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)

YEARLY RESULTS FOR THE YEAR ENDED 31ST DECEMBER 2002

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This announcement, 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 announcement 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 announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

YEARLY RESULTS HIGHLIGHTS

- Far Eastern Polychem Industries Limited (the "Company") and its subsidiary (together the "Group") are principally engaged in the production and distribution of three major categories of polyester products in the People's Republic of China (the "PRC"), namely bottle-grade polyethylene terephthalate ("PET") chips, polyester filament and polyester staple fiber, and the dyeing and finishing of polyester fabrics.

- The Group achieved a turnover of approximately HK$ 1,910,211,000 for the year ended 31st December 2002, with profit attributable to shareholders of approximately HK$ 82,522,000, representing an increase of 30% and a decrease of 60%, respectively, as compared to the year ended 31st December 2002.

- Earnings per share for the year ended 31st December 2002 was HK$ 0.20(Earnings per share for the year ended 31st December 2002 was HK$ 0.50).

YEARLY FINANCIAL STATEMENTS (AUDITED)

The directors of the Company (the "Directors") have the pleasure of presenting the audited consolidated financial statements of the Group for the year ended 31st December 2002 and the comparative figures as at 31st December 2001 for the consolidated balance sheet and for the year ended 31st December 2002 for the audited consolidated profit and loss account, cash flow statement and statement of changes in equity as follows:

(a) Audited consolidated balance sheet

	Notes	As at 31st December 2002 *HK$'000*	31st December, 2001 *HK$'000*
Fixed Assets		1,428,748	1,448,851
Other non-current assets		11,517	12,888
Current Assets			
Cash at bank and in hand		345,717	347,511
Pledged bank deposits		—	17,894
Trade receivables	3	214,828	141,678
Inventories		313,312	237,838
Other current assets		51,705	52,213
Total current assets		925,562	797,134
Current liabilities			
Trade payables	4	(379,207)	(302,417)
Short-term bank loans		(179,131)	(239,118)
Long-term bank loans, current portion		(46,060)	—
Income tax payable		(14,279)	(7,977)
Total current liabilities		(618,677)	(549,512)
Net current assets		306,885	247,622
Total assets less current liabilities		1,747,150	1,709,361
Non-current liabilities			
Long-term bank loans		(425,494)	(367,653)
Deferred tax liabilities		(1,200)	(1,200)
Net assets		1,320,456	1,340,508
Share capital		410,296	410,296
Reserves		910,160	930,212
Shareholders' equity		1,320,456	1,340,508

(b) **Audited consolidated profit and loss account**

	Notes	For the year ended 31st December **2002** *HK$'000*	**2001** *HK$'000*
PET chips		1,188,477	1,015,749
Polyester filaments		199,649	193,776
Finished fabrics		249,892	226,816
Polyester staple fibers		272,193	37,721
Total turnover	5	1,910,211	1,474,062
Cost of sales	6	(1,667,783)	(1,163,449)
Gross profit		242,428	310,613
Other operating income	7	10,601	6,883
Distribution costs	8	(99,060)	(43,949)
Administrative costs	9	(45,160)	(41,265)
Profit from operations		108,809	232,282
Finance cost, net	10	(19,005)	(8,804)
Profit before tax		89,804	223,478
Income tax expense	11	(7,282)	(18,228)
Profit attributable to shareholders		82,522	205,250
Earnings per share (in HK$)	12		
- Basic		0.20	0.50
- Fully diluted		NA	NA

(c) Audited consolidated statement of changes in equity

	Share capital	Share premium	Staff welfare fund and reserve fund	Revaluation reserve	Retained profit	Cumulative translation adjustments	Hedging Reserve	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance, 1st January, 2001	410,296	523,001	20,107	5,645	288,923	2,169	(9,689)	1,240,452
Profit appropriation	—	—	32,542	—	(32,542)	—	—	—
Dividends declared	—	—	—	—	(114,883)	—	—	(114,883)
Profit for the year ended 31st December 2001	—	—	—	—	205,250	—	—	205,250
Cash flow hedges transferred to fixed assets	—	—	—	—	—	—	9,689	9,689
Balance, 31st December, 2001	410,296	523,001	52,649	5,645	346,748	2,169	—	1,340,508
Profit appropriation	—	—	33,721	—	(33,721)	—	—	—
Dividends declared	—	—	—	—	(102,574)	—	—	(102,574)
Profit for the year ended 31st December, 2002	—	—	—	—	82,522	—	—	82,522
Balance, 31st December, 2002	410,296	523,001	86,370	5,645	292,975	2,169	—	1,320,456

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

	For the year ended 31st December 2002	31st December 2001
	HK$'000	*HK$'000*
CASH FLOW FROM OPERATING ACTIVITIES	189,855	357,291
Interest paid	(21,918)	(21,252)
Taxes paid	(17,170)	(10,251)
Net cash from operating activities	150,767	325,788
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(116,556)	(267,075)
Purchase of deferred assets	—	(1,551)
Decrease in other long-term assets	—	30
Increase in long-term investment	—	(1,410)
Decrease (Increase) in pledged deposits	17,894	(17,894)
Proceeds from disposal of fixed assets	—	496
Interest received	4,761	13,618
Net cash used in investing activities	(93,901)	(273,786)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term bank loans	739,554	616,157
Proceeds from long-term bank loans	500,694	46,061
Repayment of short-term bank loans	(396,793)	(546,239)
Repayment of long-term bank loans	(799,541)	(63,766)
Dividends paid	(102,574)	(114,883)
Net cash used in financing activities	(58,660)	(62,670)
Net decrease in cash and cash equivalents	(1,794)	(10,668)
Cash and cash equivalents, beginning of the year	347,511	358,179
Cash and cash equivalents, end of the year	345,717	347,511

(e) Notes to the audited financial statements

1) Basis of presentation

The unaudited financial statements have been prepared in accordance with International Financial Reporting Standards, as published by the International Accounting Standards Board, effective as at 31st December 2002, the disclosure requirements of the Rules Governing the Listing of Securities of The GEM of the Exchange.

The unaudited financial statements have been prepared under the historical cost convention except for buildings included in fixed assets, which have been stated at revalued amount.

2) Principles of consolidation

The unaudited consolidated financial statements include those of the Company and its subsidiary.

All significant intercompany balances and transactions, including intercompany profits and unrealized profits and losses are eliminated on consolidation. Unaudited consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

3) Trade receivables

	As at	
	31st December 2002	**31st December 2001**
	HK$'000	*HK$'000*
Accounts receivable		
Current to 30 days	65,553	49,319
31 to 60 days	33,007	37,069
Over 60 days	45,505	25,252
	144,065	111,640
Notes receivable	70,763	30,038
	214,828	141,678

Credit policy

The Group adopted a prudent approach in granting credit to customers. No credit terms were granted to 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 grant credit terms of 90 to 120 days. In addition, a predetermined maximum credit limit has been set for each customer.

4) **Trade payables**

	As at 31st December, 2002	31st December, 2001
	HK$'000	*HK$'000*
Trade payables		
Current to 30 days	236,856	169,551
31 to 60 days	9,037	41,826
Over 60 days	46,879	17,643
	292,772	229,020
Other payables and accruals	86,435	73,397
	379,207	302,417

5) **Turnover**

Turnover comprises sale of goods which are recognized when delivery has taken place and transfer of risks and rewards has been completed. The sales amount recognized excludes value-added or other sales taxes and is after deduction of any trade discounts.

6) **Cost of sales**

	For the year ended 31st December 2002	2001
	HK$'000	*HK$'000*
Depreciation on fixed assets	128,086	91,475
Amortization of land use rights and deferred assets	3,395	2,739
Cost of inventories	1,379,655	905,235
Personnel expenses	32,945	30,457
Others	123,702	133,543
	1,667,783	1,163,449

7) **Other operating income**

	For the year ended 31st December	
	2002	**2001**
	HK$'000	*HK$'000*
Gain on disposal of scrap materials	10,055	6,744
Other operating income (expenses)	546	139
	10,601	6,883

8) **Distribution costs**

	For the year ended 31st December	
	2002	**2001**
	HK$'000	*HK$'000*
Personnel expenses	17,746	1,380
Transportation expenses	67,604	27,978
Others	13,710	14,591
	99,060	43,949

9) **Administrative costs**

	For the year ended 31st December	
	2002	**2001**
	HK$'000	*HK$'000*
Depreciation on fixed assets	6,037	4,228
Amortization of land use rights	470	1,009
Personnel expenses	18,034	26,160
Directors' fees	1,164	1,164
Traveling and entertainment expenses	2,786	237
Consulting and legal fees	2,652	410
Others	14,017	8,057
	45,160	41,265

10) **Finance cost, net**

	For the year ended 31st December 2002 HK$'000	2001 HK$'000
Interest income	(4,761)	(13,618)
Interest expense on borrowings	24,362	35,905
Less: Amount capitalized as construction-in-progress	(2,444)	(14,653)
Net foreign currency exchange (gain) loss	(2,487)	562
Bank charges	4,335	608
	19,005	8,804

11) **Income tax expense**

The Company was incorporated under the laws of Bermuda and, under prevailing Bermuda laws, is not subject to tax on income or capital gains. The Company has received an undertaking from the Ministry of Finance of Bermuda pursuant to the provisions of the Exempted Undertakings Tax Protection Act, 1966, as amended, that in the event that Bermuda enacts any legislation imposing tax computed on profits or income, including any dividend or capital gains withholding tax, or computed on any capital asset, gain or appreciation, or any tax in the nature of estate duty or inheritance tax, then the imposition of any such tax shall not be applicable to the Company or to any of its operations or the shares, debentures or other obligations of the Company, until 28th March, 2016.

The Company's subsidiary, Far Eastern Industries (Shanghai) Limited ("FEIS"), as a wholly foreign owned enterprise, is subject to PRC enterprise income tax ("EIT") on the taxable income as reported in its statutory financial statements adjusted in accordance with relevant income tax laws. The applicable EIT rate under local treatment is 15% and local income tax rate is 3%. However, there is no assurance that FEIS will continue to enjoy the reduced EIT rate of 15% in the future. Furthermore, according to "Income Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises", FEIS is entitled to full exemption from EIT for the first two profit-making years and a 50% reduction in EIT for the following three years, commencing from the first profitable year after off-setting all tax losses carried forward from previous years. For this purpose, income tax losses can be carried forward for five years. As 2002 was the fourth profit-making year of FEIS after off-setting previous years' losses, a provision for EIT at a rate of 7.5% has been made for the year ended 31st December 2002.

According to relevant PRC rules and regulations, FEIS, as a "High-technology Enterprise" and residing in a designated high-technology zone, is entitled to an extended preferential EIT rate comprising a 50% reduction, for the next three years following the expiration of the aforesaid five year period of preferential EIT enjoyment. The "High-technology Enterprise" status of FEIS is subject to review every two years.

FEIS is also subject to a value-added tax ("VAT"), the principal indirect PRC tax which is charged on top of the selling price at a general rate of 17%. An input credit is available whereby VAT previously paid on purchases of semi-finished products or raw materials etc. can be used to off-set the VAT on sales to determine the net VAT payable.

There was no significant unprovided deferred taxation for the year ended 31st December 2002 because there were no significant temporary differences.

12) **Earnings per share**

The calculation of the earnings per share for the year ended 31st December 2002 and 31st December 2001, respectively was based on the audited consolidated profit attributable to shareholders of approximately HK$ 82,522,000 and HK$ 205,250,000 respectively and the weighted average number of 410,296,000 shares in issue during both years.

Fully diluted earnings per share were not presented because there were no dilutive potential ordinary shares in existence during the years.

FINAL DIVIDEND

The Directors will recommend the payment of a final dividend of HK$0.10 per ordinary Share for the year ended 31st December 2002 at the forthcoming Annual General Meeting. (Dividend per ordinary Share for the year ended 31st December 2001 - HK$0.25)

FINANCIAL PERFORMANCE

During the year 2002, the Group achieved a total turnover of approximately HK$1,910 million, an increase of 30% as compared to the year ended 31st December 2001. Gross profit was approximately HK$242 million and audited profit attributable to shareholders amounted to approximately HK$82 million, representing a decrease of 22% and 60%, respectively, as compared to the year ended 31st December 2001. Earnings per share in 2002 amounted to HK$0.20.

BUSINESS REVIEW

MARKET OVERVIEW

Erosion in the Group's gross profit margins as a result of falling product prices and rising raw material costs

The imbalance between demand and supply within the PRC domestic polyester industry meant that polyester product prices remained sluggish throughout the year ended 31st December 2002. The average unit selling price for PET resins, the Group's major product, decreased by 16% in 2002, when compared to that of 2001.

On the costs side, despite a substantial increase in the production capacities of pure terephthalic acid ("PTA"), the Group's major raw material, within the Asia Pacific region towards the end of 2002, escalating feedstock paraxylene ("PX") costs kept PTA costs at a high level. PX is a raw material necessary for the production of PTA. As a result of the above factors, the Group experienced erosion in profit margins during the year ended 31 December 2002. The Group's gross profit rate decreased from 21% during the year 2001, to 13% during the year 2002.

Political tension led to an increase in crude oil prices

Crude oil prices rose throughout 2002. Political tensions throughout the world were a precursor to continuing surges in crude oil prices, which in turn led to increases in the Group's feedstock costs. With escalating tensions in the Persian Gulf, prices of crude oil remained high towards the end of 2002, ranging from US$25 per barrel to US$29 per barrel. The Directors expect crude oil prices to remain high in the near future.

Supply of PX became tight towards the end of the year, which in turn kept PTA costs at a high level. Future trends in raw materials costs likely to be critical to the Group's future profitability

With a slowdown of new capacity over the past few years, the global oversupply of PX eased during 2002. Coupled with the demand from new PTA production plants within the Asia Pacific Region, supply of PX became tight towards the end of the year. Hence, given the fact that PX is one of the major raw materials for the production of PTA, PTA costs remained high throughout 2002, even though new production capacities were put in place.

Prices of upper stream petrochemical products, in particular PX and monoethylene glycol ("MEG"), are expected to continue their upward trends due to the lack of new capacities. The Group's profitability in 2003 is likely to be critically dependent on the future trends in raw material costs, which are not expected to decline sharply in the near future.

Demand for PET resins in the PRC maintained growth during the year

As China reported strong economic growth, demand for PET resins in the PRC grew at a rate of 40% last year. The annual demand for PET resins reached 650,000 tonnes in 2002. It is expected that the growth in PET resins demand will sustain since its consumption rate per person in China is currently only one-third of that of developed countries.

Product prices for PET resins rose sharply in the first half of 2002 but start to decline in the second half

Driven by the increase in raw material costs, the unit selling price for PET resins rose sharply in the first half of 2002. However, as additional production capacities in the PRC came on line, prices for PET resins declined significantly in the second half of the year. Total active annual production of PET resins in China reached 700,000 tonnes by the end of 2002. Due to the imbalance in demand and supply, China became a net exporter of PET resins.

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 Group re-adjusted its product mix and started to produce high-quality sea-island filaments and fabrics and quick-dry filaments and fabrics. Such products involve technology that was not readily available in China, and therefore commanded higher profit margins. Such high value-added specialty products were well accepted by the market and the profitability for the Filament SBU and the Dyeing and Finishing SBU improved significantly over the past year.

Great strides made in the business development for the polyester staple fiber line

China's demand for conjugate fibers grew at an annual rate of 17%. The annual demand for conjugate fibers in China reached 156,000 tonnes for the year ended 31st December 2002, and 60,000 tonnes of which was satisfied by imports from South Korea and Taiwan. The Group produced approximately 40,000 tonnes of conjugate fibers during 2002, 59% of which were exported to North America and Europe. With a view to replacing imports from overseas, and as the Group's products were well accepted by the market, it is expected that the production capacity will reach 50,000 tonnes per year in the near future, with 60% of which to be sold domestically in China.

OPERATIONAL REVIEW

The Group maintained a high level of operational efficiency

Despite adverse market conditions, the Group maintained a high level of operating efficiency. The following is a summary of the Group's production volume in 2002:-

	For the year ended 31st December		Percentage increase (decrease)
	2002	**2001**	**(%)**
PET chips (tonnes)	**188,189**	134,018	40
Polyester filaments (tonnes)	**21,689**	21,930	0
Polyester staple fibers (tonnes)	**38,658**	9,050	327
Finished fabrics (tonnes)	**32 million**	31 million	3

Active inventory management to control costs of raw materials

The costs of the Group's major raw materials, PTA and MEG remained volatile throughout the year. The situation was complicated by the political situation in the Middle East, the United States' war on terrorism and the threat of a new Gulf War, all of which pushed crude oil costs to high levels. The Group has been actively managing its inventory levels based on its forecasts of PTA and MEG costs. By reducing inventory levels when the raw material costs are declining and accumulating inventories in the reverse situation, the Directors aim to increase the Group's profit margins and therefore maximize profitability.

Expenses, in particular distribution costs, surged due to change in market conditions, but are expected to stabilize

Due to substantial increases in production capacities since mid 2001, China's market for polyester products shifted from a seller-oriented mode to a buyer-oriented mode. Transportation costs for PET chips and other polyester products which used to be borne by the buyer are now borne by the Group. Together with the increase in the Group's export ratio from 17% in 2001 to 27% in 2002, and the increases in crude oil prices and insurance premiums, the Group's expenses, in particular distribution costs, surged during 2002. The Directors anticipate that such expenses will stabilize in the current year, with any further increase in distribution costs being proportional to the increase in the Group's sales volume.

Re-adjustment in organization structure so that the Group will be more responsive to the ever-changing market environment

The Group has re-aligned its organizational structure so as to increase its competitiveness and flexibility in countering the ever-changing market environment. A research and development department was set up during the year for the purpose of developing new applications for PET chips, specialty products, such as sea-island filaments and quick-dry fabrics. The Group has also put more emphasis on business development and after-sales services. As a result of such re-alignment, inter-department communication within the Group has improved, reducing the response time to customers' complaints. In addition, the Group introduced new products and were well accepted by the market.

FUTURE PROSPECTS

The growth in demand for PET resins likely to be sustained but the rate of recovery for the PET resins market will depend on the rate of elimination of small-scale, 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 expect the market demand for PET resins to reach 800,000 tonnes per year in 2003, representing a growth rate well above 20%.

In spite of this, whether the China PET resins market will recover hinges heavily on the rate of elimination of small-scale, inefficient producers. Certain small-scale PET resins producers have been operating at inefficient, loss making levels for prolonged periods towards the end of 2002. The Directors expect that a large number of these producers, many of whom do not possess the requisite license to export their products, will either shut down production facilities or transform facilities to produce other polyester products.

The Group will continue its customer relationship and research and development initiatives amid adverse market conditions

Amid adverse market conditions, the Group will continue to build on its customer relationships and will continue to perform its own research and development, so as to react to the ever-changing market environment on a timely basis. The Group's continuing effort in the latter area has already reaped rewards, as the performance for the filament, staple fiber and fabrics SBU improved significantly over the past year. The Directors are expecting the improved performance for the filament, staple fiber and fabrics SBU to be sustained in the near future.

The Group will continue to improve its production process through the implementation of "Six Sigma"

Through its advanced technology and production process management, the Group has demonstrated that it is an efficient and profitable player within the industry. Amid adverse market conditions, it will continue to improve its production process through the implementation of "Six Sigma". Through the "Six-Sigma" implementation, the Directors expect improvements in production efficiencies, elimination of mistakes and reduction in waste and re-work, therefore enhancing the bottom line.

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

The Group will continue to focus on high value-added, specialty products. Diversification and differentiation will be 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 not readily available in China. As always, the Group will continue to focus on the production of carbonated and hot-filled PET chips, sea-island and quick dry filaments and fabrics and conjugate fibers. Such products command higher profit margins that are less price elastic. It is believed that the Group's current product mix is competing effectively and efficiently under current adverse market conditions, and the Directors will continue to monitor the market situation so as to obtain the optimal product mix with a view to achieving profit maximization for the Group.

The acquisition of polymerization facilities from Dupont Suzhou Polyester Company Limited ("DSPC") should complete this year

It is expected that the acquisition of polymerization facilities from DSPC will complete this year. The facilities, which will cost approximately US$ 35.2 million, will provide the Group with an additional 100,000 tonnes per year of polymerization production capacity, thereby solving a production bottleneck in base polymers. Such acquisition represents an important part of the Group's future development.

Concluding remarks

2002 was a tough year for the Group. 2003 will also be a challenging year for the Group. PET resin is a cyclical product, the prices of which, in a depressed market, inevitably affect the Group's profitability. The China market for polyester products is ever changing and cannot be managed or controlled by one or two major producers. However, the Group is committed to continuing its enhancement in production efficiency and effectiveness, and to maintain the quality of its products. Adjustments within the Group were made so as to react to the outside environment on a timely basis. The Group has proved that it is one of the most efficient polyester products producers in the China market, and it will endeavour to continue in this vein not withstanding the adverse market conditions.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS ENVIRONMENT

It was a highly turbulent year for the world's economy. The United States' war on terrorism and the prospect of a new Gulf War make the prospects of recovery more uncertain. Crude oil cost remained at high levels over the past year, ranging from US$20 per barrel to US$29 per barrel. It had a knock on effect on the Group's raw material costs. Costs of upstream petrochemical products, in particular PX and MEG, surged in 2002 due to production bottlenecks and increases in demand caused by the substantial increase in production capacities for downstream polyester products, in particular, PET resins over the past year. Active production capacity for PET resins increased from 410,000 tonnes in 2001 to 700,000 tonnes in 2002, and as a result, domestic supply for PET resins exceeded domestic demand.

The adverse market conditions also led to increasing transportation costs. Transportation costs that used to be borne by the buyers are now borne by the Group. Producers have to streamline operations, maintain stringent cost controls and provide value-added services to maintain competitiveness.

RESULTS OF OPERATIONS

1. Turnover

Net sales for PET resins increased 17% from HK$1,015 million in 2001 to HK$1,188 million in 2002. This was mainly attributable to an increase in sales volume of PET resins from approximately 135,000 metric tonnes in 2001 to approximately 185,000 metric tonnes in 2002. Such increase in sales volume was mainly due to a capacity expansion during the third quarter in 2001, and the effect of such expansion was reflected fully throughout 2002. However, the increase in sales volume was offset by the decline in average unit selling prices for PET resins by 16% during 2002, when compared to that of 2001, which was caused by a substantial increase in production capacities in the PRC.

Net sales for filaments increased mildly by 3% from HK$194 million in 2001 to HK$200 million in 2002. As the Group is undergoing a shift in product mix from commodities to specialty products, the average unit selling prices increased by 6% during the year 2002, when compared to that of 2001. Sales volume was comparable to that of last year.

Net sales for polyester staple fibers increased by 7 times from HK$38 million in 2001 to HK$272 million in 2002. The increase was mainly due to the fact that the staple fiber plant commenced operations only in the third quarter of 2001, and the production capacity of the plant was fully reflected throughout 2002. Sales volume for polyester staple fiber increased 7 times from 5,400 tonnes in 2001 to approximately 39,000 tonnes in 2000. On the other hand, average unit-selling prices increased mildly by 2.4% during 2002.

Net sales for finished fabrics increased by 10% from HK$227 million in 2001 to HK$250 million in 2002. The increase was mainly attributable to the substantial increase in average unit selling prices of fabrics by 22% in 2002, due to a change in product mix, where the Group focused on high value added products such as sea-island and quick dry fabrics. Sales volume, on the other hand, decreased by 6% from 25.5 million yards in 2001 to 24 million yards in 2002.

2. **Cost of sales**

During 2002, the average unit costs of PTA and MEG rose by 2% and declined by 4% respectively, when compared to those of 2001. However, the Group's production volume increased, in particular, PET chips by 40% and polyester staple fibers by 4.3 times, over the past year. Together with the increased depreciation expense of approximately HK$25 million in 2002, as a result of the newly constructed staple fiber plant, the Group's cost of sales increased by 43% from HK$1,163 million in 2001 to HK$1,668 million in 2002.

Although the average unit costs of PTA and MEG remained stable throughout 2001 and 2002, the Group's gross profit rate declined from 21% in 2001 to 13% in 2002 due to the continuing decline in the average unit selling prices of PET resins, which comprised 62% of the Group's turnover in 2002.

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

Since mid 2001, the profile of the China PET resins market shifted from a seller-oriented one to a buyer-oriented one. As a result, the Group increased its focus on exports, with its export ratio increasing from 17% in 2001 to 27% in 2002. With increased insurance premiums and unit transportation costs, the Group's distribution expenses increased significantly by 125% from HK$ 44 million in 2001 to HK$99 million in 2002.

Additional administrative costs, including staff salaries and depreciation expenses were incurred by the polyester staple fiber SBU newly established in the third quarter of 2001. Administrative expenses increased by 9% from HK$41 million to HK$45 million.

Increase in net finance cost was mainly caused by (1) a decrease in interest income of HK$ 8.9 million due to decrease in interest rates; and (2) less interest expense being capitalized (a decrease of HK$12 million) as construction-in-progress during the year since the construction of the polyester staple fiber plant was completed in 2001. The increase in finance cost was mitigated by less interest being paid during the year (a decrease of HK$11.5 million when compared to that of 2001) due to decreased interest rates.

4. **Profit before taxation**

Profit before taxation decreased by 60% from HK$223 million in 2001 to HK$89 million in 2002.

5. **Taxation**

This is the Group's fourth profit-making year, and therefore, the Group is now enjoying a 50% reduction in enterprise income tax. A provision of HK$7 million (approximately 7.5% of the Group's profit before taxation) of enterprise income tax was made during 2002.

6. **Profit attributable to shareholders**

The Group's profit attributable to shareholders declined by 60% from HK$205 million in 2001 to HK$83 million in 2002. The decrease was caused by (1) a sharp decline in the Group's gross profit rate from 21% to 13% as the average unit selling prices of PET resins declined by 16% during 2002, when compared to that of 2001; (2) additional depreciation expenses due to the new polyester staple fiber plant; and (3) increase in distribution costs during the 2002.

GROUP LIQUIDITY AND FINANCIAL RESOURCES

1. Cash and cash equivalents

As at 31st December 2002, the Group's cash and cash equivalents amounted to approximately HK$344 million (compared to HK$346 million in 2001) of which 41% were denominated in United States dollars, 28% were denominated in Renminbi, 25% denominated in Hong Kong dollars, 5% were denominated in Euros and 1% denominated in British pounds.

2. Cash flows

Cash generated from operations decreased from HK$357 million in 2001 to HK$174 million in 2002. This was mainly due to the decrease in the Group's profit before taxation from HK$223 million in 2001 to HK$89 million in 2002.

Net cash used in investment activities decreased from HK$274 million in 2001 to HK$94 million in 2002, due to completion of the construction of the polyester staple fiber in 2001. There were no major production facilities constructed in 2002.

In 2002, approximately HK$1,240 million of bank loans (of which HK$500 million were long-term bank loans) were obtained for operational purposes, while approximately HK$1,196 million of bank loans (of which HK$397 million were long-term bank loans) were repaid. Dividends of HK$103 million were paid during 2002.

3. Borrowings

As at 31st December 2002, the Group's borrowings amounted to approximately HK$ 651 million (compared to HK$ 607 million) in 2001. Approximately 59% of the Group's borrowings were denominated in Renminbi while 41% of the Group's borrowings were denominated in United States dollars. All of the Group's borrowings were at fixed rates.

As at 31st December 2002, the net debt to equity ratio was approximately 23% (compared to 19% in 2001). Gross debt to equity ratio was approximately 49% (compared to 45% in 2001). Earnings before interest, taxation, depreciation and amortization covered the gross interest expense by 10.3 times (compared to 9.8 times in 2001).

The Group's capital expenditure for the year amounted to HK$117 million (compared to HK$267 million in 2001), which was funded by borrowings and internally generated cash. The capital expenditure during 2002 was mainly incurred for the acquisition of equipment for the research and development department, the PET sheet plant and the additional production facilities for the Filament and Dyeing and Finishing strategic business unit ("SBU").

Capital expenditure in 2003 is expected to be approximately HK$119 million, and is expected to be incurred principally on the acquisition of machinery for the Filament and Dyeing and Finishing SBU. In addition, the acquisition of polymerization facilities from DSPC should also complete in 2003. Internally generated cash and bank borrowings should satisfy all of the funds required.

Committed borrowing facilities that are available to the Group companies, but not drawn as at 31st December 2002 amounted to HK$1,877 million (compared to HK$1,319 million in 2001).

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. During the year, the Group has re-adjusted its capital structure by borrowing a higher portion long-term bank loans with fixed interest rates, taking a view that the interest rate cycle is bottoming out.

DIRECTORS' INTERESTS IN SECURITIES

As at 31st December 2002, the following Directors had or were deemed to have interests in the securities of the Company under the Securities (Disclosure of Interest) Ordinance (the "SDI Ordinance") by virtue of their shareholdings in Far Eastern Textile Limited ("FET") (an associated corporation within the meaning of the SDI Ordinance), as recorded in the Register of Directors' Interests maintained by the Company pursuant to Section 29 of the SDI Ordinance:

Common shares in FET:

	Number of shares				
Name of director	**Personal interests**	**Family interests**	**Corporate interests**	**Other interests**	**Total**
Mr. Shu-Tong Hsu	59,463,701	Nil	Nil	Nil	59,463,701
Mr. Jar-Yi Shih	1,390,435	Nil	Nil	Nil	1,390,435
Mr. Champion Lee	218	Nil	Nil	Nil	218
Mr. Chin-Sen Tu	216	Nil	Nil	Nil	216
Mr. Shaw-Y Wang	98,226	Nil	Nil	Nil	98,226
Mr. Lih-Teh Chang	18,387	Nil	Nil	Nil	18,387

Save as disclosed above, the Company had no notice of any other interests to be recorded under Section 29 of the SDI Ordinance as at 31st December, 2002.

Notes: FET is regarded as one of the initial management shareholders (as such term is defined in the GEM Listing Rules) of the Company. As at 30th September, 2002, FET had a 58.2% interest (including a direct interest of 11.4% and an indirect interest of 46.8% through its 99.99% shareholding in Yuang Ding Investment Corporation) in the Company.

In aggregate, the above interests represented, as at the date of this announcement, approximately 1.9% of the total issued common shares of FET.

DIRECTORS' INTERESTS IN CONTRACTS

No contract, commitment or agreement of significance in relation to the Company's business, to which the Company or its subsidiary was a party and in which any of the Directors had a material interest, either directly or indirectly, subsisted at 31st December 2002 or at any time during the year ended 31st December, 2002.

DIRECTORS' RIGHTS TO PURCHASE SHARES OR DEBENTURES

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

As at 31st December 2002, no options had been granted under the Company's share option scheme.

SUBSTANTIAL SHAREHOLDERS

As at 31st December 2002, according to the register required to be maintained under section 16(1) of the SDI Ordinance, the Company had been notified of the following interests (not being Directors or chief executives of the Company) in 10% or more of the issued share capital of the Company:

Name	Number of issued shares	Percentage shareholding
FET *(Note 1)*	238,667,760	58.2%
Yuang Ding Investment Corporation	191,870,160	46.8%
Everest Investment (Holding) Limited	69,750,000	17.0%
Everest Textile Co. Ltd.*(Note 2)*	69,750,000	17.0%

Save as disclosed above, the Company had no notice of any interests required to be recorded under Section 16(1) of the SDI Ordinance as at 31st December 2002.

Notes:

1. FET has interests in 99.99% of the entire issued share capital of Yuang Ding Investment Corporation ("YDIC") and is accordingly deemed to have an interest in the Company's shares in which YDIC is deemed to have an interest.

2. Everest Textile Co. Ltd. ("Everest Textile") has interests in the entire issued share capital of Everest Investment (Holding) Limited ("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.

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 year ended 31st December 2002, FET produced approximately 707,259 tonnes of polyester polymer, 253,052 tonnes of various types of PET chips (for PET bottles, food and industrial packaging), 241,937 tonnes of polyester staple fibre, 151,596 tonnes of POY, 74,412 tonnes of DTY, 364,319 bales of yarn, 39,554,731 yards of finished fabrics and 311 million pieces of PET preforms. Everest Textile also produced approximately 23,513 tonnes of polyester filament and 49,753,116 yards of finished fabrics.

Save as disclosed above, as at 31st December 2002, the Directors were not aware of any other business or interest of each Director and management shareholder, and the respective associates of each, that competes or may compete with the business of the Group.

Notes:

1. As at 31st December 2002, 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 2002, Mr. Jar-Yi Shih and Mr. Chin-Sen Tu were also directors of Everest Textile.

CORPORATE GOVERNANCE

In the opinion of the Directors, the Company has complied with the “Board Practices and Procedures” as set out in Rules 5.28 to 5.39 of the GEM Listing Rules throughout the year.

SPONSOR’S INTERESTS

As at 31st December 2002, the Company’s sponsor, The Hongkong and Shanghai Banking Corporation Limited (“HSBC”), were interested in 11,182,000 shares of HK$1.00 each in the issued share capital of the Company. As at that date, employees of HSBC (as referred to in Note 3 to rule 6.35 of the GEM Listing Rules) who were involved in providing advice to the Company were interested in a total of 20,000 shares in the issued share capital of the Company. None of HSBC nor any of its executive directors had any interests in the issued share capital of the Company as at 31st December 2002.

Pursuant to the sponsor agreement dated 11th January, 2000 ("Sponsor Agreement") entered into between the Company and HSBC Investment Bank Asia Limited and a novation agreement subsequently signed on 29th January, 2001, HSBC is entitled to receive a fee for acting as the Company's retained sponsor for the period from 12th January, 2000 to 31st December, 2002.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference based upon the guidelines published by the Hong Kong Society of Accountants. The primary duties of the audit committee are to review the Company's annual report and accounts, half-yearly reports and quarterly reports and to provide advice and comments thereon to the board of Directors. The audit committee is also responsible for reviewing and supervising the Company's financial reporting and internal control procedures. The audit committee comprises three non-executive Directors, namely Mr. Shaw-Y Wang, Mr. Ying-Ho Wong, Kennedy, and Mr. Shih-Hung Chan. The audit committee has met thirteenth times since its formation.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor its subsidiary has purchased, sold or redeemed any of the Company's shares during the period from 31st January, 2000 (date of listing) to 31st December 2002.

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

Hong Kong, 14th March 2003

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*