



Far Eastern
Polychem
Industries
Limited

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 THREE MONTHS ENDED 31ST MARCH 2005

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE HONG KONG EXCHANGES AND CLEARING LIMITED (THE “EXCHANGE”)

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

* *For identification purposes only*

The Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

This report, for which the directors of Far Eastern Polychem Industries Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to Far Eastern Polychem Industries Limited. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

QUARTERLY RESULTS HIGHLIGHTS

- Far Eastern Polychem Industries Limited (the “Company”) and its subsidiaries (together the “Group”) are principally engaged in the production and distribution of four major categories of polyester products, 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\$712 million for the three months ended 31st March 2005, representing an increase of 17%, as compared to the corresponding three-months period ended 31st March 2004.
- Due to the upsurge in price of petrochemical raw materials and the imbalance between demand and supply within the PRC’s domestic polyester industry, the loss attributable to shareholders was approximately HK\$45 million, for the three months ended 31st March 2005 while the profit attributable to shareholders was approximately HK\$26 million for the corresponding three-months period ended 31st March 2004.
- Loss per share for the three months ended 31st March 2005 was HK\$0.110 per share while the earnings per share for the corresponding three-months period ended 31st March 2004 was HK\$0.064 per share.

QUARTERLY FINANCIAL STATEMENTS (UNAUDITED)

The directors of the Company (the “Director”) have the pleasure of presenting the unaudited consolidated financial statements of the Group for the three months ended 31st March 2005 and, for comparison purposes, the audited consolidated balance sheet as at 31st December 2004 and figures for the corresponding three-months period ended 31st March 2004 in respect of the unaudited consolidated income statement, statement of changes in shareholders’ equity and cash flow statement as follows:

(a) Consolidated balance sheet

		As at	
	Note	31st March 2005 HK\$’000 (Unaudited)	31st December 2004 HK\$’000 (Audited)
Non-current assets			
Investment in an associate		78,938	80,694
Available-for-sale investments		3,009	3,009
Property, plant and equipment		1,902,838	1,742,616
Land use rights		135,327	136,199
Deferred assets		5,604	5,712
Other non-current assets		184	300
		2,125,900	1,968,530
Current assets			
Inventories		575,342	663,968
Deposits, prepayments and other receivables		68,794	35,944
Trade and notes receivables	3	343,590	406,350
Tax recoverable		18,725	7,466
Cash and bank deposits		161,405	323,050
		1,167,856	1,436,778
Current liabilities			
Trade payables	4	467,766	561,422
Other payables and accruals		59,555	79,665
Taxes payable		639	74
Dividend payable		41,030	—
Short-term bank loans		355,093	295,645
Long-term bank loans, current portion		446,773	343,023
		1,370,856	1,279,829
Net current (liabilities) asset		(203,000)	156,949
Total assets less current liabilities		1,922,900	2,125,479
Non-current liabilities			
Long-term bank loans, non-current portion		660,375	776,765
Deferred tax liabilities		3,394	3,394
		663,769	780,159
Minority interest		39,293	39,316
		1,219,838	1,306,004
Net assets		1,219,838	1,306,004
Represented by:			
Share capital		410,296	410,296
Reserves		809,542	895,708
		1,219,838	1,306,004

(b) **Unaudited consolidated income statement**

		For the three months ended 31st March	
	Note	2005	2004
		<i>HK\$'000</i>	<i>HK\$'000</i>
		<i>(unaudited)</i>	<i>(unaudited)</i>
PET chips		430,524	384,704
Polyester filaments		50,383	54,818
Polyester staple fibers		129,034	83,699
Finished fabrics		101,381	85,117
Others		327	—
		<hr/>	<hr/>
Total Sales, net		711,649	608,338
Cost of sales		(708,658)	(536,817)
		<hr/>	<hr/>
Gross profit		2,991	71,521
Other operating income	5	7,819	4,165
Distribution costs		(23,936)	(21,833)
Administrative expenses		(18,167)	(16,552)
		<hr/>	<hr/>
(Loss) profit from operations	6	(31,293)	37,301
Finance costs, net	7	(12,112)	(6,242)
Share of result of an associate before tax		(1,755)	(515)
		<hr/>	<hr/>
(Loss) profit before tax		(45,160)	30,544
Income tax expense	8	—	(4,208)
		<hr/>	<hr/>
(Loss) profit before minority interest		(45,160)	26,336
Minority interest		24	18
		<hr/>	<hr/>
(Loss) profit attributable to shareholders		(45,136)	26,354
		<hr/> <hr/>	<hr/> <hr/>
Basic (loss) earnings per share	9(a)	<u>HK\$(0.110)</u>	<u>HK\$0.064</u>
Diluted (loss) earnings per share	9(b)	<u>N/A</u>	<u>N/A</u>

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

For the year ended 31st December 2004:

	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 2004	410,296	523,001	102,646	5,645	2,203	261,057	894,552	1,304,848
Dividends	—	—	—	—	—	(41,030)	(41,030)	(41,030)
Profit for the three months ended 31st March 2004	—	—	—	—	—	26,354	26,354	26,354
Balance, 31st March 2004	410,296	523,001	102,646	5,645	2,203	246,381	879,876	1,290,172
Profit appropriation	—	—	5,684	—	—	(5,684)	—	—
Surplus on revaluation of buildings	—	—	—	15,299	—	—	15,299	15,299
Realisation of revaluation reserve due to additional depreciation	—	—	—	(1,411)	—	1,411	—	—
Profit for the nine months ended 31st December 2004	—	—	—	—	—	1,306	1,306	1,306
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>

For the three months ended 31st March 2005:

	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 2005	410,296	523,001	108,330	19,533	1,430	243,414	895,708	1,306,004
Dividends	—	—	—	—	—	(41,030)	(41,030)	(41,030)
Loss for the three months ended 31st March 2005	—	—	—	—	—	(45,136)	(45,136)	(45,136)
Balance as at 31st March 2005	<u>410,296</u>	<u>523,001</u>	<u>108,330</u>	<u>19,533</u>	<u>1,430</u>	<u>157,248</u>	<u>809,542</u>	<u>1,219,838</u>

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

	For the three months ended 31st March	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
CASH FLOW FROM OPERATING ACTIVITIES		
Cash used in operations	(1,768)	(79,361)
Interest paid	(15,456)	(5,178)
	<hr/>	<hr/>
Net cash used in operating activities	(17,224)	(84,539)
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(191,924)	(4,232)
Interest received	579	416
Decrease in other long term assets	116	—
	<hr/>	<hr/>
Net cash used in investing activities	(191,229)	(3,816)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term bank loans	137,247	156,701
Proceeds from long-term bank loans	62,560	28,200
Repayments of short-term bank loans	(77,799)	(32,678)
Repayments of long-term bank loans	(75,200)	(94,000)
	<hr/>	<hr/>
Net cash from financing activities	46,808	58,223
	<hr/>	<hr/>
Net decrease in cash and cash equivalents	(161,645)	(30,132)
Cash and cash equivalents, beginning of the period	323,050	190,912
	<hr/>	<hr/>
Cash and cash equivalents, end of the period	<u>161,405</u>	<u>160,780</u>

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

1) **Basis of presentation**

The unaudited financial statements have been prepared in accordance with International Financial Reporting Standards (“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 unaudited financial statements have been prepared under the historical cost convention as modified by the revaluation of buildings.

The accounting policies and methods of computation used in the preparation of the unaudited financial statements are consistent with those used in the annual financial statements as at and for the year ended 31st December 2004.

2) **Fixed assets**

During the three months ended 31st March 2005, additions to fixed assets amounted to approximately HK\$198,729,000 (2004: HK\$4,377,000).

3) **Trade and note receivables**

	As at	
	31st March 2005	31st December 2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables		
Current to 30 days	90,078	109,527
31 to 60 days	62,270	105,070
61 to 90 days	37,590	49,717
91 to 120 days	64,293	27,766
	<hr/>	<hr/>
	254,231	292,080
Less: provision for doubtful debts	(3,829)	(4,224)
	<hr/>	<hr/>
	250,402	287,856
Notes receivable	93,188	118,494
	<hr/>	<hr/>
	343,590	406,350
	<hr/> <hr/>	<hr/> <hr/>

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.

4) Trade payables

	As at	
	31st March 2005 HK\$'000	31st December 2004 HK\$'000
Trade payables		
Current to 30 days	242,648	224,155
31 to 90 days	171,250	274,597
Over 90 days	53,868	62,670
	<u>467,766</u>	<u>561,422</u>

5) Other operating income

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

6) (Loss) Profit from operations

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

	For the three months 31st March	
	2005 HK\$'000	2004 HK\$'000
Cost of inventories recognised as expense (included in "Cost of sales")	658,076	489,520
Staff costs		
- wages and salaries	18,819	14,595
- pension costs (defined contribution plan)	1,093	1,110
- other staff welfare costs	4,460	3,505
Depreciation on property, plant and equipment	38,507	36,824
Amortisation of land use rights (included in "Administrative expenses")	872	699
Amortisation of deferred assets (included in "Cost of sales")	107	343
Operating lease rentals on property	1,600	915
Write (back) down bad and doubtful debts (included in administrative expense)	(395)	3,000
Auditors' remuneration	109	109
	<u>109</u>	<u>109</u>

7) **Finance costs, net**

	For the three months ended 31st March	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest expenses on bank loans		
wholly repayable within five years	15,456	5,178
Less: Amount capitalised as construction-in-progress	(6,806)	(145)
Interest income	(579)	(416)
Net foreign currency exchange loss	3,011	965
Other financial expenses	1,030	660
	<u>12,112</u>	<u>6,242</u>

8) **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.

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

	For the three months ended 31st March	
	2005	2004
	<i>\$'000</i>	<i>\$'000</i>
Current tax - PRC taxation	—	4,208
Share of tax of an associate	—	—
	<u> </u>	<u> </u>
Taxation charge	<u> </u>	<u>4,208</u>

9) **(Loss) earnings per share**

(a) **Basic (loss) earnings per share**

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

	For the three months ended 31st March	
	2005	2004
	<i>\$'000</i>	<i>\$'000</i>
(Loss) profit attributable to shareholders (\$'000)	(45,136)	26,354
Weighted average number of ordinary shares in issue ('000)	<u>410,296</u>	<u>410,296</u>
Basic (loss) earnings per share (\$ per share)	<u>(0.110)</u>	<u>0.064</u>

(b) **Diluted (loss) earnings per share**

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

10) 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

	Chip SBU		Filament SBU		Fiber SBU		Dyeing and Finishing SBU		Others		Consolidated	
	For the three months ended 31st March											
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Sales, net	430,525	384,704	50,382	54,818	129,034	83,699	101,381	85,117	327	—	711,649	608,338
Segment result	5,268	52,839	(5,209)	(103)	(9,840)	1,816	12,494	16,969	278	—	2,991	71,521
Unallocated corporate expenses											(34,284)	(34,220)
(Loss) profit from operations											(31,293)	37,301
Finance costs, net											(12,112)	(6,242)
Share of result of an associate before tax											(1,755)	(515)
(Loss) profit before tax											(45,160)	30,544
Income tax expense											—	(4,208)
Group (Loss) profit before minority interest											(45,160)	26,336
Minority interest											24	18
(Loss) profit attributable to shareholders											(45,136)	26,354

Secondary report format — geographical segments

An analysis by geographical segment, as determined by location of customers, is presented below.

	For the three months ended 31st March	
	2005 \$'000	2004 \$'000
Sales		
- The PRC	537,421	500,214
- Europe	89,865	87,731
- Middle East	45,000	8,576
- Asia (excluding PRC)	19,843	11,817
- North America	13,607	—
- Others	5,913	—
	<u>711,649</u>	<u>608,338</u>

11) Related party transactions

The Company's wholly-owned subsidiary, Far Eastern Industries (Shanghai) Ltd., is party to an on-going technological licence agreement with an associate of the Company's controlling shareholder, Far Eastern Textile Ltd. The Agreement, entered into prior to the Company's listing in January, 2000, is for a term of ten years expiring on 31st December 2009 and is in its sixth year of operation.

A waiver from strict compliance with the announcement and shareholders' approval requirements contained in Chapter 20 of the GEM Listing Rules was granted by the Stock Exchange at the time of the Company's listing. At the time of listing, the Company set and disclosed annual caps on the licence fee payable by FEIS for the Financial years up to the year ended 31st December 2001. In January 2002, the annual caps on the licence fee payable by FEIS were renewed at the same level for a period of three years from 1st January 2002 to 31st December 2004.

On 15th April 2005, the parties to the Agreement agreed to a reduction in the annual licence fee payable by FEIS from US\$10 per metric tonne of polyester polymer to US\$2.50 per metric tonne of polyester and agreed to set a reduced annual cap for a further period of three years from 1st January 2005 to 31st December 2007. The annual cap in respect of the licence fee payable by FEIS has been reduced from US\$1.5 million to US\$0.7 million (approximately HK\$5.5 million) per annum.

For the three months ended 31 March 2005, the Company has accrued, but not yet paid, an amount of approximately HK\$1,037,000 (2004: HK\$2,919,000) technological licence fee payable to Far Eastern Investment (Holdings) Company Limited, a subsidiary of Far Eastern Textile Limited, on the basis of the agreed reduction in the license fee rate.

12) Commitments

(a) Capital commitments

As at 31st March 2005, the Group had the following capital commitments which were not provided for in the accounts:

	As at 31st March	
	2005	2004
	HK\$'000	HK\$'000
Authorised and contracted for		
— Acquisition of property, plant and equipment	18,544	79,226
	<u>18,544</u>	<u>79,226</u>

(b) Investment commitments

As at 31st March 2005, the Group had entered into agreement with the minority shareholders of FEDP (Holding) Limited (“FEDP”), currently an 80% subsidiary of the Group, to have the right to acquire the remaining 20% of the shareholding in FEDP. In addition, the minority shareholders of FEDP also have the right to sell the remaining 20% shareholding of FEDP to the Group. These rights are exercisable during the period from 2 October to 31 October 2006. The consideration upon exercise of the rights by either of the parties is US\$5,000,000 (equivalent to approximately RMB39,000,000) together with interest calculated at London Inter Bank Offer Rate plus 0.5% from 1 November 2004 to the date of exercise.

DIVIDEND

The Directors do not recommend the payment of an interim dividend for the three months ended 31st March 2005. The Group did not declare any dividends for the corresponding three months period ended 31st March 2004.

On 24th March 2005, the Directors declared a final dividend of HK\$0.10 per ordinary share for the year ended 31st December 2004, totalling approximately HK\$41,029,600.

OPERATIONAL REVIEW

The first quarter of 2005 was a tough period for the Group, the business environment was significantly affected by the upsurge in price of raw materials and the imbalance between demand and supply within the PRC's domestic polyester industry. The Group incurred a loss of approximately HK\$45 million as erosion in profit margin resulted from the increase in costs of production. The over-supply situation of domestic polyester products in the PRC made it difficult to pass on the increasing raw material costs to the customers.

The upsurge in price of raw materials

Driven by various political and speculative factors, crude oil prices have been rising since the second quarter of 2004. Since the principal raw materials for polyester production, such as PTA and mono-ethylene glycol ("MEG"), 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 profit margins.

Due to the limited supply of PTA and MEG in Asia, the average purchase cost of the PTA and MEG increased by 29% and 36% respectively in the first quarter of 2005 as compared with those in the corresponding period in 2004 while the average selling price of the Group's products increased at a lesser rate, which explains the erosion in profit margin.

The imbalance between demand and supply within the PRC's domestic polyester industry

Although demand for polyester products showed growth, the over-supply situation of domestic polyester products in the PRC added pressure on product prices and made it more difficult for the polyester producers to pass on the increasing raw material costs to the customers and as a result low or sometimes negative margins arises. 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 pressure on the market and on smaller producers in particular.

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 three month ended 31st March		Percentage increase/ (decrease)
	2005	2004	(%)
Chip SBU (tonnes)	44,196	45,468	(2%)
Filament SBU (tonnes)	3,735	4,979	(25%)
Fiber SBU (tones)	12,770	10,245	24%
Dyeing and Finishing SBU (thousand yards)	7,334	6,242	18%

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 sales volume of chips for the three months ended 31st March 2005 remained comparable with the three months ended 31st March 2004.

The decrease in sales volume of filament 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 which resulted in growth in sales volume in the first quarter of 2005.

Active management of domestic and export sales mix

In view of the stiff competition for polyester products market in PRC, the Group endeavours to achieve an optimal mix of domestic and export sales. The export ratio in terms of sales revenue increased from 18% for the three months ended 31st March 2004 to 25% for the three months ended 31st March 2005. The increase in exports helps the Company to mitigate the effects of over competition in the PRC market with local manufacturers.

FUTURE PROSPECTS

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. The Directors believe that diversification and differentiation are key 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. The Directors believe that the Group's current product mix is competing effectively and efficiently given the current adverse market conditions. Moreover the Directors will continue to monitor the market situation so as to achieve the optimal product mix with a view to maximising profitability.

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 Directors are confident that it will also improve the Group's production efficiency and, as a result, strengthen its competitiveness.

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. 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 further strengthen its position as one of the industry leaders in the PRC.

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS OF OPERATIONS

1. Sales, net

The Group's total sales increased by 17% from HK\$608 million for the three months ended 31st March 2004 to HK\$712 million for the three months ended 31st March 2005. The increase was mainly attributable to the increase in average unit selling prices of polyester products driven by the increase in raw material costs during the three months ended 31st March 2005.

2. Cost of sales and gross margin

The average unit costs of PTA and MEG rose by 29% and 36% respectively for the three months ended 31st March 2005 when compared to those in the corresponding period in 2004. Consequently, the cost of sales increased by 32%, as compared to those in the corresponding period in 2004, whereas sales only increased by 17%. The unparalleled increase in cost of sales resulted in the erosion in the profit margin of the group.

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

As the export ratio of the group in terms of sales revenue increased from 18% for the three months ended 31st March 2004 to 25% for the three months ended 31st March 2005, distribution costs increased by 17%.

Additional administrative costs, including staff salaries, depreciation expenses and other general office expenses were incurred when the number of employees increased to 2,394 and new subsidiaries of the Group was established for the purpose of expanding the Group's operations. Administrative costs increased by 9.8% from HK\$17 million for the three months ended 31st March 2004 to HK\$18 million for the three months ended 31st March 2005.

Due to the fluctuation of Euro currency's exchange rate, an amount of approximately HK\$3 million exchange loss was incurred for the three months ended 31st March 2005. These, together with the increase in interest rate and additional loans for the Group's expansion in operations, resulted in an increase of finance costs from HK\$6 million for the three months ended 31st March 2004 to HK\$12 million for the three months ended 31st March 2005.

4. (Loss) profit attributable to shareholders

The Group's loss attributable to shareholders for the three months ended 31st March 2005 was approximately HK\$45 million while the Group's profit attributable to shareholders for the three months ended 31st March 2004 was approximately HK\$26 million. The loss was mainly caused by various factors affecting gross profit explained above.

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 March 2005, 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	71,621,488	Nil	Nil	Nil	71,621,488
Mr. Jar-Yi Shih	1,791,864	25,501,263	Nil	Nil	27,293,127
Mr. Champion Lee	86,857	Nil	Nil	Nil	86,857
Mr. Chin-Sen Tu	86,855	Nil	Nil	Nil	86,855
Mr. Shaw-Y Wang	204,649	Nil	Nil	Nil	204,649
Mr. Lih-The Chang	22,097	Nil	Nil	Nil	22,097

Note:

1. FET is an associated corporation of the Company as FET is the Company's ultimate holding company. As at 31st March 2005, 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 March 2005, 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 March 2005, no options had been granted under the Company's share option scheme.

SUBSTANTIAL SHAREHOLDERS

As at 31st March 2005, 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

Name	Capacity	Number and class of shares	Approximate percentage of interest
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 March 2005, 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

Name	Capacity	Number and class of shares	Approximate percentage of interest
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 31st March 2005.

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 three months ended 31st March 2005, FET produced approximately 150,530 tonnes of polyester polymer, 66,525 tonnes of various types of PET chips (for PET bottles, food and industrial packaging), 54,446 tonnes of polyester staple fibers, 25,532 tonnes of pre-oriented yarn (POY), 9,810 tonnes of draw textured yarn (DTY), 81,330 bales of yarn, 5,393 thousand yards of finished fabrics and 87,387 thousand pieces of PET performs. Everest Textile also produced approximately 3,888 tonnes of polyester filaments and 19,000 thousand yards of finished fabrics.

Notes:

1. As at 31st March 2005, 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 March 2005, Mr. Shu-Tong Hsu, Mr. Jar-Yi Shih and Mr. Chin-Sen Tu were also directors of Everest Textile.

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 two times since its formation and one time during the three months ended 31st March 2005. The results of the Group for the three months ended 31st March 2005 have been reviewed by the audit committee.

Code of Conduct Regarding Securities Transactions by Directors

During the three months ended 31st March 2005, 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 March 2005.

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

Taipei, 12th May 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.