

**FAR EASTERN POLYCHEM INDUSTRIES LTD :
ON FUNDAMENTALS, THIS IS A FIRST-CLASS BUY !**

Well, blow me down – this is a solid company!

TARGET is referring to the latest – and best – candidate to be listed so far on The Growth Enterprise Market (GEM) of The Stock Exchange of Hongkong Ltd.

Far East Polychem Industries Ltd is not a hi-tech company, it is not a fly-by-night company, it is not selling pie in the sky, it is a *'bread-and-butter'* company, which is about to grace the rolls of The GEM – and make The GEM respectable, at last.

Far Eastern Polychem is a group of companies which is *'engaged in the production and distribution of polyester products in the PRC (the People's Republic of China). The Group's polyester products include bottle-grade PET chips (PET = polyethylene terephthalate, an intermediate product formed by blending PTA (purified terephthalic acid, a principal raw material for the production of polyester)) and MEG (monoethylene glycol, one of the principal raw materials for the production of polyester), which is then processed into a range of end products such as polyester fibre, PET bottles, PET sheets film, engineering plastics and other packaging materials, polyester filament and finished products.'*

This Company is a subsidiary of the Taiwan giant conglomerate: Far Eastern Textile Ltd (FET), a company, which is listed on The Taiwan Stock Exchange.

While Far Eastern Polychem will be standing on its own (corporate and financial) feet, so to speak, the *'parent'* is of the utmost importance if one is to understand this new listing on The GEM.

To begin, Far Eastern Polychem is 100 percent owned by FET and shall be owned as to 85 percent after this flotation, which aims to Offer 6,154,000 New Shares and Place another tranche of 55,392,000 New Shares.

The Offer and Placing Cost is \$HK4.68 per share, representing a Premium of about 89 percent over the Adjusted Net Tangible Asset Value Per Share, as at September 30, 1999, taking into consideration the estimated net proceeds of this Share Offer, amounting to about \$HK266 million.

FET, the Prospectus states, *'is one of the largest business conglomerates in Taiwan'* and dates back to 1942 *'when Mr Yu-Ziang Hsu, the founder of the Far Eastern Group, established Far Eastern Manufacturing Company, a knitting factory, in Shanghai.'*

It seems that, when Generalissimo Chiang Kai Shek ran to Taiwan, just ahead of the victorious People's Liberation Army, under the generalship of the late Comrade Chairman Mao Ze Dong, Mr Yu-Ziang Hsu went with the Generalissimo and relocated his knitting factory in Taiwan.

'Today, the Far Eastern Group comprises seven companies listed on the Taiwan Stock Exchange. Petrochemical, synthetic fibre and textile production is a major part of the Far Eastern Group's business, along with other major business operations such as telecommunication, cement industries, banking, department stores, retailing and shipping.' (All grammatical errors are to the account of the person (s) who drafted this Prospectus)

FET has joint ventures with Union Carbide Corporation (of the US), Mitsui and Company Ltd (of Japan), DuPont Chemical and Energy Operations Incorporated (of the US) and Orient Union Chemical Corporation (of Taiwan).

If these bona fides are not enough, the following data of FET is presented on Page 42 of the Prospectus:

Year to December 31, 1998
Year to December 31, 1998
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Year to December 31, 1998

Total Revenue: \$HK7.18 billion
Total Exports : \$HK3.30 billion
Total Workforce: 7,200 employees
Market Capitalisation: \$HK52.09 billion

Huge? You said it!

With credentials, such as those of FET, it would appear to give a great deal of comfort to anybody since it would stand to reason that FET would not want to tarnish its international name with a failure of a relatively new operation in the PRC.

The Use Of The Proceeds

Far Eastern Polychem is estimating to raise about \$HK266 million, net of expenses, and intends to apply these proceeds to:

1. \$HK257 million to help to establish new production facilities; and,
2. \$HK9 million to be tipped into the General Working Capital Account.

From the establishment of this PRC entity in 1997 up to September 30, 1999, Far Eastern Polychem has managed to earn an aggregate Profit Attributable to Shareholders of \$HK61.85 million, after taking into consideration the losses, incurred in the first 2 Years of operation.

The following is reproduced from Page 116 of the Prospectus:

	(Year Ended December 31)		
	1997	1998	Nine Months to September 30, 1999
	(All Figures Are Denominated in \$HK'000)		
Turnover	Nil	29,230	741,902
Cost of Goods Sold	Nil	(42,576)	(577,483)
Gross (Loss)/Profit	Nil	(13,346)	164,419
Selling Expenses	Nil	(367)	(11,236)
Administration Expenses	(13,542)	(20,064)	(22,090)
Other Operating (Expenses) Income, Net	(893)	3,176	(1,095)
(Loss) Profit From Operations	(14,435)	(30,601)	129,998
Interest Income/(Expenses), Net	3,960	6,881	(33,953)
Profit/(Loss) Before Taxation	(10,475)	(23,720)	96,045
Taxation	Nil	Nil	Nil
Profit/(Loss) Attributable To Shareholders	(10,475)	(23,720)	96,045

For the Financial Year, ended December 31, 1999, the estimated Consolidated Profit After Taxation is said to be *'not less than HK\$122 million.'*

The reason that this Company can strike a profit so quickly after setting up operations is due to its heavy reliance on its *'parent'* – FET – and that company's clout.

This is clearly spelled out on Page 15 of the Prospectus, under the general heading of **'RISK FACTORS'**.

The section, *'Reliance on major customers'*, states that, for the 9 months to September 30, 1999, sales to the Company's single largest customers were about 12 percent (that is about \$HK89 million) of Turnover, and

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