant PRC income tax laws. The general applicable EIT rate is 33%. However, being registered in a designated high-technology development zone in the PRC, Far Eastern Industries (Shanghai) Ltd. ("FEIS") (the Company's major operating subsidiary in the PRC) is entitled to a preferential EIT rate of 15%. In addition, in accordance with the PRC "Law of Enterprise Income Tax for Enterprise with Foreign Investment", FEIS 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. Furthermore, being qualified as a "High-technology Enterprise", FEIS is entitled to a further reduced EIT rate of 10% for an additional three years following the end of the five-year period during which FEIS enjoyed the preferential EIT treatment as stated above. The "High-technology Enterprise" status is subject to review every year. The first profitable year of FEIS was 1999.

No PRC EIT had been provided for all the other PRC subsidiaries of the Company as they were either in pre-operating stage or had incurred losses for the year. The deferred tax assets derived from losses for previous years have not been recognized as these PRC subsidiaries have not yet commenced their first profitable year. A tax holiday creates a non-taxable status and the effective tax rate is zero. Since the loss carryforward accumulated prior to tax holiday will be either lost or used up before the tax holiday is activated, no deferred tax asset is recognized with respect to the loss carryforward as at 31 December 2004.

The amount of income tax expense charged to the consolidated income statement represents:

	<b>For the year ended</b>	
	<b>31st December</b>	
	<b>2004</b>	<b>2003</b>
	<i>\$'000</i>	<i>\$'000</i>
Current tax — PRC taxation	5,509	2,751
Share of tax of an associate	<u>—</u>	<u>—</u>
Taxation charge	<u>5,509</u>	<u>2,751</u>

8) **Earnings per share**

(a) **Basic earnings per share**

Basic earnings per share is calculated by dividing the profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year.

	<b>For the year ended</b>	
	<b>31st December</b>	
	<b>2004</b>	<b>2003</b>
Profit attributable to shareholders (\$'000)	27,660	25,388
Weighted average number of ordinary shares in issue ('000)	410,296	410,296
Basic earnings per share (\$ per share)	<u>0.067</u>	<u>0.062</u>

(b) **Diluted earnings per share**

Diluted earnings per share is not presented because there has been no potentially dilutive ordinary shares in existence during the year.

9) **Segmental information**

The Group operates principally in the production and distribution of PET chips, polyester filaments and polyester staple fibers, and dyeing and finishing of polyester textile products and have four strategic business units ("SBUs"), namely the Chip SBU, the Filament SBU, the Fiber SBU and the Dyeing and Finishing SBU which are managed separately.

**Primary reporting format - business segments**

	<b>Chip SBU</b>		<b>Filament SBU</b>		<b>Fiber SBU</b>		<b>Dyeing and Finishing SBU</b>		<b>Others</b>		<b>Consolidated</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Sales, net	1,589,314	1,283,084	226,373	221,137	423,286	320,864	362,312	255,409	748	—	2,602,033	2,080,494
Segment result	161,099	123,052	(2,449)	8,737	(2,457)	14,797	55,055	35,014	748	—	211,996	181,600
Unallocated corporate expenses											<u>(157,431)</u>	<u>(161,216)</u>
Profit from operations											54,565	20,384
Other income											—	21,456
Finance costs, net											(17,826)	(11,599)
Share of result of an associate before tax											<u>(3,649)</u>	<u>(2,130)</u>
Profit before tax											33,090	28,111
Income tax expense											<u>(5,509)</u>	<u>(2,751)</u>
Group profit before minority interest											27,581	25,360
Minority interest											<u>79</u>	<u>28</u>

	Chip SBU		Filament SBU		Fiber SBU		Dyeing and Finishing SBU		Others		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Profit attributable to shareholders											<u>27,660</u>	<u>25,388</u>
Segment assets	1,599,408	794,565	334,970	308,971	405,840	266,571	562,124	465,356	1,226	—	2,903,568	1,835,463
Investment in an associate											80,694	84,343
Unallocated corporate assets											<u>421,046</u>	<u>394,761</u>
Total assets											<u>3,405,308</u>	<u>2,314,567</u>
Segment liabilities	734,880	195,435	182,707	47,511	260,861	56,788	404,285	43,068	13	—	1,582,746	342,802
Unallocated corporate liabilities											<u>477,242</u>	<u>666,522</u>
Total liabilities											<u>2,059,988</u>	<u>1,009,324</u>
Capital expenditures	411,618	7,091	45,380	18,879	120,234	422	51,466	25,280	274	—	628,972	51,672
Unallocated corporate capital expenditures											<u>33,865</u>	<u>27,631</u>
Total capital expenditures											<u>662,837</u>	<u>79,303</u>
Depreciation and amortisation	56,729	54,582	29,820	27,236	18,856	16,880	37,551	34,028	34	—	142,990	132,726
Unallocated depreciation and amortisation											<u>9,213</u>	<u>12,275</u>
Total depreciation and amortisation											<u>152,203</u>	<u>145,001</u>
Impairment of inventory	846	—	1,130	—	3,237	—	2,015	—	—	—	7,228	—
Impairment of trade receivables	3,140	—	106	—	109	—	869	—	—	—	4,224	—
Impairment of available-for-sale investments	—	—	—	—	—	—	—	—	1,410	—	<u>1,410</u>	<u>—</u>

Segment assets consist primarily of property, plant and equipment, inventories, receivables and operating cash, and mainly exclude investments. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings. Capital expenditure comprises additions to property, plant and equipment and land use rights.

## Secondary report format - geographical segments

An analysis by geographical segment, as determined by location of customers, is presented below. No segment assets and liabilities are presented as majority of the Group's assets are located in the PRC. Capital expenditures are mainly for the Group's plants in the PRC.

	<b>2004</b>	<b>2003</b>
	<i>\$'000</i>	<i>\$'000</i>
Sales		
- The PRC	2,062,320	1,504,063
- Europe	384,053	368,429
- North America	66,701	47,289
- Asia (excluding the PRC)	35,694	59,702
- Middle East	27,512	96,642
- Others	<u>25,753</u>	<u>4,369</u>
	<u>2,602,033</u>	<u>2,080,494</u>

### 10) Note to the consolidated cash flow statement - Disposal of subsidiaries

	<b>For the year ended</b>	
	<b>31st December</b>	
	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net assets disposed of:		
Fixed assets	—	14,918
Cash and bank deposits	—	13,060
Trade receivables	—	832
Trade payables	<u>—</u>	<u>(13,657)</u>
	—	15,153
Gain on disposal	<u>—</u>	<u>4,347</u>
	—	19,500
Recorded as receivable from a related company	<u>—</u>	<u>19,500</u>
Net cash outflow from disposal of subsidiaries:		
Cash consideration	—	—
Cash and bank deposits disposed of	<u>—</u>	<u>(13,060)</u>
Net cash outflow from disposal of subsidiaries	<u>—</u>	<u>(13,060)</u>

Two wholly-owned subsidiaries, Far Eastern Info Service (Holdings) Limited and Far Eastern Network Info-Tech (Shanghai) Ltd. were disposed of during 2003.

## DIVIDEND

The Directors will recommend the payment of a final dividend of HK\$0.10 per ordinary share for the year ended 31st December 2004, totalling approximately HK\$41,029,600, at the forthcoming Annual General Meeting.

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\$41,029,600. This dividend has been fully paid.

## OPERATIONAL REVIEW

The business environment in the first quarter of 2004 showed a recovery after a prolonged period of depression in the polyester industry. In light of the continuing rise of PTA and MEG prices, certain polyester producers scaled down their production which immediately alleviated the over-supply situation and rebounds in product prices were observed. However, such recovery was subsequently found to be temporary in nature.

Driven by various political and speculative factors, crude oil prices have been rising since the second quarter of 2004. Since the raw materials for polyester production are all petrochemical derivative products, the rising crude oil price inevitably led to an immediate rise in production costs and, to certain extent, a squeeze in product margins. As a result, the Group only achieved break even in the second, third and fourth quarters of 2004.

### Active changes in product mix to react to unfavorable business environment

The following is a summary of the Group's sales volume achieved by various strategic business units ("SBUs"):

	For the year ended		Percentage
	31st December	31st December	increase/ (decrease)
	2004	2003	(%)
Chip SBU (tonnes)	176,789	179,797	(2)
Filament SBU (tonnes)	18,193	21,112	(14)
Fiber SBU (tonnes)	48,700	41,863	16
Dyeing and Finishing SBU (thousand yards)	27,379	20,797	32

The Group achieved almost full utilisation of its chip production capacity while many other chip manufacturers are believed to be substantially under-utilised and the 2004 sales volume of chips remained comparable with 2003.

Sales volume of the Filament SBU has been decreasing since 2001 notwithstanding that it has operated at similar utilisation levels throughout these years. The decrease in sales volume was anticipated due to the Group's strategic shift to produce more high-end specialty

products such as low denier filaments which are subject to relatively less competition in the PRC. Although such products command higher selling prices, they require more sophisticated manufacturing processes that are more time consuming and eventually lead to a drop in production and sales volume.

Both the Fiber SBU and the Dyeing and Finishing SBU have gradually expanded their production capacities and client bases in the past years. The results are promising and considerable growth in sales volume was achieved in 2004.

### **Change in geographical sales mix to capture growth in the PRC market**

The following is a summary of the Group's geographical sales mix:

	<b>For the year ended 31st December</b>			
	<b>2004</b>	<b>Percentage</b>	<b>2003</b>	<b>Percentage</b>
	<i>HK\$'000</i>	<i>(%)</i>	<i>HK\$'000</i>	<i>(%)</i>
PRC	2,062,320	79	1,504,063	72
Asia (excluding PRC)	35,694	1	59,702	3
Europe	384,053	15	368,429	18
Middle East	27,512	1	96,642	5
North America	66,701	3	47,289	2
Others	<u>25,753</u>	<u>1</u>	<u>4,369</u>	<u>—</u>
	<u>2,602,033</u>	<u>100</u>	<u>2,080,494</u>	<u>100</u>

Due to the strong growth in the PRC polyester market and in anticipation of the Group's additional production capacities which will come into play in 2005, the Group strategically sold more products in the PRC market during 2004 in order to build a strong clientele. Management believes that the expanded clientele provides a solid foundation for the Group's future businesses.

### **Future trends in raw materials costs are critical to the Group's future profitability**

Average crude oil prices in 2004 were 55% higher than those in 2003. Political tensions throughout the world and speculative forces were precursors to continuing surges in crude oil prices, which in turn led to increases in the Group's feedstock costs. Prices of upper stream petrochemical products, in particular paraxylene ("PX") and natural gas, which are respectively the major constituents of PTA and MEG, are expected to continue their upward trends due to the lack of new capacity. The Group's profitability in 2005 is likely to be critically dependent on the future trends in raw material costs which are expected to remain high in the near future.

In order to actively manage its inventory level, the Group formulates its raw material purchase strategy based on forecasts of PTA and MEG prices. In periods of fluctuating raw material prices, the Group's risk management policy is to maintain a low level of inventories to reduce the price exposure associated with the inventory balance.

### **Both supply and demand of PET resins in the PRC is growing**

As China reported strong economic development, demand for PET resins in the PRC showed double-digit growth in the past years. Given the relatively low consumption of PET resins in the PRC as compared to other more developed western countries, it is expected that domestic demand for PET resins will sustain double-digit growth in the near future.

On the other hand, given the over-supply situation of PET resins in the PRC, the average utilisation rate of PET resins was in the order of 70% in 2003 and 2004 but it is pleasing to report that the Group achieved almost full utilisation in both years. However, with a strong emphasis on economies of scale, it can be observed that major polyester producers in the PRC continue to expand their production capacities which will put additional pressures on the market and those smaller producers in particular.

### **Active management of domestic and export sales mix**

Since sales of PET resins is subject to seasonal demand, the Group actively maintains an optimal mix of domestic and export sales of PET resins. During the first three quarters of 2004, export sales only accounted for 9% of the sales of the Chip SBU. However, during the last quarter which is usually the low season of PET resin sales, 38% of the sales of the Chip SBU is from export. This strategy is proved effective to maintain a reasonable margin as it helps to avoid competing excessively with other manufacturers especially during the low season. Going forward, the Group will continue to adopt such strategy which will play an important role to balance the sales exits when the Group scales up its production.

### **Profit margins for the Group's other product lines improved as a result of a re-adjustment in product mix**

As a result of the extensive effort put into research and development, the product mix of the Group's Dyeing and Finishing Strategic Business Unit ("SBU") has been shifting to a higher proportion of its specialty products such as furniture fabrics. Such products are produced by sophisticated manufacturing processes and are subject to stringent quality control that cannot typically be offered by other fabric manufacturers in China. Such high value-added specialty products are mostly exported to overseas markets and are well accepted by the customers. Accordingly, the Dyeing and Finishing SBU managed to improve its gross margin from 14% in 2003 to 15% in 2004 in challenging market conditions. Currently, the Group's furniture fabrics are mainly used in sofa production. In 2005, the Group will try to promote its furniture fabrics to curtain manufacturers and other manufacturers that use fabrics to produce decoratives.

### **Small scale polyester producers scaling down or suspending 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 scaled down or suspended 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. However, the consolidation process takes place much slower than previously expected. Nonetheless, the Directors remain confident that the future polyester market in the PRC will be a market for large producers.

### **Major capacity expansion**

The Company is currently in the process of fundamentally upgrading its production capacity. The most important project in the pipeline is to construct a new polymerization facility which will double the Group's polymerization capacity as of 31st December 2004. The polymers so produced are fed into various production lines to manufacture different polyester products of the Group. The new polymerization facility is expected to be completed by the end of 2005 and will be put into operations in 2006. The Directors believe that this facility, coupled with the capital expansion of other SBUs, will contribute significantly to streamline the Group's production process and put the Group in a position of comparative advantage in terms of production cost and product quality.

The Chip SBU will gradually increase its production capacity throughout 2005 with an ultimate objective to match the output of the new polymerization facilities referred to above.

The production capacity of the Filament SBU will be substantially increased in 2005. Consistent with the strategic focus as in the past years, the Group will continue to focus on the development of specialty filament products. New products expected to be launched in 2005 including polytrimethylene terephthalate ("PTT") filament, polylactic acid ("PLA") filament and polybutylene terephthalate ("PBT") filament. PTT and PLA filaments are both bio-degradable products which can satisfy the increasing public awareness of environmental protection. In addition, all PTT, PLA and PBT filaments offer desirable product characteristics, such as soft touch, good elasticity and easy dyeing, which are essential to apparel production.

The Fiber SBU will also double its production capacity in 2005. With the new facilities, the Fiber SBU will be able to better balance the mix of conjugate and spinning fibers it produced and react to market changes on a more timely basis.



## **FUTURE PROSPECTS**

**The growth in demand for PET resins is expected to be sustained but the rate of recovery of the PET resin market will depend on the rate of elimination of small-scale or inefficient producers**

The Directors are optimistic about the future growth in PET resins demand in China. As China's economy continues to grow at a fast pace, the Directors believe that market demand for PET resins in China may reach approximately 1,450,000 tonnes per annum in 2005, representing a substantial growth as compared to the estimated demand of approximately 1,000,000 tonnes in 2004.

Despite rapid growth in product demand, recovery of the China PET resin market hinges heavily on the rate of elimination of small-scale or inefficient producers. Certain small-scale PET resin producers have been operating at inefficient, loss making levels for prolonged periods since 2002.

**The Group will continue to focus on high value-added and specialty products**

The Group will continue to focus on high value-added and specialty products. Diversification and differentiation will be keys to the Group's future development. The Group will continue to position itself at the high-end market, to produce products that involve technology that cannot easily be copied by other producers in China. As always, the Group will continue to focus on the production of high-quality bottle-grade PET chips for carbonated soft drink and hot-filled bottles, low denier filaments and specialty fabrics. It is believed that the Group's current product mix is competing effectively and efficiently under the current adverse market conditions, and the Directors will continue to monitor the market situation so as to achieve the optimal product mix with a view to maximising profit of the Group.

**Major capacity expansion to be completed in 2005 and 2006**

The Group is currently undergoing the most significant capacity expansion since its listing in 2000. This expansion covers mainly the Group's Chip Strategic Business Unit ("SBU"), Filament SBU and Fiber SBU and will be completed in phases throughout 2005 and early 2006. After this major expansion, the Group will have production capacity that almost doubles its current scale. The Directors believe this expansion will escalate the Group's competitiveness to an even higher level and contribute to position the Group as one of the leading polyester producers in the PRC.

**The acquisition of polymerization facilities from Dupont Suzhou Polyester Company Limited ("DSPC") was completed in 2004**

The completion of the acquisition of polymerization facilities from DSPC took place on 1st November 2004. The facilities, which cost approximately US\$32.0 million, provide the Group with an additional 100,000 tonnes per annum polymerization production capacity and ease the production bottleneck in base polymers. The facilities commenced full operations in early 2005.

## The investment in a joint venture to produce terephthalic acid (“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 as planned and is expected to commence operation by the end of 2005. The Group’s investment amounted to US\$11.1 million. 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.

## MANAGEMENT DISCUSSION AND ANALYSIS

### RESULTS OF OPERATIONS

The following is a summary of turnover, cost of sales and gross margin achieved by various SBUs:

	Chip SBU		Filament SBU		Fiber SBU		Dyeing and Finishing SBU		Others		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Sales, net	1,589,314	1,283,084	226,373	221,137	423,286	320,864	362,312	255,409	748	—	2,602,033	2,080,494
Cost of sales	(1,428,215)	(1,160,032)	(228,822)	(212,400)	(425,743)	(306,067)	(307,257)	(220,395)	—	—	(2,390,037)	(1,898,894)
Gross profit (loss)	<u>161,099</u>	<u>123,052</u>	<u>(2,449)</u>	<u>8,737</u>	<u>(2,457)</u>	<u>14,797</u>	<u>55,055</u>	<u>35,014</u>	<u>748</u>	<u>—</u>	<u>211,996</u>	<u>181,600</u>
Gross margin	<u>10.1%</u>	<u>9.6%</u>	<u>(1.1)%</u>	<u>4.0%</u>	<u>(0.6)%</u>	<u>4.6%</u>	<u>15.2%</u>	<u>13.7%</u>	<u>100%</u>	<u>—</u>	<u>8.1%</u>	<u>8.7%</u>

#### 1. Sales, net

The Group’s total sales increased by 25% from HK\$2,080 million in 2003 to HK\$2,602 million in 2004.

Net sales for PET resins increased by 24% from HK\$1,283 million in 2003 to HK\$1,589 million in 2004. This was mainly attributable to an increase in average sales price of 25% driven by the increase in raw material costs. The quantity of PET resins sold decreased slightly by 1%.

Net sales for filaments increased by 2% from HK\$221 million in 2003 to HK\$226 million in 2004. As the Group underwent a shift in product mix to produce more specialty products, such as low denier filaments, quick dry filaments, full-dull filaments and cation filaments, the average unit selling prices increased by 15% during the year 2004, when compared to that of 2003. As specialty filaments require additional processing time, they lead to a reduction in production and sales volume of 14%.

Net sales for polyester staple fibers increased by 32% from HK\$321 million in 2003 to HK\$423 million in 2004. The Group has been improving its production efficiency since the staple fiber plant commenced operations in the third quarter of 2001 and sales volume for polyester staple fiber increased by 16% from 2003 to 2004. Average unit-selling prices increased by 16% during 2004.

Net sales for finished fabrics increased by 42% from HK\$255 million in 2003 to HK\$362 million in 2004. The increase was mainly attributable to an increase in average unit selling prices of fabrics by 10% in 2004, due to a change in product mix to more high value-added products, such as furniture fabrics, which demand more sophisticated production technique that cannot easily be copied by others. Sales volume increased by 32% as a result of additional production facilities that were put into operations in 2004.

## **2. Cost of sales and gross margin**

During 2004, the average unit costs of PTA and MEG rose by 29% and 37% respectively, when compared to those of 2003. Consequently, the cost of sales in 2004 increased by 26%, as compared to 2003, whereas sales only increased by 25%. The unparalleled increase in cost of sales translated directly into a margin squeeze from 9% in 2003 to 8% in 2004.

## **3. Distribution costs, administrative expenses, other income and finance costs**

Export ratio in terms of sales revenue decreased from 28% in 2003 to 21% in 2004 and there was a 15% decrease in distribution costs over 2004. The decrease in distribution costs was a result of the Group's effort in negotiating better terms of goods distribution with customers.

Additional administrative costs, including staff salaries, depreciation expenses and other general office expenses were increased by 26% from HK\$54 million to HK\$69 million due to an increase in the number of employees and the costs incurred by the new subsidiaries of the Group established for the purpose of expanding the Group's operations.

Other income for the year ended 31st December 2003 represented a tax refund income amounted to HK\$21 million. Based on the investment and tax rules governing wholly foreign owned enterprises ("WFOE") in the PRC, an investor of a WFOE is entitled to a tax refund income upon re-investment of the undistributed profits of the WFOE as its capital. The amount of tax refund income is calculated based on the amounts of enterprise income taxes previously paid by the WFOE attributable to the undistributed profits re-invested. During the year ended 31st December 2003, the Company re-invested undistributed profits of FEIS in the amount of HK\$265 million and the tax refund income of HK\$21 million was related to enterprise income taxes of FEIS for the years ended 31st December 2001 and 2002.

The 54% increase in finance costs was mainly due to an increase in interest rate and additional loans obtained to finance the Group's expansion plans. In addition, the Group realized less exchange gains, which is included in arriving at the net finance costs, as compared with last year.

#### **4. Profit before tax**

Profit before taxation increased by 18% from HK\$28 million in 2003 to HK\$33 million in 2004.

#### **5. Income tax expense**

After expiration of FEIS's tax holiday in 2003, FEIS, as a "High-technology Enterprise", is subject to enterprise income tax at a rate of 10% from 2004 to 2006. A provision of HK\$6 million for enterprise income tax was made during 2004. The "High-technology Enterprise" status is subject to review every year.

#### **6. Profit attributable to shareholders**

The Group's profit attributable to shareholders increased by 9% from HK\$25 million in 2003 to HK\$28 million in 2004. The increase was mainly caused by various factors affecting gross profit explained above.

### **LIQUIDITY AND FINANCIAL RESOURCES**

#### **1. Cash and cash equivalents**

As at 31st December 2004, the Group's cash and cash equivalents amounted to approximately HK\$323 million (compared to HK\$191 million in 2003) of which 44% were denominated in United States dollars, 53% were denominated in Renminbi and the remaining were denominated in Hong Kong dollars, Euros and British pounds.

#### **2. Cash flows**

Cash generated from operations decreased from HK\$91 million in 2003 to HK\$32 million in 2004. This was mainly due to an increase in the Group's net working capital such as receivables and inventories.

Net cash used in investment activities significantly increased from HK\$172 million in 2003 to HK\$635 million in 2004, due to the Group's investment to expand its production scale.

In 2004, approximately HK\$1,042 million of bank loans (of which HK\$695 million were long-term bank loans) were obtained for operational purposes and to finance capital expenditures, while approximately HK\$268 million of bank loans (of which HK\$94 million were long-term bank loans) were repaid. Dividends of HK\$41 million were paid during 2004. Minority interests contributed HK\$39 million in respect of their investments in a non-wholly owned subsidiary of the Group.

### 3. Borrowings

The following is a summary of the Group's bank borrowings:

	As at 31st December			
	2004 HK\$'000	Percentage (%)	2003 HK\$'000	Percentage (%)
Short-term borrowings	295,645	21	123,708	19
Long-term borrowings	<u>1,119,788</u>	<u>79</u>	<u>518,308</u>	<u>81</u>
	<u>1,415,433</u>	<u>100</u>	<u>642,016</u>	<u>100</u>
Currency denomination				
- Renminbi	625,100	44	284,820	44
- United States dollar	<u>790,333</u>	<u>56</u>	<u>357,196</u>	<u>56</u>
	<u>1,415,433</u>	<u>100</u>	<u>642,016</u>	<u>100</u>
Interest rate structure				
- fixed rate	625,100	44	284,820	44
- floating rate	<u>790,333</u>	<u>56</u>	<u>357,196</u>	<u>56</u>
	<u>1,415,433</u>	<u>100</u>	<u>642,016</u>	<u>100</u>

Maturity profile of the Group's long-term borrowings is as follows:

	As at 31st December	
	2004 HK\$'000	2003 HK\$'000
2004	—	94,000
2005	343,023	424,308
2006	465,115	—
2007	191,575	—
2008	62,475	—
2009	<u>57,600</u>	<u>—</u>
	<u>1,119,788</u>	<u>518,308</u>

As at 31st December 2004, approximately HK\$228 million (2003: HK\$156 million) of the Group's property had been pledged as collateral to secure the borrowings.

The following is a summary of the Group's key liquidity ratio:

	<b>2004</b>	<b>2003</b>
Current ratio	1.12	1.49
Net debt to equity	0.84	0.35
Gross debt to equity ratio	1.08	0.49
Earnings before interest, taxation, depreciation and amortisation interest coverage	7.2 times	8.3 times

The Group's capital expenditures for the year amounted to HK\$636 million (2003: HK\$75 million), which was funded by borrowings and internally generated cash. The capital expenditures during 2004 were mainly incurred for the acquisition of additional production facilities for various SBUs, especially the Chip SBU, to fundamentally upgrade the Group's production capacities.

Committed borrowing facilities that are available to the Group companies, but not drawn as at 31st December 2004 amounted to HK\$976 million (2003: HK\$1,451 million).

## **TREASURY POLICIES AND CAPITAL STRUCTURE**

The Group adopts a prudent approach over treasury and funding policies, with a focus on risk management and those transactions that are directly related to the underlying business of the Group. For risk diversification purpose, the Group intends to maintain a balance of Renminbi and United States dollar denominated loans and a balance of floating and fixed interest rate loans.

## **EXPOSURE TO FOREIGN EXCHANGE RISK AND ANY RELATED HEDGES**

The Group operates primarily in the PRC and is exposed to foreign exchange risk arising from export sales denominated in US dollar and Euro and from purchase of major raw materials denominated in US dollar. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities.

The Group's risk management policy is to use derivative financial instruments to hedge foreign currency exposure when the relevant currency is expected to fluctuate significantly. In 2003 and 2004, the Group did not enter into any derivative foreign currency contract.

## **EMPLOYEE INFORMATION**

At at 31st December 2004, the Group had a total 2,354 (2003: 1,843) employee.

## **DIRECTORS' SERVICE CONTRACTS**

No Director has any existing or proposed service contract with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

## DIRECTORS' INTERESTS IN SECURITIES

As at 31st December 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 Stock Exchange pursuant to Rule 5.40 of the GEM Listing Rules were as follows:

### Associated Corporations

*Long positions in shares of 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	66,807,648
Mr. Jar-Yi Shih	1,562,152	27,449,017	Nil	Nil	29,011,169
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 31st December 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 31st December 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 Stock Exchange pursuant to Rule 5.40 of the GEM Listing Rules.

## DIRECTORS' RIGHTS TO PURCHASE SHARES OR DEBENTURES

The Company has a share option scheme approved 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 31st December 2004, no options had been granted under the Company's share option scheme.

## SUBSTANTIAL SHAREHOLDERS

As at 31st December 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 of the Company*

<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 100% 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 31st December 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 31st December 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 2004, FET produced approximately 677,700 tonnes of polyester polymer, 269,401 tonnes of various types of PET chips (for PET bottles, food and industrial packaging), 231,677 tonnes of polyester staple fibers, 146,347 tonnes of pre-oriented yarn (POY), 60,976 tonnes of draw textured yarn (DTY), 355,546 bales of yarn, 32,588 thousand yards of finished fabrics and 369,235 thousand pieces of PET preforms. Everest Textile also produced approximately 22,047 tonnes of polyester filaments and 78,902 thousand yards of finished fabrics.

*Notes:*

1. As at 31st December 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 31st December 2004, Mr. Shu-Tong Hsu, Mr. Jar-Yi Shih and Mr. Chin-Sen Tu were also directors of Everest Textile.

## **MATERIAL LITIGATION**

Neither the Company nor its subsidiaries was involved in any material litigation or arbitration in the year 2004.

## **CORPORATE GOVERNANCE**

In light of changes to the GEM Listing Rules which came into effect on 1 January 2005, the Directors are in the process of reviewing and making appropriate changes to the Group's corporate governance practices by reference to the new Code on Corporate Governance Practices.

### **Audit Committee**

The Company has established an audit committee with written terms of reference based upon the guidelines published by the Hong Kong Institute of Certified Public Accountants. The primary duties of the audit committee are to review the Company's annual report and accounts, half-year 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 twenty one times since its formation and four times during the year ended 31st December 2004. The annual results of the Group for the year ended 31st December 2004 have been reviewed by the audit committee.

### **Code of Conduct Regarding Securities Transactions by Directors**

During the year ended 31st December 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 its subsidiaries has purchased, sold or redeemed any of the Company's shares during the period from 31st January 2000 (date of listing) to 31st December 2004.

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

Taipei, 24th March 2005

*As at the date of this report, Mr. Shi-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 Directors and 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*