Far Eastern Polychem Industries Limited
遠東化聚工業股份有限公司

2003
annual report

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

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BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

Shu-Tong HSU, *Chairman*
Jar-Yi SHIH, *Deputy Chairman*
Champion LEE, *Chief Financial Officer*
Lih-Teh CHANG, *Chief Executive Officer*
Chin-Sen TU, *Chief Accountant and Compliance Officer*

NON-EXECUTIVE DIRECTOR

Shaw-Y WANG

INDEPENDENT NON-EXECUTIVE DIRECTORS

Tak-Lung TSIM, *JP*
Ying-Ho WONG, *JP*
Shih-Hung CHAN

AUDIT COMMITTEE

Shaw-Y WANG
Ying-Ho WONG, *JP*
Shih-Hung CHAN

QUALIFIED ACCOUNTANT

Wai-Kit KONG, *AHKSA, ACCA*

COMPANY SECRETARY

Wai-Kit KONG, *AHKSA, ACCA*

AUTHORIZED REPRESENTATIVES

Chin-Sen TU
Wai-Kit KONG, *AHKSA, ACCA*

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Hong Kong

PRINCIPAL BANKERS

Citibank N.A., Shanghai Branch
Bank of China, Shanghai Pudong Branch
Bank of Shanghai, Pudong Branch
Far Eastern International Bank, International Banking Department
Industrial Commercial Bank of China, Shanghai Branch

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PLACE OF LISTING, NAME AND CODE OF ITS STOCKS

The Growth Enterprise Market of the Stock Exchange of Hong Kong Limited

Stock Name:	FE Polychem
Stock Code:	8012

ANNOUNCEMENTS AND PUBLICATIONS

All the Company's announcements and publications are published on the internet website designated by the Stock Exchange of Hong Kong Limited: http://www.hkgem.com.

Far Eastern Polychem Industries Limited (the "Company") and its subsidiaries (together the "Group") are principally engaged in the production and distribution of polyester products in the People's Republic of China (the "PRC"). Currently, the Group's polyester products include bottle-grade polyethylene terephthalate ("PET") chips, polyester filaments, polyester staple fibers and polyester fabrics and they can be further processed into a wide range of end products.

The Company is the flagship company of the Far Eastern Group, one of Taiwan's major business conglomerates, in respect of its polyester business operations in the PRC. Located in Xinghuo Development Zone, Pudong District, Shanghai, the major operating subsidiary of the Group, Far Eastern Industries (Shanghai) Ltd. ("FEIS"), which was established as a wholly foreign owned enterprise in Shanghai in 1996, commenced production operations in September 1998. Despite the short history of its operations, the Group is one of the largest bottle-grade PET chip producers in the PRC. As proof of its high standards, the Group is one of the two major producers which have obtained approval to supply bottle-grade PET chips to Coca-Cola China Limited in the PRC for the production of bottles.

As at 31st December 2003, the Group had a total of 1,843 employees.

The following table sets forth 2003 net sales of the Group's major products as a percentage of total net sales and their typical uses:

Major products sold by the Group	% of 2003 net sales	Typical uses
PET chips	62%	Used mainly in the manufacturing of carbonated soft drink and hot-filled bottles
Polyester filaments	11%	Used in the production of yarn and woven fabrics for further processing into apparel, especially shirts and dresses
Polyester staple fibers	15%	Used in fiber-fill for pillows, carpeting, insulation, toys, upholstery, sleeping bags, sport shoes and diapers and in the production of yarn and woven fabrics
Finished fabrics	12%	Used in the manufacturing of apparel, curtains and furnitures
	100%	

CONSOLIDATED INCOME STATEMENTS

	Year ended 31st December				
	2003	2002	2001	2000	1999
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Turnover	**2,080,494**	1,910,211	1,474,062	1,298,649	1,035,001
Profit from operations	**41,840**	108,809	232,282	241,793	167,087
Finance costs, net	**(11,599)**	(19,005)	(8,804)	(21,655)	(43,701)
Share of loss of an associated company	**(2,130)**	—	—	—	—
Profit before tax	**28,111**	89,804	223,478	220,138	123,386
Income tax expense	**(2,751)**	(7,282)	(18,228)	—	—
Profit after tax	**25,360**	82,522	205,250	220,138	123,386
Minority interests	**28**	—	—	—	—
Profit attributable to shareholders	**25,388**	82,522	205,250	220,138	123,386
Earnings per share (in HK$)					
- Basic and diluted	**0.06**	0.20	0.50	0.55	0.39
Dividends per share (in HK$)	**0.06**	0.10	0.25	0.28	—

CONSOLIDATED BALANCE SHEETS

	As at 31st December				
	2003	2002	2001	2000	1999
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
ASSETS					
Fixed assets and land use rights	**1,349,379**	1,428,749	1,448,851	1,271,145	1,203,055
Investment in an associated company	**84,343**	—	—	—	—
Other non-current assets	**11,608**	11,517	12,888	11,208	12,494
Current assets	**869,237**	925,561	797,134	748,223	475,370
Total assets	**2,314,567**	2,365,827	2,258,873	2,030,576	1,690,919
LIABILITIES AND EQUITY					
Share capital	**410,296**	410,296	410,296	410,296	6,302
Reserves	**633,495**	617,185	583,464	541,233	318,471
Retained earnings	**261,057**	292,975	346,748	288,923	88,892
Shareholders' equity	**1,304,848**	1,320,456	1,340,508	1,240,452	413,665
Minority interests	**395**	—	—	—	—
Current liabilities	**583,816**	618,677	549,512	403,566	476,507
Loans from related or shareholding companies	**—**	—	—	—	311,401
Long-term bank loans, non-current portion	**424,308**	425,494	367,653	385,358	488,146
Deferred tax liabilities	**1,200**	1,200	1,200	1,200	1,200
Total liabilities and equity	**2,314,567**	2,365,827	2,258,873	2,030,576	1,690,919

It is my pleasure to present to you the annual report of the Company for the year ended 31st December 2003.

OPERATING RESULTS

During the year 2003, the Group achieved a total turnover of approximately HK$2,080 million, an increase of 9% as compared to the year 2002. Gross profit was approximately HK$182 million and audited profit attributable to shareholders amounted to approximately HK$25 million, representing a decrease of 25% and 69%, respectively, as compared to 2002. Earnings per share in 2003 amounted to HK$0.06.

DIVIDENDS

The Directors will recommend a final dividend of HK$0.10 per ordinary share at the forthcoming Annual General Meeting.

BUSINESS REVIEW

2003 was the toughest year in the Group's history. The business environment was significantly affected by a number of factors such as the US-lead coalition war against Iraq which led to increases in raw material costs, the outbreak of the Severe Acute Respiratory Syndrome ("SARS") epidemic that punched the general economy and, last but not the least, the over-supply pressure created by the rapidly increasing polyester production capacities in the PRC.

Despite the challenging environment, there was a 9% increase in turnover, driven primarily by increases in raw material costs. 2003 was the first year the Group's sales revenues exceeded a milestone of HK$2 billion.

To enhance its competitiveness, the Group regularly reviews its product mix and adjustments are made timely to satisfy the market situation. Since commencement of operations in 1998, the Group has been continuously positioning itself as a high-quality and high-end polyester producer. It is the Group's persistence of product quality that helps it to build a solid reputation in the polyester industry and overcomes all market challenges. Finally, it is pleased to report that the Group was able to make a profit in 2003 while many polyester manufacturers in the PRC are believed to be running at losses.

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 expect the market demand for PET resins in China to reach approximately 1,000,000 tonnes per annum in 2004, representing a growth rate of more than 20% over the demand in 2003.

FUTURE PROSPECTS (Cont'd)

In spite of this, whether the China PET resin market will recover 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 Directors expect that a large number of these producers will either shut down production facilities or transform facilities to produce other polyester products.

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 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.

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

After entering into a conditional agreement in connection with the acquisition of polymerization facilities from DSPC in 2002, the PRC government authorities imposed certain conditions on the contracting parties which served as pre-requisites to their approving this acquisition transaction. In 2003, significant progress had been made by the contracting parties to fulfill the above conditions and it is expected that the acquisition will complete in 2004. 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 and ease the production bottleneck in base polymers. Such acquisition represents an important part of the Group's future development.

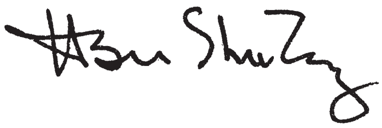
The investment in a joint venture to produce terephthalic acid ("PTA") in the PRC

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 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.

Concluding remarks

Although 2003 was a tough year for the Group given the external factors impacting the general economy as well as the polyester industry in the PRC, the management of the Group has made continuous efforts so as to react to the market conditions on a timely basis. The management's efforts have been proved effective as the Group manages to earn a profit under this unprecedented adverse market situation. Going forward, the Group is committed to enhancing its production efficiency and effectiveness, and to maintain an optional mix of high-quality high-end products. With these strategies in place, the Group is confident of capturing future growth opportunities to bring fruitful returns to our shareholders.

Finally, on behalf of the Board, I would like to express my heartfelt gratitude to all staff of the Group for their hard work as well as to all shareholders for their kind support over the previous year.



SHU-TONG HSU
Chairman

Hong Kong
10th March 2004

BUSINESS ENVIRONMENT

In the first quarter of 2003, the US-lead coalition war against Iraq resulted in a rise in crude oil price to US$30.6 per barrel which represented a 15% and 54% increase when compared to the fourth quarter and first quarter of 2002, respectively. Consequently, there were increases in prices of pure terephthalic acid ("PTA") and monoethylene glycol ("MEG"), as both are petrochemical products. The increases in the prices of PTA and MEG were further magnified by the worldwide shortage of their production capacities, especially the latter one.

In the second quarter of 2003, the outbreak of the Severe Acute Respiratory Syndrome ("SARS") epidemic affected almost all industries in the PRC. Gross Domestic Product of the PRC only grew at a rate of 6.7% during the second quarter of 2003, which was the lowest since 1992.

In the third quarter of 2003, after the threat of SARS eased and in light of the prolonged period of low volume in business activities, the polyester market in the PRC became increasingly competitive. Many polyester producers aiming to recapture lost business and/or clear backlogged inventories reduced their prices, having a further knock on effect on the product margins in the polyester industry.

After much turbulence in the first three quarters of 2003, the polyester industry showed signs of stabilisation in the last quarter. However, industry players were still operating under the threat of over-supply within the PRC.

The business environment in the first quarter of 2004 showed a promising 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. Nonetheless, manufacturers still need to face the over-supply problem in the long-run.

OPERATIONAL REVIEW

Slight decrease in the Group's sales volume caused by change in product mix and unfavorable business environment

As a result of increasing competition, the Group strategically shifted its product mix to produce more high-end specialty products such as low denier filaments and specialty fabrics. Although such products command higher selling prices, they require a more sophisticated manufacturing processes that are more time consuming and eventually lead to a drop in production and sales volume. In addition, due to the impact of SARS and excessive capacities in the polyester industry, the Group's sales volume, especially PET chips, in 2003 was inevitably affected. The following is a summary of the Group's sales volume in 2003:

	For the year ended 31st December		Percentage increase/ (decrease)
	2003	2002	(%)
PET chips (tonnes)	**179,064**	188,189	(5)
Polyester filaments (tonnes)	**21,112**	21,689	(3)
Polyester staple fibers (tonnes)	**41,863**	38,658	8
Finished fabrics (thousand yards)	**20,797**	24,065	(14)

Erosion in the Group's gross profit margins as a result of imbalance between demand and supply

The imbalance between demand and supply within the PRC domestic polyester industry meant that polyester producers faced increasing difficulties in passing on the incremental raw material costs to customers. It led to a margin erosion, with the Group's average gross margin declining from 13% in 2002 to 9% in 2003. In particular, the gross margin of the Group's major product, PET resins, dropped from 15% in 2002 to 10% to 2003. Noting the rebounds in the first quarter of 2004, the Directors are expectant that the Group might achieve better results in 2004.

Political tension led to an increase in crude oil prices

Average crude oil prices in 2003 were 16% higher than those in 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. In light of the current position taken by the Organization of the Petroleum Exporting Countries, the Directors expect crude oil prices to remain high in the near future.

OPERATIONAL REVIEW (Cont'd)

Supply of upstream petrochemical products is tight, which in turn kept their costs at high levels. Future trends in raw materials costs are critical to the Group's future profitability

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 2004 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.

In order to actively manage its inventory level, the Group formulates its raw material purchase strategy based on forecasts of PTA and MEG prices. By reducing inventory levels when the raw material costs are high and accumulating inventories when the costs are low, the Directors aim to increase the Group's profit margins and therefore maximise profitability.

Demand for PET resins in the PRC will sustain considerable growth in the future

As China reported strong economic growth, demand for PET resins in the PRC grew at a rate of over 20% last year. The annual domestic demand for PET resins reached of 800,000 tonnes in 2003. It is expected that domestic demand for PET resins will be sustained at approximately 20% per annum.

Supply of PET resins in the PRC is growing

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. However, it is pleasing to report that the Group achieved almost full utilisation in 2003. With a strong emphasis on economies of scale, major polyester producers in the PRC continue to expand their production capacities. Given this trend. and the under-utilisation generally within the industry, the Directors believe that this will trigger smaller producers to consolidate or even suspend their operations, thus stabilising the imbalance between demand and supply within the PRC market. The Directors expect the future polyester market in the PRC will be a market for large producers, which is a positive factor for the Group.

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's Dyeing and Finishing Strategic Business Unit ("SBU") has successfully re-adjusted its product mix and produced more specialty fabrics such as fabrics for furnitures and curtains. 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 mainly exported to overseas markets and are well accepted by the customers. Accordingly, the Dyeing and Finishing SBU managed to improve its gross margin from 12% in 2002 to 14% in 2003 in challenging market conditions.

OPERATIONAL REVIEW (Cont'd)

Strategic change made by the Polyester Staple Fiber SBU

Commencing operations in late 2001, the Group's Polyester Staple Fiber SBU has produced quality products that are well accepted by the PRC market. Based on this foundation, the Group will sell more of its polyester staple fibers domestically in the PRC than in overseas markets in 2004 which will allow the Group to enjoy better margins and save certain export expenses. Commencing the fourth quarter of 2003, the Polyester Staple Fiber SBU produces spinning fibers in addition to the conjugate fibers it always produces and the Group is now able to cater for the needs of a wider spectrum of customers. The Group's production facilities can be freely switched between production of spinning fibers and conjugate fibers, providing additional flexibility to the Group by enabling it to maintain an optimal product mix in an ever-changing market. Despite the poor market conditions in the PRC, the Group's strategy was proved effective with an improved gross margin for the Polyester Staple Fiber SBU from 3% for the first three quarters of 2003 to 7% for the fourth quarter of 2003.

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

Due to continuous increases in polyester production capacities in China since mid 2001, China's market for polyester products has shifted from a seller-oriented mode to a buyer-oriented mode. Reflective of this, distribution costs for PET chips and other polyester products which used to be borne by the buyers are now borne by the Group. Although the export ratio increased only slightly from 27% in 2002 to 28% in 2003, distribution costs increased by 25%. The Directors anticipate that such expenses will stabilize in 2004, with any further increase in distribution costs being proportional to the increase in the Group's sales volume.

Investment in a joint venture to produce PTA in the PRC

In 2003, the Group formed a joint venture, PET Far Eastern Holding Limited, with two connected parties to establish and operate a PTA plant adjacent to the Group's existing manufacturing facilities in Pudong, Shanghai. This PTA plant is now under construction and is expected to commence operation by the end of 2005. This investment will enable the Group to participate in a vertically integrated production process and should strengthen its competitiveness. The Group has contributed capital in the amount of approximately HK$86 million to the joint venture for an equity interest of 21.7%.

Establishment of two subsidiaries

In 2003, the Group established two subsidiaries, namely 武漢遠紡工貿有限公司 and 上海遠資信息技術有限公司, in Wuhan and Shanghai, the PRC with a connected party. The Group has a 95% equity interest in each subsidiary and contributed, altogether, approximately, HK$8 million towards their capital. The new subsidiary in Wuhan will engage in distribution of products of FEIS to serve the Group's customers in the Wuhan and surrounding regions in the PRC. The new subsidiary in Shanghai will engage in the provision of information technology consultancy services in the PRC to the Group and other customers as well.

Disposal of two subsidiaries

In 2003, the Group disposed of two subsidiaries, Far Eastern Info Service (Holding) Limited and Far Eastern Network Info-Tech (Shanghai) Ltd., to a connected party at a gain of approximately HK$4 million. These subsidiaries were originally set up for development of computer network software in the PRC. However, after a reassessment of the future profitability of these subsidiaries, the Directors concluded that it was in the Group's best interests to dispose of these subsidiaries.

RESULTS OF OPERATIONS

1. Turnover

The Group's total sales increased by 9% from HK$1,910 million in 2002 to HK$2,080 million in 2003.

Net sales for PET resins increased by 8% from HK$1,188 million in 2002 to HK$1,283 million in 2003. This was mainly attributable to an increase in average sales price of 11% driven by the increase in raw material costs. The quantity of PET resins sold decreased slightly by 5%. The lower quantity of PET resins sold in 2003 was due to the low level of sales in the second and third quarters, the usual high seasons in PET resins sales, when the market was most affected by SARS.

Net sales for filaments increased by 11% from HK$200 million in 2002 to HK$221 million in 2003. 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 13% during the year 2003, when compared to that of 2002. As specialty filaments require additional processing time, they lead to a slight reduction in production and sales volume.

Net sales for polyester staple fibers increased by 18% from HK$272 million in 2002 to HK$321 million in 2003. The increase was mainly due to the fact that the staple fiber plant commenced operations in the third quarter of 2001, and the desired level of production capacity was not reached until mid 2002. Sales volume for polyester staple fiber increased by 8% from 2002 to 2003. Average unit-selling prices increased by 10% during 2003.

Net sales for finished fabrics increased by 2% from HK$250 million in 2002 to HK$255 million in 2003. The increase was mainly attributable to the substantial increase in average unit selling prices of fabrics by 19% in 2003, due to a change in product mix to more high value-added products, such as furniture and curtain fabrics, which demand more sophisticated production technique that cannot easily be copied by others. Sales volume, on the other hand, decreased by 14% as a result of additional processing time consumed in manufacturing those high value-added products.

2. Cost of sales

During 2003, the average unit costs of PTA and MEG rose by 20% and 39% respectively, when compared to those of 2002. Consequently, the cost of sales in 2003 increased by 14%, as compared to 2002, whereas sales only increased by 9%. The unparalleled increase in cost of sales translated directly into a margin squeeze from 13% in 2002 to 9% in 2003.

RESULTS OF OPERATIONS (Cont'd)

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

Since mid 2001, the profile of the China polyester market has shifted from a seller-oriented one to a buyer-oriented one. Distribution costs for many polyester products which used to be borne by the buyers, are now, typically, borne by the Group, which resulted in a 25% increase in distribution costs over 2002.

Additional administrative costs, including staff salaries, depreciation expenses and other general office expenses were increased by 21% from HK$45 million to HK$54 million due to an increase in the number of employees and the costs incurred by the new subsidiaries of the Group, established in 2003 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 decrease in finance costs was mainly due to an increase in exchange gain associated with the Group's bank balances and receivables denominated in Euros, given the appreciation of the Euro against United States dollar in the second half of 2003.

4. Profit before taxation

Profit before taxation decreased by 69% from HK$90 million in 2002 to HK$28 million in 2003.

5. Taxation

2003 was the fifth profit-making year of the Group's major operating subsidiary, FEIS, and therefore, it enjoyed a 50% reduction in enterprise income tax from 15% to 7.5%. A provision of HK$3 million for enterprise income tax was made during 2003. 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. The "High-technology Enterprise" status is subject to review every year.

6. Profit attributable to shareholders

The Group's profit attributable to shareholders declined by 69% from HK$83 million in 2002 to HK$25 million in 2003. The decrease was caused by various factors affecting sales, cost of sales and operating expenses explained above.

LIQUIDITY AND FINANCIAL RESOURCES

1. Cash and cash equivalents

As at 31st December 2003, the Group's cash and cash equivalents amounted to approximately HK$191 million (compared to HK$346 million in 2002) of which 34% were denominated in United States dollars, 57% were denominated in Renminbi, 8% were denominated in Euros and 1% denominated in British pounds.

2. Cash flows

Cash generated from operations decreased from HK$190 million in 2002 to HK$91 million in 2003. This was mainly due to the decrease in the Group's profit before taxation from HK$89 million in 2002 to HK$25 million in 2003.

Net cash used in investment activities increased from HK$91 million in 2002 to HK$172 million in 2003, due to the investment of HK$86 million in an associated company which will construct and operate a new PTA plant in the PRC.

In 2003, approximately HK$863 million of bank loans (of which HK$93 million were long-term bank loans) were obtained for operational purposes and to finance capital expenditure and the investment in an associated company, while approximately HK$871 million of bank loans (of which HK$46 million were long-term bank loans) were repaid. Dividends of HK$41 million were paid during 2003.

3. Borrowings

As at 31st December 2003, the Group's borrowings amounted to approximately HK$642 million (2002: HK$651 million). Approximately 44% (2002: 59%) of the Group's borrowings were denominated in Renminbi while 56% (2002: 41%) of the Group's borrowings were denominated in United States dollars. Approximately 47% (2002: 61%) of the Group's borrowings were at fixed interest rates and 53% (2002: 39%) were at floating rates. As at 31st December 2003, approximately 81% (2002: 72%) of the Group's borrowings were long-term borrowings and 66% (2002: 65%) of the total borrowings were not repayable within one year.

As at 31st December 2003, approximately HK$156 million (2002: HK$164 million) of the Group's real property had been pledged as collateral to secure the borrowings.

As at 31st December 2003, the net debt to equity ratio was approximately 35% (2002: 23%). Gross debt to equity ratio was approximately 49% (2002: 49%). Earnings before interest, taxation, depreciation and amortisation covered the gross interest expense by 8.3 times (2002: 10.3 times).

The Group's capital expenditure for the year amounted to HK$75 million (2002: HK$117 million), which was funded by borrowings and internally generated cash. The capital expenditure during 2003 was mainly incurred for the acquisition of additional production facilities for the Filament and Dyeing and Finishing SBUs.

Capital expenditure in 2004 is expected to be approximately HK$763 million, and is expected to be incurred principally for acquisition of machinery for various SBUs, especially the Chip SBU, to fundamentally upgrade the Group's production capacities. In addition, the acquisition of polymerization facilities from DSPC should also complete in 2004. 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 2003 amounted to HK$1,451 million (2002: HK$1,438 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. During the year, the Group has re-adjusted its capital structure by borrowing a higher portion of bank loans denominated in United States dollar, given the market expectation that United States dollar is weakening against Renminbi. Since most banks in China offer United States dollar loans at floating interest rates, the Group now has a greater portion of borrowings that carry floating interest rates.

EXECUTIVE DIRECTORS

Shu-Tong HSU, aged 62, is the Chairman of the Company. He has been serving as a Director since 1995. He is also the Chairman of Far Eastern Textile Limited ("FET") (which has an interest in the share capital of the Company) and the chairman of each of the boards of Far Eastern Department Stores Ltd., Oriental Union Chemical Corporation, Far EasTone Telecommunications Ltd., Far Eastern International Bank, U-Ming Marine Transport Corp. and Asia Cement Corporation. Mr. Hsu is also a director of Everest Textile Co., Ltd ("Everest Textile") (which has an interest in the share capital of the Company). He joined the Far Eastern Group in 1971 and served as the Executive Vice President of the apparel division of FET and the President of FET from 1979 to 1994. He has more than 32 years of experience in managing different areas of business of the Far Eastern Group. Mr. Hsu received a Bachelor's and Master's Degree in economics at the University of Notre Dame and pursued post-graduate studies in economics at Columbia University in the United States. Mr. Hsu also has a honorary Doctor's Degree in management granted by the National Chiao Tung University in Taiwan. Mr. Hsu is a brother-in-law of Mr. Jar-Yi Shih.

Jar-Yi SHIH, aged 57, is the Deputy Chairman of the Company. He has been serving as a Director since 1995. He is currently also a director and the President of FET, a director of Asia Cement Corporation, a director of Oriental Union Chemical Corporation and Far Eastern International Bank and the Chairman of Everest Textile. Mr. Shih joined the Far Eastern Group in 1974 and has been an executive officer of FET since 1979, and had served as the head of the Computer Center and the Procurement Division of the Far Eastern Group and as the senior executive vice president of the polyester division of FET. He has more than 29 years of experience in managing the petrochemical and textile business of the Far Eastern Group. Mr. Shih received a Bachelor's Degree in electrical engineering from McGill University in Canada and a Master's Degree in computer science and business administration from Columbia University in the United States.

Champion LEE, aged 56, is the Chief Financial Officer of the Group. He has been serving as a Director since 1995. Mr. Lee is currently a director and a senior executive vice president of FET in charge of finance. Mr. Lee joined the Far Eastern Group in 1974 and has been an executive officer since 1988. He also served as the President of Yuang Ding Construction Co., Ltd. He has more than 29 years of experience in finance. Mr. Lee received a Master's degree in business administration from Texas A&I University in the United States.

Lih-Teh CHANG, aged 64, is the Chairman of the Board of Directors of FEIS. He joined FEIS in 1999. Mr. Zhang is currently also a senior executive vice president of the chemical fibre plant of FET. He joined the Far Eastern Group in 1970 and has been an executive officer of FET since 1980. He had served as the manager and chief factory manager of the technical department and chief factory manager of the chemical fibre plant of FET. He has more than 33 years' experience in management of chemical fibre production. Mr. Chang was previously the General Manager of FEIS and he retired from that position in 2003. Mr. Chang received a Bachelor's Degree in Chemical Engineering from Chung Yuen University in Taiwan.

Chin-Sen TU, aged 56, is the Chief Accountant and Compliance Officer of the Group. He has been serving as a Director since 1995. Mr. Tu is currently a director and the executive vice president of the accounting department of FET. Mr. Tu is also a director of Everest Textile. Mr. Tu joined the Far Eastern Group in 1973 and has been an executive officer since 1989. He has more than 29 years of experience in auditing and accounting. Mr. Tu received a Bachelor's Degree in accounting and statistics from National Cheng Kung University in Taiwan.

NON-EXECUTIVE DIRECTOR

Shaw-Y WANG, aged 64, has been serving as a Director since 1995. He is currently also a director and the first senior executive vice president of the administration department of FET. Mr. Wang joined the Far Eastern Group in 1964 and has been an executive officer since 1979. He has more than 39 years of experience in accounting and administration. Mr. Wang received a Bachelor's Degree in business administration from National Chung Hsing University in Taiwan.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Tak-Lung TSIM, Dominic, aged 57, is a non-executive director and the vice chairman of Playmates Toys Holdings Limited. He is also the chairman of New-Alliance Asset Management (Asia) Ltd. He operates his own consultancy business, advising multi-national companies on risk management and strategic planning. Mr. Tsim is very active in various community services in Hong Kong. He is a Justice of the Peace and served two terms on the Central Policy Unit of the Hong Kong Government. He also served as a trustee of Shaw College of The Chinese University of Hong Kong.

Kennedy Ying-Ho WONG, aged 40, is a solicitor of the High Court of Hong Kong and a China-Appointed Attesting Officer. He is the managing partner of Philip K.H. Wong, Kennedy Y.H. Wong & Co., a solicitors' firm in Hong Kong. Mr. Wong is the executive deputy chairman of Raymond Industrial Limited and an independent director of Capinfo Company Limited, Hang Seng Insurance Company Limited, HSBC Life (International) Limited, China Overseas Holdings Limited and i-Steel Asia Holdings Limited. Mr. Wong is also a Justice of the Peace of the HKSAR and National Committee Member of Chinese People's Political Consultative Conference.

Shih-Hung CHAN, aged 60, is currently the president of Yuan-Ze University of Taiwan. He graduated from the University of California-Berkeley with a Ph.D. degree in mechanical engineering. He had successively served various teaching and research posts in several universities and institutes, including the University of Wisconsin-Milwaukee, the New York University and the Argonne National Laboratory in the United States. He has also served as a consultant to various industrial corporations, including Kohler Corporation and Eaton Corporation, and as an advisor to the President Science Council and the Subcommittee Chair of the Council on Energy and Sustainability in Taiwan.

SENIOR MANAGEMENT

Pai-Jan CHENG, aged 48, is the General Manager of FEIS. He graduated from National Tsing Hua University and has over 24 years' experience in the engineering field. Mr. Cheng joined the Far Eastern Group in 1980, and held the posts of section chief, manager and vice president of the maintenance and engineering division of Far Eastern chemical fiber plant. Mr. Cheng was assigned as a deputy general manager of FEIS in 2003 and was promoted to the General Manager in the same year.

Ming-Tsai SHU, aged 53, is a deputy general manager of FEIS. He joined FEIS in January 2003 and is in charge of the general administration function of FEIS, comprising the accounting department, purchasing department, information system department and international trade department. Mr. Shu graduated with a Ph D. in chemical engineering from Drexel University in 1981 and has over 22 years' industry experience. Prior to joining FEIS, Mr. Shu worked as a Business Manager for DuPont USA, as a Managing Director for Sterling Diagnostic Imaging (Asia), as a PRC Country Manager for Agfa-Gevaert NV, Belgium and as a consultant for Wilmax Technology Consulting Company.

Guangrong CHEN, aged 56, is a deputy general manager of FEIS. He joined the Far Eastern Group in 1973 and previously held the posts of mechanical engineer section chief and manager in the chemical fibre plant of FET from 1973 to 1997. Mr. Chen joined the Group as a deputy general manager of FEIS in June 1997, and was in charge of the construction and maintenance of FEIS's plant in Pudong. He graduated from the mechanical engineering faculty of the Datong Institute of Technology in Taiwan in 1970 and has over 30 years' experience in mechanical engineering.

Hung-Tsun LAI, aged 53, is a vice president of FEIS. Mr. Lai joined Far Eastern Group in 1973 and held the posts of section chief and manager of the engineering division of FET. Mr. Lai joined FEIS in 2002 as vice president of research and development. In addition, he provides managerial support to the customer service function of FEIS. Mr. Lai graduated in Lan Yang Institute of Technology, who had over 31 years' experience in environmental protection and industrial engineering.

Wai-Kit KONG, aged 31, is the qualified accountant and company secretary of the Company. Prior to joining the Company in 2003, he was a manager of PricewaterhouseCoopers, Hong Kong. Mr. Kong graduated from the Hng Kong University of Science and Technology with a Bachelor's degree in business administration and is an associate member of the Hong Kong Society of Accountants and the Chartered Association of Certified Accountants in the United Kingdom. He has over 8 years' experience in accounting and auditing.

The Directors have the pleasure of presenting this annual report together with the audited financial statements of Far Eastern Polychem Industries Limited (the "Company") and its subsidiaries (together the "Group") for the year ended 31st December 2003.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Principal activities of the Company's subsidiaries are set out in Note 21 to the accompanying financial statements.

SEGMENTAL INFORMATION

The Group's turnover, gross profit and operating results for the year ended 31st December 2003 are analysed as follows:

a. By product range

	Turnover HK$'000	Operating results HK$'000
PET chips	1,283,084	123,052
Polyester filaments	221,137	8,737
Polyester staple fibers	320,864	14,797
Finished fabrics	255,409	35,014
	2,080,494	181,600
Distribution costs, administrative expenses and other operating income		(161,216)
Profit from operations		20,384

b. By geographical locations*

	Turnover HK$'000
PRC	1,504,063
Overseas	
Asia (excluding PRC)	59,702
Europe	368,429
Middle East	96,642
North America	47,289
Others	4,369
	2,080,494

* Turnover by geographical locations is determined on the basis of the destination of shipments of merchandise.

CUSTOMERS AND SUPPLIERS

For the year ended 31st December 2003, the five largest customers of the Group accounted for approximately 41% of the Group's total sales and the five largest suppliers accounted for approximately 94% of the Group's total purchases. In addition, the largest customer accounted for approximately 13% of the Group's total sales and the largest supplier accounted for approximately 57% of the Group's total purchases.

None of the Directors, their associates, or any shareholders (which to the knowledge of the Directors owned more than 5% of the Company's share capital) had a beneficial interest in the Group's five largest customers and five largest suppliers.

RESULTS AND APPROPRIATION

Details of the Group's results for the year ended 31st December 2003 are set out in the consolidated income statement on page 35 of this annual report.

No interim dividend was recommended by the Board of Directors. The Board of Directors recommend a final dividend of HK$0.10 per share for the year ended 31st December 2003.

SHARE CAPITAL

Details of share capital of the Company are set out in Note 11 to the accompanying financial statements.

RESERVES AND RETAINED PROFITS

Details of the Group's movements in the reserves and retained profits during the year 2003 are set out in the consolidated statement of changes in equity on page 36 of this annual report.

Details of the Company's movements in the reserves and retained profits during the year 2003 are set out in Note 23 to the accompanying financial statements.

As at 31st December 2003, the Company's retained profits of approximately HK$363,703,000 were available for distribution.

PURCHASE, SALE OR REDEMPTION OF SHARES AND WARRANTS

Neither the Company nor its subsidiaries has purchased, sold or redeemed any of the Company's listed shares during the year ended 31st December 2003 and up to the date of this report.

PRE-EMPTIVE RIGHTS

There are no provision for the exercise of any pre-emptive rights under the Company's Bye-laws or the laws of Bermuda.

SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in Note 22 to the accompanying financial statements.

INTEREST CAPITALISED

Details of the interest capitalised during the year 2003 are set out in Notes 4 and 18 to the accompanying financial statements.

FIXED ASSETS

Details of movements in fixed assets during the year 2003 are set out in Note 4 to the accompanying financial statements.

BANK LOANS

Particulars of bank loans as at 31st December 2003 are set out in Notes 13 and 14 to the accompanying financial statements.

PENSION SCHEME

Details of the pension scheme are set out in Note 31 to the accompanying financial statements.

CONTINUING CONNECTED TRANSACTION

During the year 2003, the Group was a party to the following continuing connected transaction:

Far Eastern Investment (Holdings) Limited ("FEIH") (being an associate of the Company's controlling shareholder Far Eastern Textile Limited ("FET")) and Far Eastern Industries (Shanghai) Ltd. ("FEIS") (being the Company's subsidiary) entered into a Technological License Agreement dated 11th January 2000, pursuant to which FEIH has granted a license to FEIS for the use of technological know-how and the provision of technical assistance in relation to polyester products produced by FEIS. The Technological License Agreement is for a term of 10 years and is subject to review by the parties and may be terminated by mutual agreement at the end of every 36-month period from the commencement of the agreement. Pursuant to the terms of the Technological Licence Agreement, FEIH has agreed to procure FET to grant a licence free of charge to the Group to use the trademarks owned by FET and registered in the name of FET in the PRC. The trademark licence terminates upon termination of the Technological Licence Agreement. In addition, FEIH has granted to FEIS a non-exclusive right to use, without consideration, any improvements, developments, inventions, changes or innovations related to technological know-how provided by FEIH which FEIS may develop in the due course of its use of such know-how.

The licence fee was calculated on the basis of the historical research and development expenses of FET and is payable by FEIS at a rate of US$10 per tonne of polyester polymer produced by FEIS. The amount payable by FEIS to FEIH for the year ended 31st December 2003 was approximately HK$11.7 million (for the year ended 31st December 2002 - HK$11.7 million). For the three years ending 31st December 2004, the annual amount payable by FEIS pursuant to the agreement have been capped at US$1.5 million (approximately HK$11.7 million). Caps to be set for the sixth to tenth years of the term of the agreement shall be determined in due course and are proposed to be approved on an annual basis by independent shareholders if the then proposed caps exceed the higher of HK$10 million and 3 per cent. of the Company's net tangible assets at that time.

CONTINUING CONNECTED TRANSACTION (Cont'd)

The independent non-executive directors of the Company have reviewed the above transaction and confirmed that it:

— continues to be in the ordinary course of the Group's business;

— continues to be (i) on normal commercial terms or (ii) on terms that are fair and reasonable so far as the shareholders of the Company are concerned; and

— continues to be conducted in accordance with the terms of the Technological License Agreement.

DIRECTORS

The Directors who held office during the year and up to the date of this report were:

Executive directors

Mr. Shu-Tong Hsu, *Chairman*
Mr. Jar-Yi Shih, *Deputy Chairman*
Mr. Champion Lee, *Chief Financial Officer*
Mr. Lih-Teh Chang, *Chief Executive Officer*
Mr. Chin-Sen Tu, *Chief Accountant and Compliance Officer*

Non-executive directors

Mr. Shaw-Y Wang
Mr. Tak-Lung Tsim, Dominic
Mr. Ying-Ho Wong, Kennedy
Mr. Shih-Hung Chan

In accordance with the Bye-laws of the Company, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not greater than one-third) will retire from office by rotation provided that no Director holding office as chairman and/or managing director shall be subject to retirement by rotation, or be taken into account in determining the number of Directors to retire. The Directors to retire in every year will be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot.

There are no provisions relating to retirement of Directors upon reaching any age limit.

DIRECTORS' SERVICE CONTRACTS

Mr. Lih-Teh Chang entered into a 2-year full-time service contract with the Company which may be terminated by either party thereto giving to the other not more than six calendar months' prior notice in writing. In addition, each of Mr. Shu-Tong Hsu, Mr. Jar-Yi Shih, Mr. Champion Lee and Mr. Chin-Sen Tu entered into a part-time service contract with the Company, which may be terminated on the same basis as the abovementioned full-time contracts.

DIRECTORS' INTERESTS IN SECURITIES

As at 31st December 2003, the following Directors were interested, or were deemed to be interested, in the following interests and short positions in the shares, debentures or underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO")), notifiable to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, and as recorded in the Register of Directors' Interests required to be maintained by the Company pursuant to Section 352 of the SFO:

The Company

Long positions in shares of the Company ("Shares")

None of the Directors were interested or deemed to be interested in long positions in Shares.

Long positions in underlying Shares of equity derivatives

None of the Directors were interested or deemed to be interested in long positions in underlying Shares of equity derivatives.

Short positions in underlying Shares of equity derivatives

None of the Directors were interested or deemed to be interested in short positions in underlying Shares of equity derivatives.

Associated Corporations

Long positions in shares of FET (Note 1)

	Number of shares				
Name of director	Personal interests	Family interests	Corporate interests	Other interests	Total
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

DIRECTORS' INTERESTS IN SECURITIES (Cont'd)

Note:

1. FET is an associated corporation of the Company as FET is the Company's ultimate holding company. As at 31st December 2003, 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 2003, approximately 2.7% of the total issued common shares of FET.

Long positions in underlying shares of equity derivatives of FET

None of the Directors were interested or deemed to be interested in long positions in underlying shares of equity derivatives of FET.

Short positions in underlying shares of equity derivatives of FET

None of the Directors were interested or deemed to be interested in short positions in underlying shares of equity derivatives of FET.

Save as disclosed above, the Company had no notice of any interests required to be recorded under Section 352 of the SFO as at 31st December 2003.

DIRECTORS' INTERESTS IN CONTRACTS

No contract, commitment or agreement of significance in relation to the Company's business, to which the Company or any of its subsidiaries was a party and in which any of the Directors had a material interest, either directly or indirectly, subsisted at 31st December 2003 or at any time during 2003.

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 2003, no options had been granted under the Company's share option scheme.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 31st December 2003, the following shareholders (not being Directors or chief executives of the Company) were interested, or were deemed to be interested, in the following interests and short positions in the shares, debentures or underlying shares of the Company or its associated corporations (within the meaning of Part XV of the SFO), notifiable to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO, and as recorded in the Register of Substantial Shareholders' Interests required to be maintained by the Company pursuant to Section 336 of the SFO:

Long positions in Shares

Name	**Capacity**	**Number of shares**	**Approximate percentage of interest**
FET *(Note 1)*	Beneficial Owner	263,400,800	64.2%
Yuang Ding Investment Corporation ("YDIC")	Beneficial Owner	191,870,160	46.8%
Everest Investment (Holding) Limited ("Everest Investment")	Beneficial Owner	69,750,000	17.0%
Everest Textile Co. Ltd. ("Everest Textile") *(Note 2)*	Beneficial Owner	69,750,000	17.0%
Far Eastern Investment (Holdings) Company Limited ("FEIH") *(Note 3)*	Beneficial Owner	24,733,040	6.0%
Glorious Victory Limited *(Note 4)*	Beneficial Owner	24,733,040	6.0%
HSBC International Trustee Limited *(Note 5)*	Trustee	24,733,040	6.0%

SUBSTANTIAL SHAREHOLDERS' INTERESTS (Cont'd)

Long positions in Shares (Cont'd)

Notes:

1. FET has interests in 99.99% of the entire issued share capital of YDIC and is accordingly deemed to have an interest in the Company's shares in which YDIC is deemed to have an interest. FET owns 87.7% of the issued share capital of FEIH and is accordingly taken to be interested in the Company's shares in which FEIH is deemed to have an interest.

2. Everest Textile has interests 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.

3. 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, being the subject matter of The Kai Yuan Trust.

4. Glorious Victory Limited has interests in approximately 6% of the entire issued share capital of the Company. The entire share capital of Glorious Victory Limited is in turn held under The Kai Yuan Trust.

5. 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.

Long positions in underlying Shares of equity derivatives

No notifiable interest (long positions) in underlying Shares of equity derivatives were held by substantial shareholders.

Short positions in underlying Shares of equity derivatives

No notifiable interest (short positions) in underlying Shares of equity derivatives were held by substantial shareholders.

Save as disclosed above, the Company had no notice of any interests required to be recorded under Section 336 of the SFO as at 31st December 2003.

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 2003, FET produced approximately 704,647 tonnes of polyester polymer, 264,357 tonnes of various types of PET chips (for PET bottles, food and industrial packaging), 244,294 tonnes of polyester staple fibers, 157,828 tonnes of pre-oriented yarn (POY), 62,057 tonnes of draw textured yarn (DTY), 362,048 bales of yarn, 32,471 thousand yards of finished fabrics and 372,333 thousand pieces of PET preforms. Everest Textile also produced approximately 23,466 tonnes of polyester filaments and 55,778 thousand yards of finished fabrics.

Notes:

1. As at 31st December 2003, 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 2003, 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 2003.

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.

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-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 seventeen times since its formation and four times during the year ended 31st December 2003. The annual results of the Group for the year ended 31st December 2003 have been reviewed by the audit committee.

AUDITORS

The accompanying financial statements were audited by Messrs. PricewaterhouseCoopers. A resolution for their re-appointment as auditors for the ensuing year is to be proposed at the forthcoming annual general meeting.

With effect from 1st July 2002, the Company's former auditors, Arthur Andersen & Co. in Hong Kong merged their practice with that of PricewaterhouseCoopers, Certified Public Accountants. According to the resolution passed at the Company's annual general meeting on 26th June 2002, the Board of Directors of the Company appointed PricewaterhouseCoopers, Certified Public Accountants as replacement auditors to act as the Company's new auditors.

Save as disclosed above, there have been no changes of auditors of the Company over the past three years.

On behalf of the Board of Directors,

SHU-TONG HSU
Chairman

Hong Kong
10th March 2004

PRICEWATERHOUSECOOPERS

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Auditors' Report to the Shareholders of
FAR EASTERN POLYCHEM INDUSTRIES LIMITED
(Incorporated in Bermuda with limited liability)

We have audited the accompanying balance sheets of Far Eastern Polychem Industries Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") as at 31st December 2003, and the related consolidated statements of income, cash flows and changes in shareholders' equity for the year then ended. These financial statements set out on pages 33 to 67 are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company and the Group as at 31st December 2003 and of the results of the Group's operations and cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong,
10th March 2004

CONSOLIDATED BALANCE SHEET

As at 31st December 2003
(Expressed in Hong Kong dollars)

	Note	2003 $'000	2002 $'000
ASSETS			
Non-current assets			
Long-term investments	3	**4,419**	1,410
Property, plant and equipment	4	**1,237,512**	1,318,900
Land use rights	5	**111,867**	109,849
Investment in an associated company	6	**84,343**	—
Deferred assets	7	**7,082**	8,453
Other non-current assets		**107**	1,654
Total non-current assets		**1,445,330**	1,440,266
Current assets			
Cash and bank deposits	8	**190,912**	345,717
Trade and notes receivables	9	**221,763**	214,828
Deposits, prepayments and other receivables		**71,569**	51,704
Amount due from a related company	30(e)	**19,500**	—
Inventories	10	**365,493**	313,312
Total current assets		**869,237**	925,561
Total Assets		**2,314,567**	2,365,827

CONSOLIDATED BALANCE SHEET (Cont'd)

As at 31st December 2003

(Expressed in Hong Kong dollars)

	Note	2003 $'000	2002 $'000
LIABILITIES AND EQUITY			
Shareholders' equity			
Share capital	11	**410,296**	410,296
Reserves		**894,552**	910,160
Total shareholders' equity		**1,304,848**	1,320,456
Minority interests		**395**	—
Current liabilities			
Trade, other payables and accruals	12	**352,150**	379,207
Taxes payable		**13,958**	14,279
Short-term bank loans	13	**123,708**	179,131
Long-term bank loans, current portion	14	**94,000**	46,060
Total current liabilities		**583,816**	618,677
Non-current liabilities			
Long-term bank loans, non-current portion	14	**424,308**	425,494
Deferred tax liabilities	15	**1,200**	1,200
Total non-current liabilities		**425,508**	426,694
Total Liabilities and Shareholders' Equity		**2,314,567**	2,365,827

Approved by the Board of Directors on 10th March 2004 and signed on behalf of the Board by:

Jar-Yi SHIH
Deputy Chairman

Chin-Sen TU
Director

CONSOLIDATED INCOME STATEMENT

For the year ended 31st December 2003
(Expressed in Hong Kong dollars)

	Note	2003	2002
		$'000	$'000
Sales		**2,080,494**	1,910,211
Cost of sales		**(1,898,894)**	(1,667,783)
Gross profit		**181,600**	242,428
Distribution costs		**(124,230)**	(99,060)
Administrative expenses		**(54,493)**	(45,160)
Other operating income		**17,507**	10,601
Profit from operations	16	**20,384**	108,809
Other income	17	**21,456**	—
Finance costs, net	18	**(11,599)**	(19,005)
Share of loss of an associated company		**(2,130)**	—
Profit before tax		**28,111**	89,804
Income tax expense	19	**(2,751)**	(7,282)
Profit after tax		**25,360**	82,522
Minority interests		**28**	—
Profit attributable to shareholders		**25,388**	82,522
Earnings per share			
— Basic and diluted	20	**$0.06**	$0.20

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December 2003
(Expressed in Hong Kong dollars)

	Share capital $'000	Share premium $'000	Reserve fund $'000	Revaluation reserve $'000 (Note 4)	Cumulative translation reserve $'000	Retained profits $'000	Total $'000
Balance as at 1st January 2002	410,296	523,001	52,649	5,645	2,169	346,748	1,340,508
Dividends (Note 21(a))	—	—	—	—	—	(102,574)	(102,574)
Profit appropriation (Note 21(b))	—	—	33,721	—	—	(33,721)	—
Profit for the year	—	—	—	—	—	82,522	82,522
Balance as at 31st December 2002	410,296	523,001	86,370	5,645	2,169	292,975	1,320,456
Dividends (Note 21(a))	—	—	—	—	—	(41,030)	(41,030)
Profit appropriation (Note 21(b))	—	—	16,276	—	—	(16,276)	—
Effect of translation of the financial statements of a foreign subsidiary	—	—	—	—	34	—	34
Profit for the year	—	—	—	—	—	25,388	25,388
Balance as at 31st December 2003	410,296	523,001	102,646	5,645	2,203	261,057	1,304,848
Representing:							
2003 final dividend proposed (Note 33)						41,030	
Others						220,027	
Retained profits as at 31st December 2003						261,057	

As at 31st December 2003
(Expressed in Hong Kong dollars)

	Note	2003	2002
		$'000	$'000
ASSETS			
Non-current assets			
Long-term investments	3	**3,009**	—
Investment in subsidiaries	22	**1,109,427**	1,073,989
Investment in an associated company	6	**84,343**	—
Other non-current assets		**107**	—
Total non-current assets		**1,196,886**	1,073,989
Current assets			
Cash and bank deposits	8	**73,106**	234,911
Trade receivables	9	**69,113**	53,985
Deposits, prepayments and other receivables		**22,088**	2,351
Amount due from a related company	30(e)	**19,500**	—
Total current assets		**183,807**	291,247
Total Assets		**1,380,693**	1,365,236
LIABILITIES AND EQUITY			
Equity			
Share capital	11	**410,296**	410,296
Reserves	23	**893,658**	900,963
Total equity		**1,303,954**	1,311,259
Current liabilities			
Trade, other payables and accruals	12	**76,739**	53,977
Total Liabilities and Equity		**1,380,693**	1,365,236

Approved by the Board of Directors on 10th March 2004 and signed on behalf of the Board by:

Jar-Yi SHIH
Deputy Chairman

Chin-Sen TU
Director

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st December 2003
(Expressed in Hong Kong dollars)

	Note	2003 $'000	2002 $'000
Cash flows from operating activities			
Cash generated from operations	24(a)	**90,977**	189,855
Interest paid		**(22,544)**	(24,362)
Income tax paid		**(2,355)**	(17,170)
Net cash from operations		**66,078**	148,323
Cash flows from investing activities			
Purchase of property, plant and equipment		**(72,393)**	(114,112)
Purchase of land use rights		**(4,619)**	—
Proceeds from disposals of property, plant and equipment		**478**	—
Investment in an associated company		**(86,473)**	—
Decrease in other non-current assets		**1,547**	—
Decrease in pledged deposits		**—**	17,894
Interest received		**2,879**	4,761
Net cash outflow from disposal of subsidiaries	24(b)	**(13,060)**	—
Net cash used in investing activities		**(171,641)**	(91,457)
Cash flows from financing activities			
Proceeds from short-term bank loans		**769,695**	739,554
Proceeds from long-term bank loans		**92,814**	500,694
Repayments of short-term bank loans		**(825,118)**	(799,541)
Repayments of long-term bank loans		**(46,060)**	(396,793)
Capital contributed by minority interests		**423**	—
Dividends paid		**(41,030)**	(102,574)
Net cash used in financing activities		**(49,276)**	(58,660)
Effect of exchange rate changes		**34**	—
Net decrease in cash and cash equivalents		**(154,805)**	(1,794)
Cash and cash equivalents at beginning of year		**345,717**	347,511
Cash and cash equivalents at end of year		**190,912**	345,717

31st December 2003

(Amounts expressed in Hong Kong dollars unless otherwise stated)

1 GENERAL INFORMATION

Far Eastern Polychem Industries Limited (the "Company") was incorporated in Bermuda on 13th April 1995 as an exempted company under the Companies Act 1981 of Bermuda.

The Company is principally engaged in investment holding and trading of products produced by its major subsidiary, Far Eastern Industries (Shanghai) Ltd. ("FEIS") in Shanghai, the People's Republic of China (the "PRC"). The principal activities of the Company's subsidiaries (together with the Company hereinafter collectively referred to as the "Group") are set out in Note 22.

The Company's shares are listed on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.

The directors of the Company consider Far Eastern Textile Limited, a company incorporated in Taiwan and listed on the Taiwan Stock Exchange, to be the ultimate holding company.

2 PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out as below:

(a) Basis of preparation

The 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 financial statements have been prepared under the historical cost convention as modified by the revaluation of buildings included in property, plant and equipment.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current event and actions, actual results ultimately may differ from those estimates.

31st December 2003

(Amounts expressed in Hong Kong dollars unless otherwise stated)

2 PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(b) Group accounting

(i) Subsidiaries

Subsidiaries, which are those entities in which the Group has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies are consolidated.

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus costs directly attributable to the acquisition. Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless cost cannot be recovered. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

(ii) Assoicated companies

Investment in associated companies are accounted for by the equity method of accounting. Under this method the Company's share of the post-acquisition profits or losses of the associated companies is recognised in the income statement and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the cost of the investment. An associated company is an entity over which the Group generally has between 20% and 50% of the voting rights, or over which the Group has significant influence, but which it does not control. Unrealised gains on transactions between the Group and its associated company are eliminated to the extent of the Group's interest in the associated company; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. When the Group's share of losses in an associated company equals or exceeds its interest in the associated company, the Group does not recognise further losses, unless the Group has increased obligations or made payment on behalf of the associated company.

(c) Foreign currency translation

(i) Measurement currency

Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity (the "measurement currency"). The consolidated financial statements are presented in Hong Kong dollar, which is the measurement currency of the parent.

2 PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(c) Foreign currency translation (Cont'd)

(ii) Transactions and balances

Foreign currency transactions are translated into the measurement currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges.

Translation differences on other monetary financial assets measured at fair value are included in foreign exchange gains and losses. Translation differences on non-monetary items are reported as part of the fair value gain or loss.

(iii) Group companies

Income statements and cash flows of foreign entities are translated into the Group's reporting currency at average exchange rates for the year and their balance sheets are translated at the exchange rates ruling at 31st December. Exchange differences arising from the translation of the net investment in foreign entities are taken to shareholders' equity. When a foreign entity is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sales.

(d) Long-term investment

Investment held for the long-term is stated at cost less any impairment in value. An assessment of long-term investment is performed when there is an indication that the asset has been impaired or the impairment losses recognised in prior years no longer exist.

Upon disposal of a long-term investment, the difference between net disposal proceeds and the carrying amount is recognised in the income statement.

(e) Property, plant and equipment

Buildings comprise mainly factories and offices and are shown at fair value, based on revaluations by external independent valuers every five years, less subsequent depreciation. All other property, plant and equipment is stated at historical cost less depreciation. Cost includes transfers from equity of any gains/losses on qualifying cash flow hedges of currency purchase costs.

Increases in the carrying amount arising on revaluation of buildings are credited to fair value and revaluation reserves in shareholders' equity. Decreases that offset previous increases of the same asset are charged against fair value and revaluation reserves; all other decreases are charged to the income statement.

31st December 2003

(Amounts expressed in Hong Kong dollars unless otherwise stated)

2 PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(e) Property, plant and equipment (Cont'd)

Depreciation is calculated on the straight-line method to write off the cost or revalued amount of each asset to their residual values over their estimated useful lives as follows:

Buildings	20 years
Machinery and equipment	10 years
Furniture, fixtures and office equipment	5 years
Motor vehicles	5 years

The useful life and depreciation method are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in operating profit. When revalued assets are sold, the amounts included in fair value and revaluation reserves are transferred to retained profits.

Interest costs on borrowings to finance the construction of property, plant and equipment are capitalised, during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

Repairs and maintenance are charged to the income statement during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Group. Major renovations are depreciated over the remaining useful life of the related asset.

Construction-in-progress represents plant under construction and machinery pending installation and is stated at cost. This includes cost of construction, plant and equipment and other direct costs plus borrowing costs which include interest charges and exchange differences arising from foreign currency borrowings used to finance these projects during the construction period, to the extent these are regarded as an adjustment to interest costs.

Construction-in-progress is not depreciated until such time when the assets are completed and ready for their intended use.

31st December 2003

(Amounts expressed in Hong Kong dollars unless otherwise stated)

2 PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(f) Land use rights

Land use rights represent amounts paid for the acquisition of rights to use land for a period of 50 years. Land use rights are recognised as prepayments for operating leases (see (r) below).

(g) Deferred assets

Deferred assets are stated at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to write-off the cost over 10 years.

(h) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

(i) Trade receivables

Trade receivables are carried at original invoice amount less provision made for impairment of these receivables. A provision for impairment of trade receivables is established when there is an objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market rate of interest for similar borrowers.

(j) Inventories

Inventories are stated at the lower of cost or net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity) but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

(k) Impairment of long lived assets

Property, plant and equipment and other non-current assets, including intangible assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount which is the higher of an asset's net selling price and value in use. For the purpose of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows.

2 PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(l) Equity

(i) Liabilities and equity

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement on initial recognition.

Interest, dividends, gains and losses relating to a financial instrument classified as a liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity.

(ii) Equity transaction costs

The transaction costs of an equity transaction, other than in the context of a business combination, are accounted for as a deduction from equity, net of any related income tax benefit. Equity transaction costs are comprised of only those incremental external costs directly attributable to the equity transaction which would otherwise have been avoided.

Cost of issuing equity securities in connection with a business combination are included in the cost of acquisition.

(iii) Reserves

(a) Cumulative translation reserve

The cumulative translation reserve is used for translation differences arising on consolidation of financial statements of foreign entities (i.e. subsidiaries, associated companies, joint ventures or branches).

Exchange differences arising on a monetary item that, in substance, forms part of the Company's net investment in a foreign entity are classified as equity in the consolidated financial statements until the disposal of the net investment.

(b) Revaluation reserve

This reserve includes the cumulative net change in fair value of property, plant and equipment or intangibles carried at revalued amounts.

Upon disposal of the corresponding assets, the cumulative revaluation or translation reserves are recognised as income or expenses in the same period in which the gain or loss on disposal is recognised.

(c) Share premium

Share premium records the difference between the issuing proceeds of ordinary share capital and the par value of the ordinary shares so issued.

2 PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(m) Deferred income taxes

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Currently enacted tax rates are used in the determination of deferred income tax.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associated companies and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

(n) Borrowings

Borrowings are recognised initially at the proceeds received, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective yield method; any difference between proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings.

Borrowing costs are generally recognised in the income statement as incurred. Borrowing costs are capitalised if they are directly attributable to the acquisition, construction or production of a qualifying asset. Capitalisation of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalised until the assets are substantially ready for their intended use. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded.

Borrowing costs include interest on bank overdrafts and short-term and long-term borrowings, amortisation of discounts or premiums relating to borrowings, amortisation of ancillary costs incurred in connection with the arrangements of borrowings, and exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

(o) Revenue recognition

Revenue comprises the invoiced value for the sale of goods, net of value-added tax, rebates and discounts, and after eliminating sales within the Group. Revenue from the sale of goods is recognised when significant risks and rewards of ownership of the goods are transferred to the buyer.

Interest income is recognised on a time proportion basis, taking account of the principal outstanding and the effective rate over the period to maturity, when it is determined that such income will accrue to the Group. Dividends are recognised when the right to receive payment is established.

31st December 2003

(Amounts expressed in Hong Kong dollars unless otherwise stated)

2 PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(p) Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

(q) Employee benefits

(i) Defined contribution plans

The Company provides defined contribution plans based on Hong Kong practices and regulations. The plans cover full-time employees and provide for contributions the lower of 5% of the employees' basic salaries and $1,000. The Company's contributions relating to defined contribution plans are charged to income statement in the year to which they relate.

(ii) Pension scheme

Pursuant to the PRC laws and regulations, contributions to the basic old age insurance for the staff of the Company's subsidiaries operating in the PRC are to be made monthly to a government agency based on 28.5% of the standard salary set by the provincial government, of which 22.5% is borne by the Company's subsidiaries operating in the PRC and the remainder is borne by the staff. The government agency is responsible for the pension liabilities relating to such staff on their retirement. The Company's subsidiaries operating in the PRC accounts for these contributions on an accrual basis.

(r) Operating leases

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

(s) Dividends

Dividends are recorded in the Group's financial statements in the period in which they are approved by the Group's shareholders.

(t) Segment reporting

Business segments provide products or services that are subject to risks and returns that are different from those of other business segments. Geographical segments provide products or services within a particular economic environment that is subject to risks and returns that are different from those of components operating in other economic environments.

3 LONG-TERM INVESTMENTS

	Group		Company	
	2003	2002	**2003**	2002
	$'000	$'000	**$'000**	$'000
Unlisted investments, at cost	**4,419**	1,410	**3,009**	—

Details of the investments as at 31st December 2003 are as follows:

Name	**Country of incorporation**	**Equity interest held by the Group**	**Principal activities**
China Chemical Fiber Industrial Consortium Limited	The PRC	10% (indirectly)	Provision of B-to-B e-commerce platform for trading of chemical fiber in the PRC
Nippon Parison Co., Ltd.	Japan	10% (directly)	Production of polyethylene terephthalate ("PET") bottle preforms in Japan

31st December 2003

(Amounts expressed in Hong Kong dollars unless otherwise stated)

4 PROPERTY, PLANT AND EQUIPMENT

	2003						2002
	Buildings	Machinery and equipment	Furniture, fixtures and office equipment	Motor vehicles	Construction-in-progress	Total	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Cost/valuation							
Beginning of year	344,868	1,271,484	40,681	12,390	55,314	1,724,737	1,608,444
Additions	1,856	14,194	5,325	1,254	52,055	74,684	116,556
Transfers	445	63,096	9,381	671	(73,593)	—	—
Disposals	—	—	(51)	(303)	—	(354)	(263)
Disposal of subsidiaries (Note 24(b))	—	—	(15,577)	—	—	(15,577)	—
End of year	347,169	1,348,774	39,759	14,012	33,776	1,783,490	1,724,737
Representing							
At cost	88,538	1,348,774	39,759	14,012	33,776	1,524,859	1,466,106
At professional valuation	258,631	—	—	—	—	258,631	258,631
	347,169	1,348,774	39,759	14,012	33,776	1,783,490	1,724,737
Accumulated depreciation							
Beginning of year	48,713	339,103	11,863	6,158	—	405,837	271,938
Charge for the year	15,570	116,812	6,687	1,960	—	141,029	134,128
Disposals	—	—	(2)	(227)	—	(229)	(229)
Disposal of subsidiaries (Note 24(b))	—	—	(659)	—	—	(659)	—
End of year	64,283	455,915	17,889	7,891	—	545,978	405,837
Net book value							
End of year	282,886	892,859	21,870	6,121	33,776	1,237,512	1,318,900
Beginning of year	296,155	932,381	28,818	6,232	55,314	1,318,900	1,336,506

4 PROPERTY, PLANT AND EQUIPMENT (Cont'd)

The Group's buildings were appraised by Sallmanns (Far East) Limited, an independent professional property valuer, in November 1999. These properties were appraised on the open market basis and carried in the balance sheet at market value. As a result of the appraisal, an increase in value of the Group's buildings by approximately $6,845,000 as at 31st December 1999 was credited to the revaluation reserve, together with the relevant deferred taxation impact.

As at 31st December 2003, the amount of buildings that would have been included in the financial statements had the assets been carried at cost less accumulated depreciation was approximately $277,410,000 (2002: $290,337,000).

As at 31st December 2003, net book value of approximately $156 million (2002: $164 million) of the Group's buildings were pledged as collateral to secure the Group's long-term bank loans (Note 14).

Construction-in-progress includes borrowing costs incurred in connection with the construction of certain assets. Borrowing costs capitalised as construction-in-progress amounted to approximately $2,291,000 (2002: $2,444,000) (Note 18). The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation was approximately 3.55% (2002: 3.97%).

5 LAND USE RIGHTS

	2003	2002
	$'000	$'000
Cost		
Beginning of year	**124,811**	124,811
Additions	**4,619**	—
End of year	**129,430**	124,811
Accumulated amortisation		
Beginning of year	**14,962**	12,466
Charge for the year	**2,601**	2,496
End of year	**17,563**	14,962
Net book value		
End of year	**111,867**	109,849
Beginning of year	**109,849**	112,345

Land use rights comprise land use fees paid for the rights to use the land where the Group's premises in Shanghai and Wuhan, the PRC, are located.

31st December 2003

(Amounts expressed in Hong Kong dollars unless otherwise stated)

6. INVESTMENT IN AN ASSOCIATED COMPANY

Investment in an associated company comprised:

	2003	2002
	$'000	$'000
Investment in unlisted shares, at cost (Note 30(c))	**86,473**	—
Share of loss before tax (Note 19)	**(2,130)**	—
	84,343	—

Details of the associated company are as follows:

Name	**Place of incorporation**	**Equity interest held by the Company**	**Principal activity**
PET Far Eastern Holding Limited ("PETH")	Bermuda	21.7% (directly)	Investment holding

7 DEFERRED ASSETS

Deferred assets mainly represented a non-refundable payment made to Shanghai Feng Xian Power Supply Bureau for the construction of the bureau's own facilities for the supply of electric power to FEIS, the Company's major operating subsidiary in the PRC. The facilities so constructed belonged to the bureau and would not be transferred to the Group.

	2003	2002
	$'000	$'000
Cost		
Beginning and end of year	**13,213**	13,213
Accumulated amortisation		
Beginning of year	**4,760**	3,389
Charge for the year	**1,371**	1,371
End of year	**6,131**	4,760
Net book value		
End of year	**7,082**	8,453
Beginning of year	**8,453**	9,824

The amortisation of deferred asset was included as cost of sales in the income statement.

8 CASH AND BANK DEPOSITS

	Group		**Company**	
	2003	2002	**2003**	2002
	$'000	$'000	**$'000**	$'000
Cash on hand	**272**	171	**5**	5
Short-term bank deposits	**143,060**	149,680	**25,521**	39,040
Time deposits with maturity less than 3 months	**47,580**	195,866	**47,580**	195,866
	190,912	345,717	**73,106**	234,911

31st December 2003

(Amounts expressed in Hong Kong dollars unless otherwise stated)

9 TRADE AND NOTES RECEIVABLES

	Group		Company	
	2003	2002	**2003**	2002
	$'000	$'000	**$'000**	$'000
Trade receivables				
Current to 30 days	**85,484**	65,553	**16,427**	28,668
31 to 60 days	**45,186**	33,007	**23,263**	11,076
61 to 90 days	**17,010**	45,505	**29,423**	14,241
Over 90 days	**44,530**	—	**—**	—
	192,210	144,065	**69,113**	53,985
Notes receivable	**29,553**	70,763	**—**	—
	221,763	214,828	**69,113**	53,985

Credit policy

The Group adopted a prudent approach in granting credit to customers. 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 grants 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.

10 INVENTORIES

	2003	2002
	$'000	$'000
Raw materials	**172,455**	162,895
Work-in-process	**48,291**	34,973
Finished goods	**144,747**	115,444
	365,493	313,312

As at 31st December 2003 approximately $55,944,000 (2002: nil) finished goods were carried at net realisable value.

31st December 2003

(Amounts expressed in Hong Kong dollars unless otherwise stated)

11 SHARE CAPITAL

The details of share capital are as follows:

	Number of shares		Amount	
	2003	2002	**2003**	2002
	'000	'000	**$'000**	$'000
Authorized:				
Ordinary shares of $1 each	**1,500,000**	1,500,000	**1,500,000**	1,500,000
Issued and fully paid:				
Ordinary shares of $1 each	**410,296**	410,296	**410,296**	410,296

12 TRADE, OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2003	2002	**2003**	2002
	$'000	$'000	**$'000**	$'000
Trade payables				
Current to 30 days	**105,993**	236,856	**15,323**	20,165
31 to 90 days	**167,365**	9,037	**41,910**	27,055
Over 90 days	**23,239**	46,879	**—**	—
	296,597	292,772	**57,233**	47,220
Other payables and accruals	**55,553**	86,435	**19,506**	6,757
	352,150	379,207	**76,739**	53,977

Trade payables of the Company represented payables to FEIS, a wholly-owned subsidiary, which are unsecured, non-interest bearing and payable according to the trading terms of FEIS.

31st December 2003

(Amounts expressed in Hong Kong dollars unless otherwise stated)

13 SHORT-TERM BANK LOANS

	2003 $'000	2002 $'000
Unsecured	**123,708**	179,131

The Group's short-term bank loans were granted by third party banks, bore interests at 1.63% to 1.98% (2002: 1.94% to 5.04%) per annum and were unsecured.

14 LONG-TERM BANK LOANS

	2003 $'000	2002 $'000
Secured	**168,260**	190,820
Unsecured	**350,048**	280,734
	518,308	471,554
Less: Amount repayable within one year included in current liabilities	**(94,000)**	(46,060)
	424,308	425,494

The Group's long-term bank loans were granted by third party banks, bore interests at 1.86% to 5.49% (2002: 1.89% to 5.49%) per annum and the secured portion were secured by certain of the Group's buildings (Note 4).

Repayments of long-term bank loans are scheduled as follows:

	2003 $'000	2002 $'000
Repayable in:		
2003	**—**	46,060
2004	**94,000**	94,000
2005	**424,308**	331,494
	518,308	471,554

15 DEFERRED TAX LIABILITIES

Component of deferred tax liabilities is as follows:

	2003	2002
	$'000	$'000
Effect on revaluation of property, plant and equipment	**1,200**	1,200

The Group has unrecognised tax losses of approximately $18,418,000 (2002: $13,707,000), subject to the approval of relevant tax authorities, which can be carried forward indefinitely to offset future taxable profits.

16 PROFIT FROM OPERATIONS

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

	2003	2002
	$'000	$'000
Cost of inventories	**1,898,894**	1,667,783
Staff costs	**65,640**	69,889
Depreciation on property, plant and equipment	**141,029**	134,128
Amortisation of land use rights	**2,601**	2,496
Amortisation of deferred assets	**1,371**	1,371
Operating lease rentals on property	**4,551**	2,924
Auditors' remuneration	**380**	384
Gain (Loss) on disposals of property, plant and equipment	**353**	(34)
Gain on disposal of subsidiaries	**4,347**	—

17 OTHER INCOME

Other income represented re-investment tax refund income amounting to approximately $21,456,000 arising from the direct re-investment of the Company's share in the undistributed profit of FEIS, a wholly-owned subsidiary of the Company, for the years ended 31st December 2001 and 2002 of approximately $265,200,000. According to the relevant PRC investments and tax rules and regulations, re-investment tax refund income is calculated based on the amount of enterprise income tax ("EIT") previously paid by FEIS on the re-invested portion of the undistributed profits.

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(Amounts expressed in Hong Kong dollars unless otherwise stated)

18 FINANCE COSTS

	2003	2002
	$'000	$'000
Interest expenses on borrowings wholly repayable within five years	**22,544**	24,362
Less: Amount capitalised as construction-in-progress (Note 4)	**(2,291)**	(2,444)
Interest income	**(2,879)**	(4,761)
Net foreign currency exchange gains	**(11,136)**	(2,487)
Other financial expenses	**5,361**	4,335
	11,599	19,005

19 INCOME TAX

The Company is exempted from taxation in Bermuda until 2016. No Hong Kong profits tax was provided as no assessable profits was earned in or derived from Hong Kong.

Pursuant to the relevant laws and regulations in the PRC, the Company's subsidiaries registered in the PRC are subject to PRC EIT on the taxable income as reported in their PRC statutory accounts adjusted in accordance with relevant PRC income tax laws. Furthermore, in accordance with the PRC "Law of Enterprise Income Tax for Enterprise with Foreign Investment", FEIS, the Company's major PRC subsidiary, is entitled to full exemption from EIT for the first two years and a 50% reduction in EIT for the next three years, commencing from the first profitable year after offsetting all tax losses carried forward from the previous five years. Being registered in a designated high-technology development zone in the PRC, FEIS enjoys a preferable EIT rate of 15%. 2003 is the fifth profitable year of FEIS and it is subject to EIT at a 50% reduced rate of 7.5%.

According to relevant PRC rules and regulations, being qualified as a "High-technology Enterprise" (granted by relevant local authorities on 20th December 2000), FEIS is entitled to a 50% reduced EIT rate, or subject to EIT at a rate of 10% if the reduced rate is lower than 10%, for an additional three years, after the end of the five years preferential EIT treatment as stated above. The "High-technology Enterprise" status is subject to review every year.

	2003	2002
	$'000	$'000
Current tax	**2,751**	7,282
Share of tax of an associated company	**—**	—

(Amounts expressed in Hong Kong dollars unless otherwise stated)

19 INCOME TAX (Cont'd)

A reconciliation of applicable tax rate and effective tax rate is as follows:

	2003	2002
Tax rate applicable to the Group's major subsidiary	**15.0%**	15.0%
Effect of tax holiday	**(7.5%)**	(7.5%)
Expenses not deductible for tax purposes	**2.3%**	0.6%
Effective tax rate	**9.8%**	8.1%

20 EARNINGS PER SHARE

The calculation of basic earnings per share for the year ended 31st December 2003 was based on the consolidated profit attributable to shareholders of approximately $25,388,000 (2002: $82,522,000) and on the weighted average number of 410,296,000 (2002: 410,296,000) ordinary shares in issue during 2003.

There were no potentially dilutive ordinary shares in existence during the year ended 31st December 2003.

21 PROFIT APPROPRIATION

(a) Dividend

On 14th March 2003, the Board of Directors declared a final dividend of $0.10 (2002: $0.25) per ordinary share, totalling approximately $41,030,000 (2002: $102,574,000). This dividend has been fully paid during the year ended 31st December 2003.

(b) PRC statutory reserves

PRC laws and regulations require wholly foreign owned enterprises to provide for certain statutory funds, namely, reserve fund and staff and workers' bonus and welfare fund, which are appropriated from net profit after tax (based on the entity's local statutory accounts) but before dividend distribution. FEIS is required to allocate at least 10% of its net profit after tax to the reserve fund until the balance of such fund has reached 50% of its registered capital. Appropriation to the staff and workers' bonus and welfare fund is at the discretion of Board of Directors of FEIS. The reserve fund can only be used, upon approval by the relevant authority, to offset accumulated losses or increase capital. The staff and workers' bonus and welfare fund can only be used for special bonuses or collective welfare of FEIS's employees, and assets acquired through this fund shall not be treated as FEIS's assets.

For the year ended 31st December 2003, the directors of FEIS resolved to appropriate approximately $16,276,000 (2002: $33,721,000) to the reserve fund.

31st December 2003

(Amounts expressed in Hong Kong dollars unless otherwise stated)

22 INVESTMENT IN SUBSIDIARIES

In the Company's balance sheet, investment in subsidiaries comprised:

	2003	2002
	$'000	$'000
Unlisted investment, at cost	**604,500**	624,000
Share of post-acquisition profit less dividends received	**497,973**	451,372
Share of revaluation reserve	**5,645**	—
Effect of translation of the financial statements of a subsidiary	**1,309**	(1,383)
	1,109,427	1,073,989

Details of the Company's subsidiaries are as follows:

Name	**Place of establishment/ incorporation and operation**	**Registered capital**	**Equity interest held by the Company**	**Principal activities**
FEIS (Note a)	The PRC	US$112,000,000	100% (directly)	Production and distribution of PET chips, polyester filaments and polyester staple fibers, and dyeing and finishing of polyester textile products
Shanghai Yuanzi Information Co., Ltd. 上海遠資信息技術有限公司 ("SYI") (Note b)	The PRC	Rmb2,000,000	95% (indirectly)	Provision of information technology consultancy services in the PRC
Wuhan Far Eastern Industrial Trading Co., Ltd. 武漢遠紡工貿有限公司 ("WFEIT") (Note b)	The PRC	Rmb7,000,000	95% (indirectly)	Distribution of products of FEIS

(a) FEIS was established on 25th September 1996 as a wholly foreign owned enterprise in the PRC to be operated for 50 years up to 24th September 2046. The registered capital of FEIS increased from US$78,000,000 to US$112,000,000 in 2003 as a result of capitalisation of its retained profits of US$34,000,000 (equivalent to approximately $265,200,000) (Note 17).

22 INVESTMENT IN SUBSIDIARIES (Cont'd)

(b) SYI and WFEIT were established on 15th April 2003 and 9th July 2003, respectively, as equity joint venture enterprises in the PRC to be operated for a period of 18 years up to 14th April 2021 and 50 years up to 9th July 2053, respectively (Note 30(d)).

Two wholly-owned subsidiaries, Far Eastern Info Service (Holding) Limited ("FEISH") and Far Eastern Network Info-Tech (Shanghai) Ltd. ("FENI") were disposed of during 2003 (Note 30(e)).

23 RESERVES

	Share premium $'000	Revaluation reserve $'000	Cumulative translation reserve $'000	Retained profits $'000	Total $'000
Balance as at 1st January 2002	523,001	—	(1,383)	399,397	921,015
Dividends (Note 21(a))	—	—	—	(102,574)	(102,574)
Profit for the year	—	—	—	82,522	82,522
Balance as at 31st December 2002	523,001	—	(1,383)	379,345	900,963
Dividends (Note 21(a))	—	—	—	(41,030)	(41,030)
Share of revaluation reserve of a subsidiary	—	5,645	—	—	5,645
Effect of translation of the financial statements of a subsidiary	—	—	2,692	—	2,692
Profit for the year	—	—	—	25,388	25,388
Balance as at 31st December 2003	523,001	5,645	1,309	363,703	893,658

Representing:	
2003 final dividend proposed (Note 33)	41,030
Others	322,673
Retained profits as at 31st December 2003	363,703

31st December 2003

(Amounts expressed in Hong Kong dollars unless otherwise stated)

24 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation from profit before tax to cash generated from operations

	2003	2002
	$'000	$'000
CASH FLOWS FROM OPERATING ACTIVITIES:		
Profit before tax	**28,111**	89,804
Adjustments for:		
Share of loss of an associated company	**2,130**	—
Gain on disposal of subsidiaries	**(4,347)**	—
Depreciation on property, plant and equipment	**141,029**	134,128
Amortisation of land use rights and deferred assets	**3,972**	3,867
(Gain) Loss on disposals of property, plant and equipment	**(353)**	34
Interest expenses	**20,253**	21,918
Interest income	**(2,879)**	(4,761)
Operating profit before working capital changes	**187,916**	244,990
Increase in trade and notes receivables	**(7,767)**	(73,150)
(Increase) Decrease in deposits, prepayments and other receivables	**(19,865)**	509
Increase in inventories	**(52,181)**	(75,474)
(Decrease) Increase in trade, other payables and accruals	**(16,409)**	92,980
Decrease in taxes payable	**(717)**	—
Cash generated from operations	**90,977**	189,855

(b) Disposal of subsidiaries

	2003
	$'000
Net assets disposed of:	
Fixed assets	**14,918**
Cash and bank deposits	**13,060**
Trade receivables	**832**
Trade payables	**(13,657)**
	15,153
Gain on disposal	**4,347**
Recorded as receivable from a related company (Note 30(e))	**19,500**
Net cash outflow from disposal of subsidiaries	
Cash consideration	**—**
Cash and bank deposits disposed of	**(13,060)**
Net cash outflow from disposal of subsidiaries	**(13,060)**

There was no disposal of subsidiary during the year ended 31st December 2002.

25 SEGMENTAL INFORMATION

The Company and its subsidiaries operate principally in the production and distribution of PET chips, polyester filaments and polyester staple fibers, and dyeing and finishing of polyester textile products and have four reportable segments based on the Company's four strategic business units ("SBUs"), namely the Chip SBU, the Filament SBU, the Polyester Staple Fiber SBU and the Dyeing and Finishing SBU which are managed separately.

Business segments

	Chip SBU		Filament SBU		Polyester Staple Fiber SBU		Dyeing and Finishing SBU		Consolidated	
	2003 $'000	2002 $'000	**2003 $'000**	2002 $'000	**2003 $'000**	2002 $'000	**2003 $'000**	2002 $'000	**2003 $'000**	2002 $'000
Revenue										
Turnover from external sales	**1,283,084**	1,188,476	**221,137**	199,649	**320,864**	272,194	**255,409**	249,892	**2,080,494**	1,910,211
Result										
Gross profit	**123,052**	179,105	**8,737**	12,568	**14,797**	21,979	**35,014**	28,776	**181,600**	242,428
Unallocated corporate expenses									**(161,216)**	(133,619)
Profit from operations									**20,384**	108,809
Other income									**21,456**	—
Finance costs, net									**(11,599)**	(19,005)
Share of loss of an associated company									**(2,130)**	—
Profit before tax									**28,111**	89,804
Income tax expense									**(2,751)**	(7,282)
Profit after tax									**25,360**	82,522
Minority interests									**28**	—
Profit for the year									**25,388**	82,522
Other information										
Segment assets	**794,565**	813,598	**308,971**	282,275	**266,571**	307,932	**465,356**	465,876	**1,835,463**	1,869,681
Investment in an associated company									**84,343**	—
Unallocated corporate assets									**394,761**	496,146
Total assets									**2,314,567**	2,365,827
Segment liabilities	**195,435**	248,072	**47,511**	41,590	**56,788**	44,448	**43,068**	46,112	**342,802**	380,222
Unallocated corporate liabilities									**666,522**	665,149
Total liabilities									**1,009,324**	1,045,371
Capital expenditures	**7,091**	59,572	**18,879**	2,516	**422**	6,029	**25,280**	7,150	**51,672**	75,267
Unallocated corporate capital expenditures									**27,631**	41,289
Total capital expenditures									**79,303**	116,556
Depreciation and amortisation	**54,582**	41,398	**27,236**	22,079	**16,880**	15,179	**34,028**	26,219	**132,726**	104,875
Unallocated depreciation and amortisation									**12,275**	33,120
Total depreciation and amortisation									**145,001**	137,995

31st December 2003

(Amounts expressed in Hong Kong dollars unless otherwise stated)

25 SEGMENTAL INFORMATION (Cont'd)

Geographical segments

	2003	2002
	$'000	$'000
Turnover from external sales		
PRC	1,504,063	1,388,192
Asia (excluding PRC)	59,702	104,061
Europe	368,429	314,979
Middle East	96,642	11,456
North America	47,289	90,230
Others	4,369	1,293
	2,080,494	1,910,211

Substantially all the Group's assets are located in the PRC where the Group's sole manufacturing plant is based. Capital expenditures are mainly for the Group's plant in the PRC.

26 DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

(a) Details of emoluments paid to the directors of the Company are as follows:

	2003	2002
	$'000	$'000
Fees		
— Executive directors	684	684
— Non-executive directors	480	480
	1,164	1,164
Other emoluments		
— Basic salaries and allowances	616	—
— Discretionary bonuses	—	—
	616	—
	1,780	1,164

26 DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS (Cont'd)

(a) Details of emoluments paid to the directors of the Company are as follows: (Cont'd)

The number of directors whose emoluments fall within the following band is as follows:

	2003	2002
	$'000	$'000
Nil - $1,000,000	**9**	9

For the year ended 31st December 2003, the emoluments paid to three directors were approximately $736,000, $180,000 and $144,000. The emoluments paid to the other six directors were $120,000 each.

For the year ended 31st December 2002, the emoluments paid to two directors were approximately $180,000 and $144,000. The emoluments paid to the other seven directors were $120,000 each.

No directors waived any emoluments. No incentive payment for joining the Group or compensation for loss of office was paid or payable to any directors during the year.

(b) Details of emoluments paid to the five highest paid individuals (including directors and other employees) were:

	2003	2002
	$'000	$'000
Basic salaries and allowances	**3,546**	3,179
Number of directors	**1**	—
Number of employees	**4**	5
	5	5

The annual emoluments paid during the year to all of the five highest paid individuals (including directors and other employees) fell within the band of Nil - $1,000,000.

(c) During the year, no emoluments were paid to the five highest paid individuals (including directors and employees) as an inducement to join, or upon joining the Group, or as compensation for loss of office.

27 FINANCIAL INSTRUMENTS

The carrying amounts of the Group cash and cash equivalents, trade receivables and trade payable approximate their fair values due to the short-term maturity of these instruments. As at 31st December 2003, the estimated fair values of long-term loans including current portions were approximately $518,308,000 (2002: $471,554,000) based on current market interest rates for comparable instruments.

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28 OPERATING LEASE

As at 31st December 2003, the Group had future aggregate minimum lease payments under non-cancelable operating leases for buildings as follows:

	2003	2002
	$'000	$'000
Within one year	**2,900**	3,096
2 to 5 years	**5,558**	7,291
	8,458	10,387

29 COMMITMENTS

(a) Capital commitments

As at 31st December 2003, the Group had the following capital commitments which were not provided for in the accounts:

	2003	2002
	$'000	$'000
Authorised and contracted for		
— Acquisition of property, plant and equipment	**71,753**	189,689

(b) Investment commitments

As at 31st December 2003, FEIS had investment commitments in relation to the acquisition of certain business assets (mainly consists of fixed assets used in the production of polyester polymer) of Dupont Suzhou Polyester Co., Ltd. for a consideration not exceeding $293,436,000. The aforementioned acquisition is conditional upon the fulfillment of the terms contained in the related acquisition agreement which include, amongst others, obtaining all the necessary government approvals. Subsequent to 31st December 2003, all necessary government approvals have been obtained. As at the date of this report, the Company is in the process of closing the aforementioned acquisition.

30 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

(a) Name and relationship of related parties:

Name	**Relationship**
Far Eastern Textile Limited ("FET")	Ultimate holding company of the Company
Far Eastern Investment (Holdings) Company Limited ("FEIH")	Subsidiary of FET
Ding Yuang International Investment Corporation ("DYIIC")	Subsidiary of FET
Oriental Union Chemical Corporation ("OUCC")	Associated company of FET
Far Eastern Apparel (Suzhou) Ltd. ("FEAS")	Subsidiary of FET
Far EasTone Telecommunications Co., Ltd. ("Far EasTone")	Subsidiary of FET

(b) Significant transactions with related parties for the year ended 31st December 2003 were as follows:

	2003	2002
	$'000	$'000
Technological license fee paid to FEIH	**11,674**	11,671

(c) On 7th May 2003, the Company entered into an agreement with DYIIC and OUCC to establish PETH, a company with a joint venture in the PRC to be engaged in the production of purified terephthalic acid, in which the Company owns 21.7% of the equity interest (Note 6). The agreement was approved by the Company's independent shareholders on 11th June 2003.

During the year ended 31st December 2003, the Company had contributed approximately $86,473,000 for its 21.7% equity interest.

(d) During the year ended 31st December 2003, the Group and FEAS established two joint venture companies, SYI and WFEIT, in the PRC in which the Group owns 95% of the equity interests in both companies (Note 22(b)).

During the year ended 31st December 2003, the Group injected RMB1,900,000 (equivalent to approximately $1,792,000) and RMB6,650,000 (equivalent to approximately $6,274,000) as capital contributions to SYI and WFEIT, repsectively.

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30 RELATED PARTY TRANSACTIONS (Cont'd)

(e) On 28th May 2003, the Company entered into a conditional "Share Sale and Purchase Agreement" (the "S&P Agreement") with Far EasTone to dispose of all the Company's equity interests in FEISH (together with FEISH's wholly-owned subsidiary FENI) to Far EasTone. According to the S&P Agreement, Far EasTone shall pay to the Company a consideration of $19,500,000 plus interests on the consideration calculated at 6 month London Inter-Bank Offer Rate plus 0.4% per annum (on consideration payment due date) from 15th August 2002 (date of capital injection) to the closing date of the S&P Agreement.

Since the date of the S&P Agreement, the control of the net assets and operations of FEISH has been effectively transferred to Far EasTone. Far EasTone has the power to govern the financial and operating policies of FEISH policy and profit or losses after the date of S&P Agreement will accrue to Far EasTone. In addition, the Company is being indemnified against all liabilities applicable to the operations of FEISH.

31 RETIREMENT BENEFIT

All of the full-time PRC employees of FEIS are entitled to an annual pension equal to their basic salaries at their retirement dates. The PRC government is responsible for the pension liabilities to these retired staff. FEIS is required to make annual contributions to the state-sponsored retirement plan at a rate of 22.5% of the employees' basic salaries as defined by relevant rules.

The Group provides for its Hong Kong employees a defined contribution provident fund scheme, which is managed by an independent trustee. The Group and its Hong Kong employees make monthly contributions to the fund the lower of 5% of the employees' basic salaries and $1,000. The employees are entitled to 100% of their contribution, plus the Group's contribution and the accrued interest thereon upon retirement or leaving the Group.

For the year ended 31st December 2003, the amount of retirement benefit costs charged to the income statement was approximately $4,086,000 (2002: $4,029,000).

The Group provides no further retirement nor termination benefits other than those described above.

32 BANKING FACILITIES

The Group had certain banking facilities from several banks for loans and trade financing. These facilities were guaranteed by the Company and the pledge of the Group's land and buildings, with a net book value of approximately $156 million as at 31st December 2003 (2002: $164 million) (Note 4).

As at 31st December 2003, the Group had aggregate banking facilitates as follows:

	2003	2002
	$'000	$'000
Aggregate amount of banking facilities	**2,133,680**	2,092,060
Less: Amount utilised	**(683,052)**	(653,700)
Unused facilities	**1,450,628**	1,438,360

33 SUBSEQUENT EVENT

On 10th March 2004, the board of directors declared a final dividend of $0.10 per ordinary share, totaling approximately $41,029,600.

34 COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to current year presentation.

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Far Eastern Polychem Industries Limited (the "Company") will be held at 3:00 p.m. on 25th June 2004 at Gloucester Room, 2/F, Mandarin Oriental Hotel, 5 Connaught Road Central, Hong Kong for the following purposes:

Ordinary Business

1. To receive and consider the audited financial statements of the Company and the Reports of the Directors and Auditors for the year ended 31st December 2003.

2. To re-elect Mr. Lih-Teh Chang as an Executive Director and Mr. Shaw-Y Wang as a Non-executive Director.

3. To authorise the Board of Directors to fix the remuneration of the Directors.

4. To declare a final dividend for the year ended 31st December 2003.

5. To re-appoint Auditors and to authorise the Board of Directors to fix their remuneration.

Special Business

To consider and, if thought fit, pass the following resolution as an Ordinary Resolution:

6. "**THAT**

   (a) subject to paragraph (c), the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company or securities convertible into such shares or warrants or similar rights to subscribe for any shares in the Company and to make or grant offers, agreements and options which might require the exercise of such power be and is hereby generally and unconditionally approved;

   (b) the approval in (a) shall authorise the Directors of the Company during the Relevant Period to make or grant offers, agreements and options which would or might require the exercise of such power after the end of the Relevant Period;

   (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the Directors of the Company pursuant to the approval in paragraph (a), otherwise than pursuant to the shares of the Company issued as a result of a Rights Issue (as hereinafter defined) or pursuant to the exercise of options under the Share Option Scheme or similar arrangement, or any scrip dividend or similar arrangement providing for the allotment of shares of the Company in lieu of the whole or part of the dividend on the shares of the Company in accordance with the Company's Bye-laws, shall not exceed 20 per cent. of the aggregate nominal amount of the share capital of the Company in issue as at the date of this Resolution and the said approval shall be limited accordingly; and

(d) for the purposes of this Resolution:

"Relevant Period" means the period form the passing of this Resolution until whichever is the earlier of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the Bye-laws of the Company or any applicable laws of Bermuda to be held; or

(iii) revocation or variation of the authority given under this Resolution by ordinary resolution of the shareholders of the Company in general meeting.

"Rights Issue" means an offer of shares open for a period fixed by the directors of the Company to holders of shares of the Company on the register on a fixed record date in proportion to their holdings of such shares (subject to such exclusions or other arrangements as the directors as the directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions, or obligations under the laws of, or the requirements of any recognized regulatory body or any stock exchange in any territory outside Hong Kong)."

To consider and, if thought fit, pass the following resolution as a Special Resolution:

7. "**THAT** the bye-laws of the Company be amended as follows:

(a) by inserting the following new definition of "associate" in bye-law 1:

""associate" has the meaning attributed to it in the listing rules (as the same are amended from time to time) of the Designated Stock Exchange.";

(b) by re-numbering the existing bye-law 76 as bye-law 76(1) and by inserting the following new bye-law 76(2):

"(2) Where any Member is, under the listing rules of the Designated Stock Exchange, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such Member in contravention of such requirement or restriction shall not be counted.";

(c) by deleting the words "not less than seven (7) clear days before the date appointed for the meeting" in bye-law 88 and inserting the following proviso at the end of the same bye-law:

"provided that, in each case, such Notice must be lodged no earlier than the day after the dispatch of the notice of the general meeting appointed for such election end no later than seven (7) days prior to the date of such general meeting.";

(d) by substituting the existing bye-law 102 with the following new bye-law 102:

"102. A Director who, to his knowledge, is interested or has an associate who is interested, in any way, whether directly or indirectly, in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest or the interest of his associate at the meeting of the Board at which the question of entering into the contract or arrangement is first considered, if he knows his interest or the interest of his associate then exists, or in any other case at the first meeting of the Board after he knows that he or his associate is or has become so interested. For the purposes of this Bye-law, a general Notice of the Board by a Director to the effect that:

(a) he or any of his associates is a member or officer of a specified company or firm and is to be regarded as interested in any contract or arrangement which may after the date of the Notice be made with that company or firm; or

(b) he or any of his associates is to be regarded as interested in any contract or arrangement which may after the date of the Notice be made with a specified person who is connected with him;

shall be deemed to be a sufficient declaration of interest under this Bye-law in relation to any such contract or arrangement, provided that no such Notice shall be effective unless either it is given at a meeting of the Board or the Directors takes reasonable steps to secure that it is brought up and read at the next Board meeting after it is given."

(e) by substituting the existing bye-law 103 with the following new bye-law 103:

"103. (1) A Director shall not vote (nor be counted in the quorum) on any resolution of the Board in respect approving of any contract or arrangement or any other proposal in which he or any of his associate is materially interested, but this prohibition shall not apply to any of the following matters namely:

(i) any contract or arrangement for the giving to such Director or his associate(s) any security or indemnity in respect of money lent by him or any of his associates or obligations incurred or undertaken by him or any of his associates at the request of or for the benefit of the Company or any of its subsidiaries;

(ii) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;

(iii) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;

(iv) any contract or arrangement in which he is the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company or any of its subsidiaries by virtue only of his/their interest in shares or debentures or other securities of the Company;

(v) any contract or arrangement concerning any other company in which he is the Director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or a shareholder other than a company in which the Director together with any of his associates (as defined by the rules, where applicable, of the Designated Stock Exchange) and/or his associate(s) is/are beneficially interested in five (5) per cent. or more of the issued shares or of the voting rights of any class of shares of such company (or any third company through which his interest or that of any of his associates is derived); or

(vi) any proposal concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death or disability benefits scheme or other arrangement which relates both to directors, his associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not accorded to the employees to which such scheme or fund relates.

(2) A company shall be deemed to be a company in which a Director and/or his associate(s) owns five (5) per cent. or more if and so long as (but only if and so long as) he and/or his associates (as defined by the rules, where applicable, of the Designated Stock Exchange), (either directly or indirectly) are the holders of or beneficially interested in five (5) per cent. or more of any class of the equity share capital of such company or of the voting rights available to members of such company (or of any third company through which his/their interest or that of any of his associates is derived). For the purpose of this paragraph there shall be disregarded any shares held by a Director or his associate(s) as bare or custodian trustee and in which he or any of them has no beneficial interest, any shares comprised in a trust in which the Director's interest of the Director or his associate(s) is/are in reversion or remainder if and so long as some other person is entitled to receive the income thereof, and any shares comprised in an authorised unit trust scheme in which the Director is interested only as a unit holder and any shares which carry no voting right at general meetings and very restrictive dividend and return of capital right.

(3) Where a company in which a Director together with and/or his associate(s) (as defined by the rules, where applicable, of the Designated Stock Exchange) holds five (5) per cent. or more is/are materially interested in a transaction, then that Director and/or his associate(s) shall also be deemed materially interested in such transaction.

(4) If any question shall arise at any meeting of the Board as to the materiality of the interest of a Director (other than the chairman of the meeting) or his associate(s) or as to the entitlement of any Director (other than such chairman) to vote and such question is not resolved by his voluntarily agreeing to abstain from voting, such question shall be referred to the chairman of the meeting and his ruling in relation to such other Director shall be final and conclusive except in a case where the nature or extent of the interest of the Director and/or his associate(s) concerned as known to such Director has not been fairly disclosed to the Board. If any question as aforesaid shall arise in respect of the chairman of the meeting such question shall be decided by a resolution of the Board (for which purpose such chairman shall not vote thereon) and such resolution shall be final and conclusive except in a case where the nature or extent of the interest of such chairman as known to such chairman has not been fairly disclosed to the Board." ;

and that the Directors of the Company be and are hereby authorised generally to do all such acts, deeds and things as they shall, in their absolute discretion, deem appropriate or necessary to effect, implement and complete any of the foregoing."

By Order of the Board
Wai-Kit Kong
Secretary

26th March 2004
Hong Kong

Principal office:
Unit A, 11th Floor
Lippo Leighton Tower,
103-109 Leighton Road
Causeway Bay
Hong Kong

Notes:

1. A member entitled to attend and vote at the meeting convened by the above notice entitled to appoint not more than two proxies to attend and vote in his stead. A proxy need not be a member of the Company.

2. To be valid, this form of proxy, together with the power of attorney or other Authority (if any) under which it is signed or a notarially certified copy of that power of attorney of other authority, must be deposited at the principal office of the Company at Unit A, 11th Floor, Lippo Leighton Tower, 103-109 Leighton Road, Causeway Bay, Hong Kong not less than 48 hours before the time appointed for holding the said meeting.

3. A form of proxy for the meeting will be enclosed with the annual report.

4. The register of members of the Company will be closed from 18th June 2004 to 25th June 2004, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the final dividend payable on 2nd July 2004 to be approved at the meeting and the right to attend and vote at the meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's Share Registrar in Hong Kong, Computershare Hong Kong Investor Services Limited Room 1901-5, 19th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:00 p.m. on 17th June 2004.

5. The biographical details of Mr. Lih-Teh Chang and Mr. Shaw-Y Wang, the Directors who offer themselves for re-election, are provialed in the section headed "Management Profile" in the annual report.

6. With reference to the Ordinary Resolution sought in item 6 of this notice, the Directors wish to state that they have no immediate plans to issue any new shares of the Company.

7. In order to make the Company's bye-laws consistent with the amended Appendix 3 of the Rules Governing the Listing of Securities on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Listing Rules"), a resolution to amend the Company's bye-laws is proposed. The background for the proposed amendments to the following bye-laws is set out below:

(a) bye-law 1	To define "associate" in accordance with the Listing Rules.
(b) bye-law 76	To reflect the restriction on voting by members as required by the amended Appendix 3 of the Listing Rules.
(c) bye-law 88	To be consistent with the provisions of the amended Appendix 3 of the Listing Rules which requires that the period for lodgement of notices to the Company of the intention to propose a person for election as a Director should commence no earlier than the day after the despatch of the notice of the meeting appointed for such election and end no later than 7 days prior to the date of such meeting.
(d) bye-law 102	To be consistent with the proposed amendment to bye-law 103, referred to below. A Director would be required to declare the interests, if any, of his associates (as well as his own interests) in any proposed contract or arrangement with the Company.
(e) bye-law 103	To be consistent with the provisions of the amended Appendix 3 of the Listing Rules so that subject to certain exceptions, a Director is not allowed to vote on any resolution of the Board approving any contract or arrangement or any other proposal in which he or any of his associates has a material interest nor shall he be counted in the quorum present at the meeting.

8. Pursuant to bye-law 66 of the Company, a resolution put to the vote of a meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded;

   (a) by the chairman of such meeting; or

   (b) by at least three members present in person (or in the case of a member being a corporation by its duly authorised representative) or by proxy for the time being entitled to vote at the meeting; or

   (c) by a member or members present in person (or in the case of a member being a corporation by its duly authorised representative) or by proxy and representing not less than one-tenth of the total voting rights of all members having the right to vote at the meeting; or

   (d) by a member of members present in person (or in the case of a member being a corporation by its duly authorised representative) or by proxy and holdings shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all shares conferring that right.

   A demand by a person as proxy for a member or in the case of a member being a corporation by its duly authorised representative shall be deemed to be the same as a demand by a member.