Far Eastern
Polychem
Industries
Limited

ANNUAL REPORT 2001

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

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

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

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.

CONTENT

CORPORATE INFORMATION

01

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, Dominic
Ying-Ho WONG, Kennedy
Shih-Hung CHAN

QUALIFIED ACCOUNTANT

Shun-Fai LIU, *AHKSA, FCCA*

COMPANY SECRETARY

Shun-Fai LIU, *AHKSA, FCCA*

AUTHORIZED REPRESENTATIVES

Chin-Sen TU
Shun-Fai LIU, *AHKSA, FCCA*

SPONSOR

The Hongkong and Shanghai Banking Corporation Limited
Level 15
1 Queen's Road Central
Hong Kong

AUDITORS

Arthur Andersen & Co.
Certified Public Accountants
21st Floor, Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

SOLICITORS

Hong Kong:
Richards Butler
20/F, Alexandra House
Chater Road Central
Hong Kong

Bermuda:
Conyers Dill & Pearman
3408, Two Exchange Square
8 Connaught Place
Central
Hong Kong

PRINCIPAL BANKERS

Citibank N.A.,Shanghai Branch
Bank of Communications, Shanghai Branch
Bank of Shanghai, Pudong Branch
The Hongkong and Shanghai Banking Corporation Limited
Far Eastern International Bank, International Banking Department

SHARE REGISTRARS

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Hong Kong

REGISTERED OFFICE

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Hamilton HM11
Bermuda

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Pudong, Shanghai
The People's Republic of China

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E-mail:	fepi@netvigator.com

PLACE AND DATE OF LISTING, NAME AND CODE OF ITS STOCKS

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

Listing Date:	31st January, 2000
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 Exchange: http://www.hkgem.com.

Far Eastern Polychem Industries Limited (the "Company") and its subsidiary (together the "Group") is 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, which 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 Group's only operating company, 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 the largest bottle-grade PET chip producer and a major polyester filament producer in the PRC. As proof of its high standards, the Group is the larger of the two producers that have obtained approval to supply bottle-grade PET chips in the PRC for the production of bottles for Coca-Cola China Limited.

As at 31st December, 2001, the Group had a total of 1,636 employees.

The following table sets forth 2001 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 2001 net sales	Typical uses
PET chips	69	Used mainly in the manufacturing of carbonated soft drink bottles
Polyester filaments	13	Used in the production of yarn and woven fabrics for further processing into apparel, especially shirts and dresses
Polyester staple fibers	3	Used in fibre-fill for pillows, carpeting, insulation, toys, upholstery, sleeping bags, sport shoes and diapers
Finished fabrics	15	Used in the manufacturing of apparel
	100	

FINANCIAL SUMMARY

CONSOLIDATED PROFIT AND LOSS ACCOUNTS

	Year ended 31st December,				
	2001	2000	1999	1998	1997
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Turnover	**1,474,062**	1,298,649	1,035,001	29,230	—
Profit (loss) from operations	**232,282**	241,793	167,087	(30,601)	(10,059)
Financial expense, net	**(8,804)**	(21,655)	(43,701)	6,881	(416)
Profit (loss) before taxation	**223,478**	220,138	123,386	(23,720)	(10,475)
Taxation	**(18,228)**	—	—	—	—
Profit (Loss) attributable to shareholders	**205,250**	220,138	123,386	(23,720)	(10,475)
Earnings (Loss) per share (in HK$)					
- Basic	**0.50**	0.55	0.39	(0.07)	(0.04)
- Diluted	**N/A**	N/A	N/A	N/A	N/A
Dividends per share (in HK$)	**0.25**	0.28	—	—	—

CONSOLIDATED BALANCE SHEETS

	As at 31st December,				
	2001	2000	1999	1998	1997
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Fixed assets	**1,448,851**	1,271,145	1,203,055	1,134,930	357,050
Deferred assets	**9,824**	9,524	10,680	11,613	—
Other long-term assets	**3,064**	1,684	1,814	2,371	3,307
Current assets	**797,134**	748,223	475,370	695,976	409,015
Current liabilities	**(549,512)**	(403,566)	(476,507)	(335,089)	(169,189)
Net current assets (liabilities)	**247,622**	344,657	(1,137)	360,887	239,826
Total assets less current liabilities	**1,709,361**	1,627,010	1,214,412	1,509,801	600,183
Loans from related companies	**—**	—	(225,931)	(211,849)	(208,049)
Loans from shareholding companies	**—**	—	(85,470)	(85,250)	(85,250)
Long-term bank loans	**(367,653)**	(385,358)	(488,146)	(929,587)	—
Deferred taxation	**(1,200)**	(1,200)	(1,200)	—	—
Net assets	**1,340,508**	1,240,452	413,665	283,115	306,884
Share capital	**410,296**	410,296	6,302	6,302	6,302
Reserves	**583,464**	541,233	318,471	311,307	311,356
Retained profit (Accumulated losses)	**346,748**	288,923	88,892	(34,494)	(10,774)
Shareholders' funds	**1,340,508**	1,240,452	413,665	283,115	306,884

CHAIRMAN'S STATEMENT

It is my pleasure to present you the audited financial statements of the Group for the year ended 31st December, 2001.

OPERATING RESULTS

Amidst the Group's turbulent operating environment, we were able to achieve satisfactory results for the year 2001. The Group achieved a total turnover of approximately HK$1,474 million for the year ended 31st December, 2001, an increase of 13% as compared to the year ended 31st December, 2000. Gross profit was approximately HK$311 million and audited profit attributable to shareholders amounted to approximately HK$205 million, representing an increase of 7% and a decrease of 7%, respectively as compared to the year ended 31st December, 2000. Earnings per share in 2001 amounted to HK$0.50.

DIVIDENDS

In view of the satisfactory operating performance, the Directors will recommend a final dividend of HK$0.25 per ordinary Share at the forthcoming Annual General Meeting.

MARKET OVERVIEW

Gloomy economic conditions worldwide with the exception of China

The global economy experienced decline for the second consecutive year in 2001 despite an almost unprecedented level of easing in monetary policy by the United States Federal Reserve. Corporate earnings have plunged. Terrorist attacks in the United States that claimed the lives of thousands of people shattered consumers' confidence. The global economic environment was looking decidedly grim, and growth forecasts for corporate earnings were contracting.

Nevertheless, the present and the future look rosy in China. The successful bidding of the Beijing Olympic games 2008, Shanghai being the host of the Asia Pacific Economic Conference ("APEC") and the entry into the World Trade Organization ("WTO") all helped fuel momentum to the growing China economy. China's economy grew at a rate of 7.3% during 2001, which was mainly due to the increase in domestic demand.

Crude oil prices decline in 2001

As the Group, being a petrochemical products producer, uses petroleum derived products, purified terephthalic acid ("PTA") and mono ethylene glycol ("MEG") as its core raw materials, major fluctuations in crude oil prices may, although not always, affect the Group's profitability. After significant price hikes during 1999 and 2000, the crude oil prices remained stable throughout 2001. Crude oil traded at below US$22 per barrel for most of 2001, despite the target range of US$22 to US$28 per barrel set out by the Organization of Petroleum Exporting Countries ("OPEC") in early 2001, and is currently trading at around US$13 per barrel. The Directors believe that crude oil prices will continue to decline in 2002 due to a reduction in demand, a weak global economy and an increase in supply from non-OPEC countries. The continuing decline in crude oil prices, and hence, the costs of PTA and MEG, will be one of the main contributing factor to the Group's profitability during 2002.

MARKET OVERVIEW (Cont'd)

PET resins market experienced great changes during 2001

The polyester market, and in particular, the PET resins market, experienced great changes in 2001. In recent years, the domestic demand for polyester products in the PRC outstripped its domestic production capacity. The shortage had to be satisfied by imports. Generally, it was an import-oriented, sellers' market. Starting from the second quarter of 2001, the domestic demand of polyester products was largely satisfied due to the substantial growth in domestic production capacity. The Directors believe that in year 2002, the polyester market in the PRC will shift to an export-oriented, buyers' market. Facing such tough changes, the management is committed to re-positioning and re-orienting the Group to enhance its competitiveness. The Group will pay special attention in customers' relationship management and research and development.

OPERATIONAL REVIEW

The Group maintained a high level of operational efficiency

During 2001, the Group maintained a high level of operating efficiency and a stable operation with no major overhauls. Both the Chip strategic business unit ("SBU") and the Filament SBU achieved 100% of their rated capacity. While the newly constructed polyester staple fiber SBU achieved an admirable 75% of its rated capacity, the Dyeing and Finishing SBU only achieved 60% of its rated capacity due to adverse market conditions. The following is a summary of the Group's production volume in 2001:

	For the year ended 31st December		Percentage increase (decrease)
	2001	2000	(%)
PET chips (tonnes)	**134,018**	104,700	29
Polyester filaments (tonnes)	**21,930**	28,510	(22)
Polyester staple fibers (tonnes)	**9,050**	N/A	N/A
Finished fabrics (yards)	**31 million**	35 million	(29)

Existing capital expansion projects completed on schedule

In 2001, the Group's capital expansion plan progressed smoothly and all projects were carried out on schedule. The multifunctional polyester staple-fiber plant with an annual production capacity exceeding 41,400 metric tonnes commenced operation in September. The construction of an additional polymerization facility designed for non-textile or industrial-use PET chips was also completed at the same time. Meanwhile, the construction of a PET preform plant, with an annual capacity of 500 million pieces or a capacity equivalent to 4 to 6 PET sheet lines, should be completed on schedule in April 2002.

OPERATIONAL REVIEW (Cont'd)

Cost controls

Despite the Group's continuing efforts in applying stringent cost controls, its distribution costs and administrative costs increased substantially in 2001. These were due to two major factors: (1) additional staff supporting costs were incurred during the construction of a new polyester staple fiber plant and additional polymerization facility; and (2) a shift in the PRC PET resin market from seller-oriented mode to buyer-oriented mode that led to a substantial increase in transportation and freight costs. Nevertheless, in view of the tough challenges ahead, the Directors are committed to continuing the Group's stringent cost control policies. In order to achieve this, the Group aims to (1) continue streamlining its operations; (2) increase the efficiency of its employees; (3) actively manage its relationships with major suppliers to reduce stock carrying costs and raw materials costs; and (4) as the Group is located in Shanghai, set up a more penetrative distribution network in the northern, southern and western part of China as an effort to minimize sales transportation costs.

FUTURE PROSPECTS

The Directors believe that the adjustment cycle for polyester products has just started, and will continue in the near future. While the Directors believe that the demand for PET resins will still achieve double-digit growth in 2002, the selling prices will continue to decline amidst the significant increase in production capacities in China. The Group is expected to experience a significant margin squeeze, in particular, during the second half of 2002. The squeeze, however, will be mitigated by the lowering of its feedstock costs due to the decline in import tariffs, stable crude oil prices and the continuing under-utilization of the Global PTA and MEG production capacities. Nevertheless, it will be a very challenging year for the Group and its management.

Facing such adverse market conditions, the Directors believe that the Group should pay special attention to customers' relationships, research and development and to achieve an optimal product mix so as to maximize profits.

Customer relationship management

As a leading producer of bottle-grade PET chips in the PRC, the Group offered premium quality products to its customers. However, amidst intense competition from local manufacturers, quality alone may not be enough. In order to differentiate itself from other competitors, the Group is committed to strengthening its after-sales and general customer services by reinforcing its after-sales service team. This team will pay visits to customers on a regular basis to offer technical advice on the Group's products, to obtain feedback on product quality and to understand customers' needs. Moreover, in order to shorten its delivery lead-time, warehouses will be set up in the northern (Tianjin), southern (Dongguang) and western (Wuhan) parts of China. Through adopting such measures, the Directors believe that the Group can serve its customers better and therefore increase its competitiveness in the market.

FUTURE PROSPECTS (Cont'd)

Research and development

Another potential area for improvement is the Group's research and development of polyester products. It is of special importance since the Directors believe that the cycle for the existing applications of PET resins in the PRC has already passed its peak. The only way to sustain growth in the future is to develop new applications for PET resins. Currently, the most common applications for PET resins are water, hot-filled and carbonated bottles. Moreover, the applications of PET resins on jams, jellies, baby food, milk, dairy products and beer are about to start, and the Directors believe that the development of PET resins on such applications will enable the Group to maintain long-term competitiveness in the PRC.

Previously, the Group did not have its own research and development team, and obtained its technology from Far Eastern Investment (Holding) Limited, a subsidiary of Far Eastern Textile Limited, through a technological licensing agreement. By setting up its own research and development team, the Directors believe that it will enable the Group to develop products that will meet the specific needs of the PRC customers.

Diversification and differentiation of products

In recent years, more than two-thirds of the Group's sales were derived from the Chip SBU. Since each polyester product has its own cycle and trend, product diversification enables the Group to manage its business risks effectively. New products, such as non-textile use polyester staple fibers and PET sheets, together with existing products such as polyester filaments, are currently bottoming out. The Directors expect improvements in the performance of these products in the near future.

In addition, the Group will continue to focus on high value-added, high gross margin, specialty polyester products, the prices of these products are comparatively inelastic. Polyester chips used in carbonated and hot-filled bottles, sea-island filaments and conjugate fibers will be the main focus of our Chip SBU,Filament SBU and Polyester Staple Fiber SBU, respectively. The Directors believe that, through diversification and differentiation of products, the Group has the ability to mitigate the effects of adverse market conditions.

Moreover, whereas in previous years, less than 20% of the Group's sales comprised export sales, the Directors expect an increase in export sales to over 30% in 2002 due to the shift of the PRC polyester market from an import-oriented mode to an export-oriented one.

China's World Trade Organization ("WTO") accession will bring opportunities to the Group

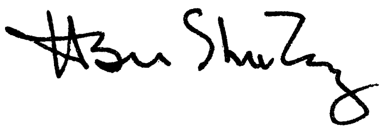
After 15 years, China was finally admitted to the WTO. Facing challenges ahead, the Group is well positioned to meet more intense competition in both domestic and foreign markets. With its high-quality polyester products, the Group will be able to compete with most foreign imports. Coupled with the fact that the import tariffs will be lowered to below 10% in the next few years, and the closure of inefficient small-scaled manufacturers, the Directors are highly confident that China's accession to the WTO will create immense opportunities for the Group as a result.

FUTURE PROSPECTS (Cont'd)

Concluding remarks

2001 was a "roller coaster" for the PRC polyester industry, in particular, the PET resins market. In the second quarter, prices for PET resins skyrocketed to over RMB9,000 per metric tonne. Subsequently, the adjustment process began during the fourth quarter and prices declined to around RMB6,000 per metric tonne. The globalization of the world economy and China's accession to the WTO will increase the volatility of the PRC polyester market. Year 2002 will continue to be a very challenging year for the Group. It is only under adverse conditions that well run companies are differentiated from poorly run companies. Given the quality of its management, I believe that the Group will weather the storm come out stronger.

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
18th March, 2002

BUSINESS ENVIRONMENT

In 2001, the world economy was adversely affected by several factors, most notably the global economy slowdown and the terrorist attacks in the United States. Although the PRC economy seemed to be unaffected by such factors to record a 7.3% growth, mainly due to an admirable growth in domestic demand, in 2001, the export sector has been hit hard during the fourth quarter of 2001. The decrease in export sales affected several industries in the PRC severely, including the textile industry.

Driven by the increase in domestic demand, the annual demand for PET resins in the PRC increased from approximately 360,000 metric tonnes in 2000 to around 500,000 metric tonnes in 2001. The Directors expect that annual demand will grow to approximately 600,000 metric tonnes in 2002. However, domestic production capacities increased at a greater rate during 2001, and should the current trend continue, domestic supply will surpass domestic demand in 2002. In other words, for PET resins, the domestic demand will not outstrip the domestic supply.

Crude oil prices remained stable in 2001, trading within the range of US$13 per barrel to US$21 per barrel, but mostly below US$22 per barrel. The stability in crude oil prices, coupled with the fact that most global facilities producing PTA and MEG, the Group's major raw materials, remained underutilized, the prices of PTA and MEG declined gradually from US$570 per metric tonne and US$520 per metric tonne, respectively during the first quarter of 2001 to below US$400 per metric tonne during the fourth quarter of 2001. The gradual decline in feedstock costs mitigated the effect of a significant decline in selling prices of PET resins, the Group's major product line during 2001.

RESULTS OF OPERATIONS

1. Turnover

Net sales for PET resins increased 19% from HK$856 million in 2000 to HK$1,015 million in 2001. This was mainly attributable to an increase in sales volume of PET resins from approximately 103,000 metric tonnes in 2000 to approximately 135,000 metric tonnes in 2001. Such increase in sales volume was mainly due to an increase in PET resins production capacities and a better utilization of the Group's production facilities. On the other hand, the average selling prices for PET resins declined by 10% during 2001, which was mainly due to an increase in production capacities in the PRC.

Net sales for filaments declined 33% from HK$291 million in 2000 to HK$194 million in 2001. As the PRC polyester filament market was undergoing a consolidation process, the decrease was mainly attributable to the decline in average selling prices for polyester filament products by 16% during 2001. The sales volume in 2001 was comparable to that of 2000.

Net sales of finished fabrics increased 50% from HK$151 million in 2000 to HK$227 million in 2001. This is mainly due to a change in mode of operations from sub-processing to purchase-and-sale for the finished fabrics SBU during 2000, which allowed the Group to receive the full selling prices instead of a sub-processing fee from customers.

RESULTS OF OPERATIONS (Cont'd)

2. Cost of sales

The Group's cost of sales was mainly affected by the costs of PTA and MEG, which declined gradually by 11% and 22% respectively in 2001. However, due to an increase in production volume, in particular, PET resins, the Group's cost of sales increased 15% from HK$1,008 million in 2000 to HK$1,163 million in 2001. Although the Group maintained its gross profit rate of 21% in 2001, as compared to 22% in 2000, all SBUs experienced margin squeeze during the fourth quarter of 2001 due to the continuing decline in the products' average selling prices, the rates of which exceed the decline in feedstock costs.

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

The Group's distribution costs increased significantly by 148% from HK$18 million in 2000 to HK$44 million in 2001. As the imbalance of supply and demand of PET resin in the PRC was gradually eradicated during 2001, the market shifted from a seller-oriented mode to a buyer-oriented mode. As a result, the Group has to bear more sales transportation and freight costs. In addition, the increase in export sales had led to a substantial increase in freight costs and other handling charges. The Group's administrative costs also increased by 23% from HK$34 million in 2000 to HK$41 million in 2001. This was mainly due to the additional staff supporting costs incurred during the construction of a new polyester staple fiber plant and additional polymerization facilities during 2001. Such costs were of an one-off nature, and were not expected to recur in 2002.

The decrease in net financial expenses was due to a significant decrease in interest rates and more interest being capitalized as construction-in-progress during the year. As a result, net financial expenses decreased by 59% from HK$22 million in 2000 to HK$9 million in 2001.

4. Profit before taxation

Profit before taxation increased slightly by 1.5% from HK$220 million in 2000 to HK$223 million in 2001.

5. Taxation

This is the Group's third profit-making year, and therefore, the Group is now enjoying a 50% reduction in enterprise income tax. A provision of HK$18 million (approximately 7.5% of the Group's profit before taxation) of enterprises income tax was made during 2001.

6. Profit attributable to shareholders

The Group's profit attributable to shareholders declined 7% from HK$220 million in 2000 to HK$205 million in 2001. Net profit margin rate decreased from 17% in 2000 to 14% in 2001 due to: (1) a decrease in average selling prices and gross profit rates of the Group's products; (2) an increase in distribution costs and administrative expenses and; (3) a provision for taxes of 7.5% of Far Eastern Industries (Shanghai) Limited's profit before taxation that only started in 2001.

GROUP LIQUIDITY AND FINANCIAL RESOURCES

1. Cash and cash equivalents

As at 31st December, 2001, the Group's cash and cash equivalents amounted to approximately HK$348 million (compared to HK$358 million in 2000) and of which 75% were denominated in United States dollars, 23% were denominated in Renminbi and 2% were denominated in Euros.

2. Cash flows

Cash generated from operations increased from HK$287 million in 2000 to HK$357 million in 2001. This was mainly attributable to the Group's increase in sales and faster settlement of debtors. On the other hand, inventory levels increased from HK$165 million as at 31st December, 2000 to HK$237 million as at 31st December, 2001. The increase was mainly due to the polyester staple fibers being produced from the newly completed polyester staple fiber plant during fourth quarter of 2001.

Net cash used in investment activities increased from HK$152 million in 2000 to HK$274 million in 2001. The increase was mainly due to the construction of the new polyester staple fiber plant and the related polymerization facility during 2001.

In 2001, approximately HK$70 million new short-term bank loans were obtained for operational purposes, while approximately HK$18 million long-term bank loans were repaid. Dividends that amounting to HK$114 million were also paid during 2001.

3. Borrowings

As at 31st December, 2001, the Group's borrowings amounted to approximately HK$607 million (compared to HK$555 million in 2000). Approximately 63% of the Group's borrowings were denominated in Renminbi, 35% in Hong Kong dollars and 2% in United States dollars. Approximately 65% of the Group's total borrowings are at fixed rates.

As at 31st December, 2001, the net debt to equity ratio was approximately 19% (compared to 16% in 2000). Gross debt to equity ratio was approximately 45% (compared to 45% in 2000). Earnings before interest, taxation, depreciation and amortization covered the gross interest expense for the year by 9.8 times (compared to 9.0 times in 2000).

The Group's capital expenditure for the year amounted to HK$267 million (compared to HK$175 million in 2000), which was funded primarily by proceeds raised during the listing of the Company on GEM and to the extent required, by borrowings and internally generated cash. The capital expenditure during 2001 was mainly incurred in the construction of the polyester staple fiber plant and related polymerization facility.

Capital expenditure in 2002 is expected to be approximately HK$102 million, and is expected to be incurred principally on completion of the PET preform plant, with an annual capacity of 500 million pieces or a capacity equivalent to 4 to 6 PET sheet lines and other ancilliary facilities for the Filament SBU. The expenditure should be satisfied primarily by remaining proceeds raised during the listing of the Company on GEM and internally generated cash.

GROUP LIQUIDITY AND FINANCIAL RESOURCES (Cont'd)

Committed borrowing facilities that are available to the Group companies, but not drawn as at 31st December, 2001, amounted to HK$1,319 million (compared to HK$628 million in 2000).

TREASURY POLICIES AND CAPITAL STRUCTURE

The Group's overall treasury and funding policies are prudent, with a focus on risk management, and those transactions which are directly related to the underlying business of the Group. Assets which are denominated in currencies other than Hong Kong and United States dollars, in particular, Renminbi assets, are hedged with the appropriate level of borrowings in Renminbi and bank deposits in United States dollars. When necessary, forward exchange contracts will be used to hedge against foreign currency exposures. As at 31st December, 2001, the Group has no significant exposure under foreign exchange contracts.

EXECUTIVE DIRECTORS

Shu-Tong HSU, aged 60, is the Chairman of the Company. He has been serving as 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 and Asia Cement Corporation. 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 30 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 is a brother-in-law of Mr. Jar-yi Shih.

Jar-Yi SHIH, aged 55, is the Deputy Chairman of the Company. He has been serving as 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 the Chairman of Everest Textile Co., Ltd. ("Everest Textile") (which had an interest in the share capital of the Company). 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 27 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 54, is the Chief Financial Officer of the Group. He has been serving as 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 27 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 62, is the Chief Executive Officer of the Group and the General Manager of FEIS. He joined the Group 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 31 years' experience in management of chemical fibre production. Mr. Chang received a Bachelor's Degree in Chemical Engineering from Chung Yuen University in Taiwan.

Chin-Sen TU, aged 54, is the Chief Accountant and Compliance Officer of the Group. He has been serving as Director since 1995. Mr. Tu is currently a director and the executive vice president of the accounting department of FET. Mr. Tu joined the Far Eastern Group in 1973 and has been an executive officer since 1989. He has more than 27 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-Yi WANG, aged 62, has been serving as 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 37 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 55, is a non-executive director and the vice chairman of Playmates Toys Holdings Limited and Prestige Properties Holding 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 had served two terms on the Central Policy Unit of the Hong Kong Government. He also serves as a trustee of Shaw College of The Chinese University of Hong Kong.

Ying-Ho WONG, Kennedy, aged 38, 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 vice chairman of Shanghai Grand Sunfire Property Development Company Limited, the executive deputy chairman of Raymond Industrial Limited and a director of Hong Kong Great Wall Electronic International Limited and Hong Kong Coastal Realty Group Limited. He is also a director of a number of companies with investments in the PRC.

Shih-Hung CHAN, aged 58, 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 had also served as consultants to various industrial corporations, including Kohler Corporation and Eaton Corporation, and as advisor to the Council for Economic Planning and Development of Taiwan.

SENIOR MANAGEMENT

Guangrong CHEN, aged 54, 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 deputy general manager of FEIS in June 1997, and was in charge of the construction of the Pudong Complex. He graduated from the mechanical engineering faculty of the Datong Industrial College in Taiwan in 1970 and has over 29 years' experience in mechanical engineering.

Ming-Teh CHU, aged 55, is a deputy general manager of FEIS. He joined the Far Eastern Group in 1972 and previously held the posts of marketing manager and senior vice president in the textile department of FET. Mr. Chu joined the Group in 2001 as deputy general manager. He graduated from National Taipei University of Technology and has over 30 years' experience in the marketing of fiber and textile products.

Jia-Nian HWANG, aged 51, is a deputy general manager of FEIS. He joined the Far Eastern Group in 1974 and previously held the posts of senior vice president and general manager in the chemical fibre plant and bottling plant of FET. Mr. Hwang joined the Group as deputy general manager of FEIS in 2001. He graduated from National Taipei University of Technology and has over 26 years' experience in the production of chemical fiber products.

Shun-Fai LIU, aged 31, is the qualified accountant and company secretary of the Company. Prior to joining the Company in 1999, he worked in the Hong Kong and Shenzhen offices of Arthur Andersen & Co. Mr. Liu graduated from the Chinese University of Hong Kong with Bachelor's and Master's degrees in business administration and is an associate member of the Hong Kong Society of Accountants and a fellow member of the Chartered Association of Certified Accountants in the United Kingdom, respectively. He has over nine years' experience in accounting and auditing.

Chen-Yu CHENG, aged 45, is the deputy company secretary of the Company. He joined the Far Eastern Group in 1980 and the Group in 1996. He graduated from the National Chung Hsing University in Taiwan. He currently also holds the posts of vice president of the legal department and vice president of the office of the chairman of the Far Eastern Group. He has over 21 years' experience in corporate legal work.

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 subsidiary (together the "Group") for the year ended 31st December, 2001.

PRINCIPAL ACTIVITIES

The Company is principally engaged in the trading of polyester products produced by its subsidiary located in the PRC. Its subsidiary is principally engaged in the production and distribution of polyester products in the PRC.

SEGMENTAL INFORMATION

The Group's turnover, gross profit and operating results for the year ended 31st December, 2001 are analyzed as follows:

a. By Product Range

	Turnover $'000	Operating results $'000
PET chips	1,015,749	281,099
Polyester filaments	193,776	9,726
Finished fabrics	226,816	16,806
Polyester staple fiber	37,721	2,982
	1,474,062	310,613
Finance cost, other operating expenses, distribution costs and administrative expenses		(87,135)
Profit before tax		223,478

b. By geographical locations*

	Turnover	Contribution to gross profit
PRC	1,223,495	257,814
Overseas		
Asia (excluding PRC)	45,415	9,570
Europe	125,700	26,487
Middle East	66,671	14,049
United States of America	12,781	2,693
	1,474,062	310,613

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

CUSTOMERS AND SUPPLIERS

For the year ended 31st December, 2001, the five largest customers of the Group accounted for approximately 60% of the Group's total sales and the five largest suppliers accounted for approximately 84% of the Group's total purchase. In addition, the largest customer accounted for approximately 31% of the Group's turnover and the largest supplier accounted for approximately 49% of the Group's purchase.

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, 2001 are set out in the consolidated income statement on page 33 of this annual report.

No interim dividend was recommended by the Board of Directors. The Board of Directors recommends a final dividend of $0.25 per share for the year ended 31st December, 2001.

SHARE CAPITAL

Details of the share capital of the Company are set out in Note 16 to the accompanying financial statements.

RESERVES AND RETAINED PROFIT

Details of the Group's movements in the reserves and retained profit during the year 2001 are set out in the consolidated statements of changes in equity on page 34 of this annual report.

Details of the Company's movements in the reserves and retained profit during the year 2001 are set out in Note 17 to the accompanying financial statements.

As at 31st December, 2001, the Company's retained profits of HK$399,397,000 were available for distribution.

PURCHASE, SALE OR REDEMPTION OF SHARES AND WARRANTS

Neither the Company nor its subsidiary has purchased, sold or redeemed any of the Company's listed shares or warrants during the year ended 31st December, 2001 and up to the date of this report.

PRE-EMPTIVE RIGHTS

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

SUBSIDIARY

Particulars of the Company's subsidiary are set out in Note 26 to the accompanying financial statements.

INTEREST CAPITALIZED

Details of the interest capitalized during the year 2001 are set out in Notes 8 and 22 to the accompanying financial statements.

FIXED ASSETS

Details of movements in fixed assets during the year 2001 are set out in Note 8 to the accompanying financial statements.

BANK LOANS

Particulars of bank loans as at 31st December, 2001 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 34 to the accompanying financial statements.

CONTINUING CONNECTED TRANSACTIONS

During 2001, the Group was a party to the following continuing connected transactions:

(1) The Group performed the dyeing and finishing of yarn and unfinished fabrics for Everest Textile (HK), a subsidiary of Everest Textile (a substantial shareholder and an initial management shareholder of the Company as defined in the GEM Listing Rules). For this service, Everest Textile (HK) was invoiced intermittently, on normal commercial terms, based on terms that would otherwise apply to independent third parties entering into similar transactions with the Group. The amount received by the Group from Everest Textile (HK) for the year ended 31st December, 2001 was approximately HK$22,250,000 (for the year ended 31st December, 2000 - HK$87,362,000).

The Group discontinued the processing of fabrics for Everest Textile (H.K.) Company Limited during 2001.

CONTINUING CONNECTED TRANSACTIONS (Cont'd)

(2) Far Eastern Investment (Holding) Limited ("FEIH") and Far Eastern Industries (Shanghai) Ltd. ("FEIS") entered into a Technological License Agreement on 11th January, 2000, pursuant to which FEIH 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 but 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 agreed to procure Far Eastern Textile Limited ("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, subject to the cap referred to below. The amount payable by FEIS to FEIH for the year ended 31st December, 2001 was approximately HK$11,413,000 (for the year ended 31st December, 2000 - HK$10,144,000). For the three years ending 31st December, 2004, the annual amount payable by FEIS pursuant to the agreement has 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.

The independent non-executive directors of the Company have reviewed the above transactions and confirmed that the above transactions (during the period(s) where they constituted connected transactions under the GEM Listing Rules, where applicable):

— have been entered into by the Group in the ordinary course of its business;

— have been entered into (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

— have been entered into either (i) in accordance with the terms of the agreements governing such transactions or (ii) (where there is no such agreement) on terms no less favourable to the Group than terms available to third parties.

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

Each of Mr. Lih-Teh Chang and Mr. Chin-Sen Tu has entered into a full-time service contract with the Company for a term of two years from 31st January, 2002, which may be terminated by either party thereto giving to the other not less than six calendar months' prior notice in writing, which notice period shall not expire until the end of the second year. In addition, each of Mr. Shu-Tong Hsu, Mr. Jar-Yi Shih and Mr. Champion Lee has entered into a part-time service contract with the Company, which may be terminated on the same basis as the abovementioned full-time contracts.

Each of the non-executive Director, including the independent non-executive Directors, is currently serving under a term of appointment for a period of one year, which is due to expire on 31st December, 2002.

Save as mentioned above, there are no other service contracts with the Directors which are not determinable by the Company within one year without payment of compensation other than statutory compensation.

(Amounts expressed in Hong Kong dollars unless otherwise stated)

DIRECTORS' INTERESTS IN SECURITIES

As at 31st December, 2001, the following Directors had or were deemed to have interests in the securities of the Company under the provisions of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") by virtue of their shareholdings in FET (an associated corporation within the meaning of the SDI Ordinance), as recorded in the Register of Directors' Interests required to be maintained by the Company pursuant to Section 29 of the SDI Ordinance:

Common shares in FET:

	Number of common shares in FET				
Name of director	**Personal interests**	**Family interests**	**Corporate interests**	**Other interests**	**Total**
Mr. Shu-Tong Hsu	57,148,611	Nil	Nil	Nil	57,148,611
Mr. Jar-Yi Shih	1,336,302	Nil	Nil	Nil	1,336,302
Mr. Champion Lee	210	Nil	Nil	Nil	210
Mr. Chin-Sen Tu	208	Nil	Nil	Nil	208
Mr. Shaw-Y Wang	94,402	Nil	Nil	Nil	94,402
Mr. Lih-Teh Chang	17,672	Nil	Nil	Nil	17,672

Save as disclosed above, the Company had no notice of any other interests to be recorded under Section 29 of the SDI Ordinance as at 31st December, 2001.

Notes:

FET is regarded as one of the initial management shareholders (as such term is defined in the GEM Listing Rules) of the Company. As at 31st December , 2001, FET had a 58.2% interest (including a direct interest of 11.4% and an indirect interest of 46.8% through its 99.99% shareholding in Yuang Ding Investment Corporation) in the Company.

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

DIRECTORS' INTERESTS IN CONTRACTS

No contract, commitment or agreement of significance in relation to the Company's business, to which the Company or its subsidiary was a party and in which any of the Directors had a material interest, either directly or indirectly, subsisted at 31st December, 2001 or at any time during 2001.

DIRECTORS' RIGHTS TO PURCHASE SHARES OR DEBENTURES

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

As at 31st December, 2001, no options had been granted under the Company's share option scheme.

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2001, according to the register required to be maintained under section 16(1) of the SDI Ordinance, the Company had been notified of the following interests (not being those of Directors or chief executives of the Company) in 10% or more of the issued share capital of the Company:

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

Save as disclosed above, the Company had no notice of any interests required to be recorded under Section 16(1) of the SDI Ordinance as at 31st December, 2001.

Notes:

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

2. Everest Textile Co. Ltd. ("Everest Textile") has interests in the entire issued share capital of Everest Investment (Holding) Limited ("Everest Investment") and is accordingly deemed to have an interest in the Company's shares in which Everest Investment is deemed to have an interest.

COMPETING INTERESTS

FET *(Note 1)* and Everest Textile *(Note 2)*, being management shareholders of the Company, are engaged in, and have interests in other companies engaged in, the production and sales of petrochemical, polyester and textile products.

During 2001, FET produced approximately 704,966 tonnes of polyester polymer, 234,247 tonnes of various types of PET chips (for PET bottles, food and industrial packaging), 219,942 tonnes of polyester staple fibre, 199,290 tonnes of POY, 85,094 tonnes of DTY, 403,968 bales of yarn, 9,065,000 yards of finished fabrics and 238 million pieces of PET preforms. Everest Textile also produced approximately 28,771 tonnes of polyester filament and 64,572,000 yards of finished fabrics.

Save as disclosed above, as at 31st December, 2001, the Directors were not aware of any other business or interest of each Director or management shareholder, and the respective associates of each, that competes or may compete with the business of the Group.

Notes:

1. As at 31st December, 2001, 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, 2001, Mr. Jar-Yi Shih and Mr. Chin-Sen Tu were also directors of Everest Textile.

CORPORATE GOVERNANCE

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

SPONSOR'S INTERESTS

As at 31st December, 2001, associates of the Company's sponsor, The Hongkong and Shanghai Banking Corporation Limited ("HSBC"), were interested in a total of 11,182,000 shares of HK$1.00 each in the issued share capital of the Company. As at that date, employees of HSBC (as referred to in Note 3 to rule 6.35 of the GEM Listing Rules) who were involved in providing advice to the Company were interested in a total of 20,000 shares in the issued share capital of the Company. None of HSBC nor any of its executive directors had any interest in the issued share capital of the Company as at 31st December, 2001.

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

MATERIAL LITIGATION

Neither the Company nor its subsidiary was involved in any material litigation or arbitration in the year 2001.

AUDIT COMMITTEE

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

SUMMARY OF FINANCIAL INFORMATION

A summary of the Group's financial information is set out on pages 6 and 7 of this Annual Report.

(Amounts expressed in Hong Kong dollars unless otherwise stated)

BUSINESS OBJECTIVES COMPARISON

During the year ended 31st December, 2001, the business progress of the Group was substantially in line with the information as set out in the section headed "Statement of Business Objectives" in the prospectus dated 20th January, 2000. Details are as follow:

According to the business objectives as stated in the prospectus dated 20th January, 2000	Actual business progress/change in business objective (if any)
The annual production of polyester polymer would reach 135,000 tonnes by the end of 2001.	The annual output of polyester polymer reached 165,300 tonnes by the end of 2001.
The annual production of non-textile PET chips would reach 110,000 tonnes by the end of 2001.	The annual output of non-textile PET chips reached 134,000 tonnes by the end of 2001.
The annual production of POY and DTY would both reach approximately 32,500 tonnes by the end of 2001.	The annual output of POY and DTY reached 21,900 tonnes and 18,100 tonnes respectively by the end of 2001. *(Note 1)*
The annual production of finished fabrics would reach approximately 50 million yards by the end of 2001.	The annual output of finished fabrics reached approximately 31.2 million yards by the end of 2001. *(Note 2)*
The Dyeing and Finishing SBU would achieve over 100 per cent. of full capacity by the end of 2001.	The Dyeing and Finishing SBU achieved approximately 60 per cent. of full capacity by the end of 2001. *(Note 2)*
Pre-marketing work for non-woven fibre products would be completed by the end of 2001	Pre-marketing work for non-woven fibres has already been completed by the end of 2001.
The construction of the non-woven fibre plant would be completed by the end of 2001.	The construction of the non-woven fibre plant was completed by the end of 2001.
Obtain ISO-9002 certification by the end of 2001.	ISO-9002 certification was obtained in July, 2001.

Note:

1. The output of POY and DTY during 2001 fell short of the yearly output as stated in the section headed "Statement of Business Objectives" in the prospectus dated 20th January, 2000 by 10,600 tonnes and 14,400 tonnes respectively. The shortfall arose as a result of the Group's strategy in re-adjusting product mix in order to maximize profits, and therefore shareholders' interests. The Directors also believe that the shortfall was immaterial to the Group's operations and performance as a whole.

2. The output of finished fabrics during 2001 fell short of the yearly output as stated in the section headed "Statement of Business Objectives" in the prospectus dated 20th January, 2000 by 18.8 million yards, whereas the Dyeing and Finishing SBU only achieved 60% of the full capacity. The shortfall was mainly attributable to the current adverse market conditions for finished fabrics in the PRC. The Directors believe that the shortfall would not have a material impact on the Group's financial performance in 2001. Nevertheless, the Group is now re-orienting the SBU's target market and the Directors are actively seeking ways in improving the production performance of the Dyeing and Finishing SBU.

USE OF PROCEEDS

By 31st December, 2001, the Group had, for the most part, used up all the proceeds from the new shares issued for listing on GEM substantially in line with the information as set out in the section headed "Summary" in the prospectus dated 20th January, 2000. The proceeds, after deduction of related expenses, amounted to $266,062,000 have been applied as follows:

	According to the use of proceeds as stated in the prospectus dated 20th January, 2000	**Amount utilized up to 31st December, 2001**
	HK$ million	**HK$ million**
Upgrading of internal management information system	10	**10**
Construction of a polyester non-woven fibre plant	156	**156**
Construction of various storage and ancillary facilities	13	**13**
Construction of a PET preform plant *(Note 1)*	78	**73**
Development of two additional production facilities, including a polymerization plant and a production unit designed for non-textile and/or industrial-use PET chips. *(Note 2)*	9	**9**
Total	266	**261**

Notes:

1. The construction of the PET preform plant is expected to be completed by April, 2002.

2. The development of two additional production facilities was completed in October, 2001. The balance of the funding required in the development was satisfied by internally generated cash and to the extent required, bank loans.

AUDITORS

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

There were 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
18th March, 2002

ANDERSEN

Arthur Andersen & Co
21st Floor Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

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

We have audited the accompanying consolidated balance sheet of Far Eastern Polychem Industries Limited (the "Company") and its subsidiary (the "Group") as at 31st December, 2001, and the related consolidated statements of income, cash flows and changes in equity for the year then ended. These financial statements set out on pages 31 to 66 are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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 consolidated financial statements give a true and fair view of the financial position of the Group and the Company as at 31st December, 2001 and of the results of the Group's operations and its cash flows and changes in equity for the year then ended in accordance with International Financial Reporting Standards, as published by the International Accounting Standards Board and comply with the disclosure requirements of the Hong Kong Companies Ordinance.

Arthur Andersen & Co.

Hong Kong,
18th March, 2002.

CONSOLIDATED BALANCE SHEET

AS AT 31ST DECEMBER, 2001

(Expressed in Hong Kong dollars)

	Note	2001 $'000	2000 $'000
ASSETS			
Current assets			
Cash and cash equivalents	3	**347,511**	358,179
Pledged bank deposits	4	**17,894**	—
Trade receivables	5	**141,678**	144,592
Inventories	6	**237,838**	165,454
Deposits, prepayments and other receivables		**50,949**	60,854
Prepaid value-added tax		**1,264**	3,360
Due from a related company		**—**	15,784
Total current assets		**797,134**	748,223
Non-current assets			
Long-term investment	7	**1,410**	—
Property, plant and equipment	8	**1,336,506**	1,156,303
Land use rights	9	**112,345**	114,842
Deferred assets	10	**9,824**	9,524
Other non-current assets	11	**1,654**	1,684
Total non-current assets		**1,461,739**	1,282,353
Total Assets		**2,258,873**	2,030,576
LIABILITIES AND EQUITY			
Current liabilities			
Trade, other payables and accruals	12	**302,417**	234,366
Income tax payable		**7,977**	—
Short-term bank loans	13	**239,118**	169,200
Total current liabilities		**549,512**	403,566
Non-current liabilities			
Long-term bank loans	14	**367,653**	385,358
Deferred tax liabilities	15	**1,200**	1,200
Total non-current liabilities		**368,853**	386,558

CONSOLIDATED BALANCE SHEET (Cont'd)

AS AT 31ST DECEMBER, 2001

(Expressed in Hong Kong dollars)

	Note	**2001**	2000
		$'000	$'000
Equity			
Share capital	16	**410,296**	410,296
Reserves		**583,464**	541,233
Retained earnings		**346,748**	288,923
Total equity		**1,340,508**	1,240,452
Total Liabilities and Equity		**2,258,873**	2,030,576

Approved by the Board of Directors on 18th March, 2002 and signed on behalf of the Board by:

Jar-Yi SHIH
Deputy Chairman

Chin-Sen TU
Director

The accompanying notes are an integral part of this financial statement.

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31ST DECEMBER, 2001

(Expressed in Hong Kong dollars)

	Note	2001 $'000	2000 $'000
Sales		**1,474,062**	1,298,649
Cost of sales	18	**(1,163,449)**	(1,007,804)
Gross profit		**310,613**	290,845
Distribution and selling expenses	19	**(43,949)**	(17,726)
General and administration expenses	20	**(41,265)**	(33,508)
Other operating income	21	**6,883**	2,182
Profit from operations		**232,282**	241,793
Financial expense, net	22	**(8,804)**	(21,655)
Profit before tax		**223,478**	220,138
Income tax	23	**(18,228)**	—
Net profit		**205,250**	220,138
Earnings per share			
— Basic	24	**0.50**	0.55
— Diluted	24	**N/A**	N/A

The accompanying notes are an integral part of this financial statement.

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31ST DECEMBER, 2001

(Expressed in Hong Kong dollars)

	Share capital $'000 (Note 16)	Share premium $'000	Contributed surplus $'000	Reserve fund $'000 (Note 25)	Hedging reserve $'000	Revaluation reserve $'000	Translation reserve $'000	Retained earnings $'000	Total $'000
Balance as at 1st January, 2000	410,296	—	310,825	—	—	5,645	2,001	88,892	817,659
Issuance of shares	—	481,430	—	—	—	—	—	—	481,430
Expenditure on issuance of shares	—	(22,153)	—	—	—	—	—	—	(22,153)
Capitalization of a loan from a shareholding company	—	63,724	—	—	—	—	—	—	63,724
Capitalization of contributed surplus	—	—	(310,825)	—	—	—	(1,818)	—	(312,643)
Appropriation to statutory reserve fund	—	—	—	20,107	—	—	—	(20,107)	—
Currency re-denomination of shares	—	—	—	—	—	—	1,222	—	1,222
Deferred exchange loss on forward contracts for hedging purposes	—	—	—	—	(9,689)	—	—	—	(9,689)
Profit for the year	—	—	—	—	—	—	—	220,138	220,138
Currency translation differences for the year	—	—	—	—	—	—	764	—	764
Balance as at 31st December, 2000	410,296	523,001	—	20,107	(9,689)	5,645	2,169	288,923	1,240,452
Appropriation to statutory reserve fund (Note 25)	—	—	—	32,542	—	—	—	(32,542)	—
Dividends declared (Note 25)	—	—	—	—	—	—	—	(114,883)	(114,883)
Cash flow hedges transferred to property, plant and equipment (Note 8)	—	—	—	—	9,689	—	—	—	9,689
Profit for the year	—	—	—	—	—	—	—	205,250	205,250
Balance as at 31st December, 2001	410,296	523,001	—	52,649	—	5,645	2,169	346,748	1,340,508

The accompanying notes are an integral part of this financial statement.

BALANCE SHEET

AS AT 31ST DECEMBER, 2001

(Expressed in Hong Kong dollars)

	Note	**2001**	2000
		$'000	$'000
ASSETS			
Current assets			
Cash and cash equivalents	3	**253,517**	292,220
Trade receivables		**53,876**	—
Deposits, prepayments and other receivables		**89,753**	679
Total current assets		**397,146**	292,899
Non-current assets			
Investment in a subsidiary	26	**960,239**	939,499
Total non-current assets		**960,239**	939,499
Total Assets		**1,357,385**	1,232,398
LIABILITIES AND EQUITY			
Current liabilities			
Due to a subsidiary		**19,173**	—
Accruals and other current liabilities		**6,901**	1,143
Total current liabilities		**26,074**	1,143
Equity			
Share capital	16	**410,296**	410,296
Reserves	17	**521,618**	511,929
Retained earnings		**399,397**	309,030
Total equity		**1,331,311**	1,231,255
Total Liabilities and Equity		**1,357,385**	1,232,398

Approved by the Board of Directors on 18th March, 2002 and signed on behalf of the Board by:

Jar-Yi SHIH
Deputy Chairman

Chin-Sen TU
Director

The accompanying notes are an integral part of this financial statement.

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31ST DECEMBER, 2001

(Expressed in Hong Kong dollars)

	Note	2001 $'000	2000 $'000
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash provided by operations	27	**357,291**	286,985
Interest paid		**(21,252)**	(37,817)
Income taxes paid		**(10,251)**	—
Net cash provided by operating activities		**325,788**	249,168
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment		**(267,075)**	(174,650)
Purchase of deferred assets		**(1,551)**	—
Decrease in other long-term assets		**30**	—
Increase in long-term investment		**(1,410)**	—
Increase in pledged deposits		**(17,894)**	—
Proceeds from disposal of property, plant and equipment		**496**	—
Interest received		**13,618**	21,867
Net cash used in investing activities		**(273,786)**	(152,783)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of shares		**—**	266,062
Proceeds from reorganization		**—**	62,022
Proceeds from short-term bank loans		**616,157**	169,200
Proceeds from long-term bank loans		**46,061**	61,100
Repayment of long-term bank loans		**(63,766)**	(148,339)
Repayment of short-term bank loans		**(546,239)**	(307,053)
Repayment of loans from related parties		**—**	(23,911)
Dividends paid		**(114,883)**	—
Net cash (used in) provided by financing activities		**(62,670)**	79,081
Net effect of currency translation on cash and cash equivalents		**—**	764
Net (decrease) increase in cash and cash equivalents		**(10,668)**	176,230
Cash and cash equivalents at beginning of year		**358,179**	181,949
Cash and cash equivalents at end of year	3	**347,511**	358,179

The accompanying notes are an integral part of this financial statement.

1. GENERAL

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 the trading of the products produced by its subsidiary. Its subsidiary is principally engaged in the production and distribution of polyethylene terephthalate ("PET") chip, polyester filament, polyester staple fiber and dyeing and finishing of polyester textile products.

For the year ended 31st December, 2001, the average number of employees in the Group was 1,429 (2000: 1,358).

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 preparing the financial statements of the Company and its subsidiary are as follows:

(a) Basis of presentation

The accompanying financial statements have been prepared in accordance with International Financial Reporting Standards, as published by the International Accounting Standards Board, effective as at 31st December, 2001, the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Growth Enterprise Market of Hong Kong Exchanges and Clearing Limited.

The financial statements have been prepared under the historical cost convention except for buildings included in property, plant and equipment which have been stated at revalued amount.

(b) Measurement currency

Based on the economic substance of the underlying events and circumstances relevant to the Company, the measurement currency of the Company has been determined to be the Hong Kong dollars. To consolidate the Company, (measured in Hong Kong dollars) and its subsidiary (measured in its own measurement currency), financial statements of foreign consolidated subsidiary are translated at year-end exchange rates with respect to the balance sheet, and at the average exchange rate for the year with respect to the income statement. All resulting translation differences are included in a translation reserve in equity.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(c) Principles of consolidation

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

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

(d) Subsidiary

A subsidiary is a company in which the Company controls. Control exists when the Company has the power to govern its financial and operating policies of the subsidiary so as to obtain benefits from its activities.

In the Company's financial statements, investment in subsidiary is accounted for using the equity method. An assessment of investment in subsidiary is performed when there is an indication that the asset has been impaired or the impairment losses recognized in prior years no longer exist.

(e) Cash and cash equivalents

Cash includes cash on hand and cash with banks.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value.

(f) Receivables

Receivables are stated at the fair value of the consideration given and are carried at amortised cost, after provision for impairment.

(g) Inventories

Inventories, including work-in-process, are valued at the lower of cost and net realisable value, after provision for obsolete items. Net realisable value is the selling price in the ordinary course of business, less the costs of completion, marketing and distribution. Cost is determined primarily on the basis of weighted average cost. For processed inventories, cost includes the applicable allocation of fixed and variable overhead costs based on a normal operating capacity. Unrealisable inventory has been fully written off.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(h) Property, plant and equipment and depreciation

Property, plant and equipment, other than buildings, are stated at cost less accumulated depreciation and accumulated impairment loss. When assets are sold or retired, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is included in the income statement.

Buildings are stated at revalued amount less accumulated depreciation and accumulated impairment loss. Independent property revaluations are performed at a maximum interval of 3 years or as deemed necessary with the last valuation performed by Sallmanns (Far East) Limited as at 30th November, 1999. Any increase in a building's valuation is credited to the property revaluation surplus, unless and only to the extent it reverses a revaluation decrease of the same asset previously recognised as an expense in which case it is recognised as income. Any decrease is first offset against an increase on earlier valuation in respect of the same property and is thereafter recognised as an expense. Upon the disposal of revalued property, the relevant portion of the revaluation surplus realised in respect of previous valuation is released from the property valuation surplus directly to retained earnings.

The initial cost of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the fixed assets have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to income in the period in the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, the expenditures are capitalised as an additional cost of property, plant and equipment.

Depreciation is calculated using the straight-line method to write off the cost or revalued amount, after taking into account the estimated residual value, of each asset over its expected useful life. The expected useful lives are 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.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(h) Property, plant and equipment and depreciation (Cont'd)

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 as the relevant assets are completed and put into operational use.

(i) 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 recognized as prepayments for operating leases (see (k) below).

(j) Deferred assets

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

(k) Operating leases

Leases of assets under which substantially all the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term.

The aggregate benefit of incentives provided by the lessor is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Lease payments under operating leases are recognized as an expense in the income statement on a straight-line basis over the lease term. Aggregate benefit of incentives on operating leases is recognised as a reduction of rental expense over the lease term on a straight-line basis.

(l) 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 recognized in prior years no longer exist.

Upon disposal of a long-term investment, the difference between net disposal proceeds and the carrying amount is charged or credited to the income statement.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(m) Provisions

A provision is recognized when, and only when an enterprise has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation. When discounting is used, the increase in provision reflecting the passage of time is recognised as interests expense.

Gains from the expected disposal of assets are not taken into account in measuring the provision. Property, plant and equipment that is retired from active use is carried at the lower of the carrying amount or estimated net selling price less costs of disposal.

When some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is not recognised until it is virtually certain that reimbursement will be received.

(n) 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.

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2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(n) Equity (Cont'd)

(iii) Reserves

a) Translation reserve

The translation reserve is used for translation differences arising on consolidation of financial statements of foreign entities (i.e. subsidiaries, associates, 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)

(o) Revenue recognition

Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of the revenue can be measured reliably. Sales are recognised net of sales taxes and discounts.

(i) Sale of goods

Revenue from sales of goods are recognised when delivery has taken place and transfer of risks and rewards has been completed.

(ii) Processing fee

Processing fee is recognized when the processing activities are completed and goods are delivered. The processing fee recognised excludes value-added or other taxes and is after deduction of any trade discounts.

(iii) Interest income

Interest income is recognized on a time proportion basis that takes into account the effective yield on the asset.

(p) Foreign currencies

(i) Foreign currency transactions

Each entity within the group translates its foreign currency transactions and balances into its measurement currency by applying to the foreign currency amount the exchange rate between the measurement currency and the foreign currency at the date of the transaction. Exchange rate differences arising on the settlement of monetary items or on reporting monetary items at rates different from those at which they were initially recorded during the period or reported in previous financial statements are recognised in the income statement in the period in which they arise, with the exception of exchange differences arising on items forming in substance part of or hedging the company's net investment in a foreign entity.

(ii) Foreign entities

The foreign consolidated subsidiary is regarded as foreign entity since it is financially, economically and organizationally autonomous. Its reporting currency is Renminbi. Financial statements of foreign consolidated subsidiary is translated at year-end exchange rate with respect to the balance sheet, and at the average exchange rates for the year with respect to the income statement. All resulting translation differences are included in a translation reserve in equity.

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2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(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 subsidiary 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 subsidiary 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 subsidiary operating in the PRC accounts for these contributions on an accrual basis.

(r) Borrowings

Borrowing costs generally are expensed 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.

Borrowings are initially recognised at the proceeds received, net of transaction costs. They are subsequently carried at amortised costs using the effective interest rate method, the difference between net proceeds and redemption value being recognised in the net profit or loss for the period over the life of the borrowings.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(s) Income taxes

The income tax charge is based on profit for the year and considers deferred taxation. Deferred taxes are calculated using the balance sheet liability method. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled based on tax rates enacted or substantially enacted at the balance sheet date.

Deferred tax assets and liabilities are recognised regardless of when the timing difference is likely to reverse. Deferred tax assets and liabilities are not discounted and are classified as non-current assets (liabilities) in the balance sheet.

Deferred tax assets are recognised when it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilized.

A deferred tax liability is recognised for all taxable temporary differences, unless the deferred tax liability arises from goodwill for which amortization is not deductible for tax purposes.

(t) Impairment of assets

All assets other than inventories are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognized in income or treated as a revaluation decrease for buildings that are carried at revalued amount to the extent that the impairment loss does not exceed the amount held in the revaluation surplus for that same building. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction less the costs of disposal while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs.

Reversal of impairment losses recognized in prior years is recorded when there is an indication that the impairment losses recognized for the asset no longer exist or has decreased. The reversal is recorded in income or as a revaluation increase.

(u) Segments

For management purposes, the Group is organized on a world-wide basis into four major operating businesses. The divisions are the basis upon which the Group reports its primary segment information. Financial information on business and geographical segments is presented in Note 28.

3. CASH AND CASH EQUIVALENTS

	Group		Company	
	2001	2000	**2001**	2000
	$'000	$'000	**$'000**	$'000
Cash on hand	**94**	94	**5**	5
Short-term bank deposits	**100,484**	358,085	**9,399**	292,215
Fixed deposits	**246,933**	—	**244,113**	—
	347,511	358,179	**253,517**	292,220

4. PLEDGED BANK DEPOSITS

These bank deposits have been pledged against short-term bank borrowings for a third party company (Note 32).

5. TRADE RECEIVABLES

	Group		Company	
	2001	2000	**2001**	2000
	$'000	$'000	**$'000**	$'000
Accounts receivable				
Current to 30 days	**49,319**	19,098	**28,931**	–
31 to 60 days	**37,069**	8,479	**20,348**	—
Over 60 days	**25,252**	17,263	**4,597**	—
	111,640	44,840	**53,876**	—
Notes receivable	**30,038**	99,752	**—**	—
	141,678	144,592	**53,876**	—

Credit policy

The Group adopted a prudent approach in granting credit to customers. No credit terms were granted to PRC customers except for those with sound financial background and good repayment histories, for which the Group would grant credit terms ranging from 7 days to 60 days. For overseas customers, the Group would grant credit terms of 90 days. In addition, a predetermined maximum credit limit has been set for each customer.

6. INVENTORIES

	2001 $'000	2000 $'000
Finished goods	**101,728**	72,004
Work-in-process	**16,335**	15,303
Raw materials	**86,324**	66,022
Consumables and supplies	**33,451**	15,547
	237,838	168,876
Less: Inventory provision	**—**	(3,422)
	237,838	165,454

Out of the total, none (2000: $4,643,000) of the finished goods were stated at net realizable value.

7. LONG-TERM INVESTMENT

	2001 $'000	2000 $'000
Investment in unlisted shares, at cost	**1,410**	—

The directors are of the opinion that the underlying value of the investment was not less than the carrying value of the investment as at 31st December, 2001.

Details of the investment as at 31st December, 2001 are as follows:

Name	Place and date of incorporation	Registered capital	Percentage of equity interest directly held	Principal activities
China Chemical Fiber Industrial Consortium Limited	Shanghai, PRC 3rd August, 2001	RMB15,000,000	10%	Provision of B-to-B e-commerce platform for trading of chemical fiber

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8. PROPERTY, PLANT AND EQUIPMENT

Movements of property, plant and equipment are as follows:

	2001						2000
	Buildings	Machinery and equipment	Furniture, fixture and office equipment	Motor vehicles	Construction-in-progress	Total	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Cost							
Beginning of year	262,594	873,265	16,220	9,403	171,735	1,333,217	1,168,171
Additions	—	—	—	—	276,764	276,764	163,907
Transfer from construction-in-progress	63,525	354,529	2,411	2,449	(422,914)	—	—
Disposals	—	(33)	(776)	(728)	—	(1,537)	(76)
Currency translation differences	—	—	—	—	—	—	1,215
End of year	326,119	1,227,761	17,855	11,124	25,585	1,608,444	1,333,217
Representing							
At cost	67,488	1,227,761	17,855	11,124	25,585	1,349,813	1,074,586
At professional valuation	258,631	—	—	—	—	258,631	258,631
	326,119	1,227,761	17,855	11,124	25,585	1,608,444	1,333,217
Accumulated depreciation							
Beginning of year	21,913	146,416	5,644	2,941	—	176,914	82,308
Depreciation for the year	11,521	79,130	2,987	1,723	—	95,361	94,195
Revaluation	342	—	—	—	—	342	342
Disposals	—	(6)	(389)	(284)	—	(679)	(18)
Currency translation differences	—	—	—	—	—	—	87
End of year	33,776	225,540	8,242	4,380	—	271,938	176,914
Net book value							
End of year	292,343	1,002,221	9,613	6,744	25,585	1,336,506	1,156,303
Beginning of year	240,681	726,849	10,576	6,462	171,735	1,156,303	1,085,863

8. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

The Group's buildings were appraised by Sallmanns (Far East) Limited, an independent professional property valuers, 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.

Approximately $72 million (2000: $41 million) of the Group's buildings were mortgaged as collateral to secure the Group's short-term and long-term bank loans (Notes 13 and 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 $14,653,000 (2000: $1,985,000) (Note 22). The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation was 6.79% (2000: 6.32%).

In 2001, the cost of acquisition of machinery and equipment include $9,689,271 (2000: Nil) of fair value losses transferred from the hedging reserve in equity, which arose from qualifying currency cash flow hedges on the purchase of certain machinery.

As at December 31st, 2001, 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 $286,182,000 (2000: $234,178,000).

9. LAND USE RIGHTS

	2001 $'000	2000 $'000
Cost		
Beginning of year	**124,811**	124,678
Currency translation difference	**—**	133
End of year	**124,811**	124,811
Accumulated amortization		
Beginning of year	**9,969**	7,464
Charge for the year	**2,497**	2,497
Currency translation difference	**—**	8
End of year	**12,466**	9,969
Net book value		
End of year	**112,345**	114,842
Beginning of year	**114,842**	117,214

Land use rights comprise land use fees paid for the right to use the land where the Group's factory buildings in Shanghai, the PRC are located.

Approximately $19.8 million (2000: $21.6 million) of the Group's land were mortgaged as collateral to secure the Group's short-term and long-term bank loans (Notes 13 and 14).

10. 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 Far Eastern Industries (Shanghai) Limited ("FEIS"), the Company's subsidiary operating in the PRC. The facilities so constructed belonged to the bureau and would not be transferred to the Group.

	2001	2000
	$'000	$'000
Cost		
Beginning of year	**11,662**	11,650
Addition	**1,551**	12
End of year	**13,213**	11,662
Accumulated amortization		
Beginning of year	**2,138**	970
Charge for the year	**1,251**	1,168
End of year	**3,389**	2,138
Net book value		
End of year	**9,824**	9,524
Beginning of year	**9,524**	10,680

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

11. OTHER NON-CURRENT ASSETS

	2001	2000
	$'000	$'000
Deposits for reservation of land use rights	**1,652**	1,652
Other non-current assets	**2**	32
	1,654	1,684

The Group paid deposits for the reservation of land use rights in respect of two plots of land located in Shanghai, the PRC for a period up to December 2002. Such deposits will form part of the purchase consideration should the Group exercise the options to purchase the above land use rights before the expiration of the relevant reservation period. The deposits are not otherwise refundable. The Group is currently applying for an extension of the expiration of the relevant reservation period. The directors of the Group expect that the above land use rights will be purchased before the expiration of the relevant reservation period at an anticipated consideration of $65 million in addition to the above deposits for the Group's expansion purposes. The Group does not currently have the land use rights to these two plots of land.

12. TRADE, OTHER PAYABLES AND ACCRUALS

	2001	2000
	$'000	$'000
Trade payables		
Current to 30 days	**169,551**	92,483
31 to 90 days	**41,826**	57,086
Over 90 days	**17,643**	24,339
	229,020	173,908
Other payables and accruals	**73,397**	60,458
	302,417	234,366

13. SHORT-TERM BANK LOANS

	2001	2000
	$'000	$'000
Secured	**16,920**	94,000
Unsecured	**222,198**	75,200
	239,118	169,200

The Group's short-term bank loans were granted by third party banks, bore interests at 2.82% to 5.86% per annum and the secured portion were secured by certain of the Group's land and buildings (Notes 8 and 9).

14. LONG-TERM BANK LOANS

	2001	2000
	$'000	$'000
Secured	**276,473**	385,358
Unsecured	**91,180**	—
	367,653	385,358

The Group's long-term bank loans were granted by third party banks, bore interests at HIBOR plus 0.475% per annum and the secured portion were guaranteed by the Company and secured by certain of the Group's land and buildings (Notes 8 and 9).

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

	2001	2000
	$'000	$'000
2002	**—**	62,980
2003	**137,240**	28,200
2004	**230,413**	294,178
Total	**367,653**	385,358

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15. DEFERRED TAX LIABILITIES

Component of deferred tax liabilities is as follows:

	2001	2000
	$'000	$'000
Effect on revaluation of property, plant and equipment	**1,200**	1,200

16. SHARE CAPITAL

The details of share capital were as follows:

	Number of shares		**Amount**	
	2001	2000	**2001**	2000
	'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

Movement in share capital during the year is as follows:

	Number of shares		**Amount**	
	2001	2000	**2001**	2000
	'000	'000	**$'000**	$'000
Balance, beginning of year	**410,296**	82	**410,296**	6,302
Issuance of shares to a company	**—**	319	**—**	24,821
Capitalization of loan from a shareholding company	**—**	80	**—**	6,206
Capitalization of contributed surplus	**—**	4,019	**—**	312,643
Share split and currency re-denomination of shares	**—**	344,250	**—**	(1,222)
Issuance of shares to the public	**—**	61,546	**—**	61,546
Balance, end of year	**410,296**	410,296	**410,296**	410,296

17. RESERVES

Movement in reserves of the Company is as follows:

	Contributed surplus	Share premium	Hedging reserve	Translation reserve	Retained profit	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Balance as at 1st January, 2000	310,825	—	—	(513)	88,892	399,204
Issuance of shares	—	481,430	—	—	—	481,430
Expenditure on issuance of shares	—	(22,153)	—	—	—	(22,153)
Capitalization of a loan from a shareholding company	—	63,724	—	—	—	63,724
Capitalization of contributed surplus	(310,825)	—	—	(1,818)	—	(312,643)
Currency re-denomination of shares	—	—	—	1,222	—	1,222
Deferred exchange loss on forward contracts for hedging purposes	—	—	(9,689)	—	—	(9,689)
Profit for the year	—	—	—	—	220,138	220,138
Currency translation differences for the year	—	—	—	(274)	—	(274)
Balance as at 31st December, 2000	—	523,001	(9,689)	(1,383)	309,030	820,959
Dividends declared (Note 25)	—	—	—	—	(114,883)	(114,883)
Cash flow hedges transferred to property, plant and equipment (Note 8)	—	—	9,689	—	—	9,689
Profit for the year	—	—	—	—	205,250	205,250
Balance as at 31st December, 2001	—	523,001	—	(1,383)	399,397	921,015

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18. COST OF SALES

Cost of sales comprises of the following expenses:

	2001 $'000	2000 $'000
Depreciation on property, plant and equipment	**91,475**	92,046
Amortisation of land use rights and deferred assets	**2,739**	2,656
Cost of in inventories	**905,235**	791,397
Personnel expenses	**30,457**	25,981
Others	**133,543**	95,724
	1,163,449	1,007,804

19. DISTRIBUTION AND SELLING EXPENSES

Distribution and selling expenses are analysed as follows:

	2001 $'000	2000 $'000
Personnel expenses	**1,380**	1,101
Transportation expenses	**27,978**	8,803
Others	**14,591**	7,822
	43,949	17,726

20. GENERAL AND ADMINISTRATION EXPENSES

	2001 $'000	2000 $'000
Depreciation on property, plant and equipment	**4,228**	2,445
Amortization of land use rights	**1,009**	1,009
Personnel expenses	**26,160**	14,563
Directors' fees	**1,164**	1,164
Audit fees	**237**	493
Consulting and legal fees	**410**	332
Others	**8,057**	13,502
	41,265	33,508

21. OTHER OPERATING INCOME

	2001	2000
	$'000	$'000
Gain on disposal of scrap materials	**6,744**	5,838
Other operating income (expenses)	**139**	(3,656)
	6,883	2,182

22. FINANCIAL EXPENSE

	2001	2000
	$'000	$'000
Interest income	**13,618**	21,867
Interest expense on borrowings	**(35,905)**	(39,802)
Less: Amount capitalized as construction-in-progress (Note 8)	**14,653**	1,985
Net foreign currency exchange loss	**(562)**	(4,673)
Other financial expenses	**(608)**	(1,032)
Net financial expenses	**(8,804)**	(21,655)

23. 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, FEIS is entitled to full exemption from PRC enterprise income tax ("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%. 2001 is the third 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 an extended preferential EIT rate by a 50% reduction for the next three years, after the end of the five years preferential EIT treatment stated in the above. The "High-technology Enterprise" status is subject to review every two years.

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

There was no significant unprovided deferred taxation as at 31st December, 2001.

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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24. EARNINGS PER SHARE

The calculation of basic earnings per share for the year ended 31st December, 2001 was based on the consolidated net profit of approximately $205,250,000 (2000: $220,138,000) and on the weighted average number of ordinary shares in issue during 2001. The number of shares used in the computation is as follows:

	2001	2000
	000	000
Adjusted weighted average number of ordinary shares	**410,296**	402,591

Diluted earnings per share for the year ended 31st December, 2001 was not presented because there were no potentially dilutive ordinary shares in existence during the financial year.

25. PROFIT APPROPRIATION

(a) Dividend

On 29th March, 2001, the Board of directors declared a final dividend of $0.28 (2000: Nil) per ordinary share, totalling to approximately $114,833,000. This dividend has been fully paid during the year.

(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 FEIS'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 FEIS's directors. 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 taken as FEIS's assets.

Under International Financial Reporting Standards, appropriations to the staff and workers' bonus and welfare fund have been included as expenses and balances of the fund as FEIS's liabilities.

For the year ended 31st December, 2001, the directors of FEIS resolved to appropriate $32,542,000 (2000: $20,107,000) to the reserve fund.

26. INVESTMENT IN A SUBSIDIARY

In the Company's balance sheet, investment in a subsidiary comprises:

	2001	2000
	$'000	$'000
Investment in unlisted shares, at cost	**604,500**	604,500
Dividends received and receivable	**(202,100)**	—
Share of post-acquisition profit before tax	**576,067**	334,999
Taxation	**(18,228)**	—
	960,239	939,499

The Company's directors are of the opinion that the underlying value of the subsidiary was not less than the Company's carrying value of the subsidiary as at year end.

As at 31st December, 2001, the Company had the following subsidiary:

Name	**Country of establishment/ operation**	**Registered capital**	**Attributable equity interest held directly**	**Principal activities**
Far Eastern Industries (Shanghai) Ltd. ("FEIS")	The PRC	US$78,000,000	100%	Production and distribution of PET chip and polyester filament, and dyeing and finishing of polyester textile products.

FEIS was established on 25th September, 1996 as a wholly-owned foreign enterprise in the PRC to be operated for 50 years up to 24th September, 2046. The operation period can further be extended subject to approval by its board of directors and the relevant government authorities which originally approved the establishment of FEIS.

27. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Reconciliation from profit before tax to cash generated from operations:

	2001	2000
	$'000	$'000
CASH FLOWS FROM OPERATING ACTIVITIES:		
Profit before tax	**223,478**	220,138
Adjustments for:		
Depreciation and amortization	**99,451**	98,156
Loss on disposals of property, plant and equipment	**362**	—
(Reversal of) provision for inventory provision	**(3,422)**	1,459
Interest expenses	**21,252**	37,817
Interest income	**(13,618)**	(21,867)
Operating profit before working capital changes	**327,503**	335,703
Increase in inventories	**(68,962)**	(58,472)
Decrease (increase) in trade receivables	**2,914**	(72,853)
Decrease in due from related company	**15,784**	—
Decrease in other current assets	**12,001**	17,695
Increase in trade payables	**55,112**	104,813
Increase (decrease) in other payables and accruals	**12,939**	(39,901)
Cash provided by operations	**357,291**	286,985

28. SEGMENTAL INFORMATION

The Company and its subsidiary operate principally in the production and distribution of PET chips and polyester filament, 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 Dyeing and Finishing SBU and the Polyester Staple Fiber SBU which are managed separately.

Business segments

	Chip SBU		Filament SBU		Dyeing and Finishing SBU		Polyester Staple Fiber SBU		Consolidated	
	2001 ($'000)	2000 ($'000)	**2001 ($'000)**	2000 ($'000)	**2001 ($'000)**	2000 ($'000)	**2001 ($'000)**	2000 ($'000)	**2001 ($'000)**	2000 ($'000)
Revenue										
Turnover from external sales	**1,015,749**	856,279	**193,776**	291,005	**226,816**	151,365	**37,721**	–	**1,474,062**	1,298,649
Result										
Gross profit	**281,099**	222,980	**9,726**	45,203	**16,806**	22,662	**2,982**	–	**310,613**	290,845
Unallocated corporate expenses	**–**	–	**–**	–	**–**	–	**–**	–	**(65,883)**	(32,892)
Profit from operations	**–**	–	**–**	–	**–**	–	**–**	–	**244,730**	257,953
Finance cost	**–**	–	**–**	–	**–**	–	**–**	–	**(21,252)**	(37,815)
Profit before taxation	**–**	–	**–**	–	**–**	–	**–**	–	**223,478**	220,138
Taxation	**–**	–	**–**	–	**–**	–	**–**	–	**(18,228)**	–
Profit for the year	**–**	–	**–**	–	**–**	–	**–**	–	**205,250**	220,138
Other information										
Segment assets	**787,791**	663,331	**329,963**	347,161	**506,103**	503,224	**233,548**	–	**1,857,405**	1,513,716
Unallocated corporate assets	**–**	–	**–**	–	**–**	–	**–**	–	**401,468**	516,860
Total assets	**–**	–	**–**	–	**–**	–	**–**	–	**2,258,873**	2,030,576
Segment liabilities	**259,794**	189,794	**164,494**	172,154	**345,115**	332,315	**139,869**	–	**909,272**	694,263
Unallocated corporate liabilities	**–**	–	**–**	–	**–**	–	**–**	–	**9,093**	95,862
Total liabilities	**–**	–	**–**	–	**–**	–	**–**	–	**918,365**	790,125
Capital expenditure	**117,088**	85,109	**1,719**	5,257	**17,807**	73,465	**140,150**	–	**276,764**	163,831
Depreciation and amortization	**30,232**	35,223	**30,882**	30,865	**33,012**	32,068	**5,325**	–	**99,451**	98,156
Non-cash expenses other than depreciation and amortization	**–**	–	**–**	–	**–**	1,459	**–**	–	**–**	1,459

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28. SEGMENTAL INFORMATION (Cont'd)

Geographical segments

	PRC		Europe		Others		Consolidated	
	2001 ($'000)	2000 ($'000)	**2001 ($'000)**	2000 ($'000)	**2001 ($'000)**	2000 ($'000)	**2001 ($'000)**	2000 ($'000)
Revenue from external customers	**1,223,495**	1,136,946	**125,700**	36,959	**124,867**	124,744	**1,474,062**	1,298,649
Segment assets	**1,864,515**	1,777,736	**157,731**	57,789	**236,627**	195,051	**2,258,873**	2,030,576
Capital expenditure	**228,446**	143,431	**19,326**	4,663	**28,992**	15,737	**276,764**	163,831

29. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

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

	2001 $'000	2000 $'000
Fees		
- Executive directors	**684**	684
- Non-executive directors	**480**	480
	1,164	1,164
Other emoluments		
- Basic salaries and allowances	**—**	—
- Discretionary bonuses	**—**	—
	—	—
	1,164	1,164

The number of directors whose remuneration falls within the following bands are as follows:

	2001 $'000	2000 $'000
Nil - $1,000,000	**5**	5
$1,000,000 - $2,000,000	**—**	—
	5	5

29. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS (Cont'd)

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

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.

Under the arrangements currently in force, the aggregate amount of fees and other emoluments payable to the directors of the Company for the year ending 31st December, 2002 is estimated to be approximately $1,164,000.

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

	2001	2000
	$'000	$'000
Basic salaries and allowances	**3,306**	3,039
Number of directors	**—**	—
Number of employees	**5**	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.

30. FINANCIAL INSTRUMENTS

The carrying amounts of the Company's cash and cash equivalents, short-term bank deposits over three months and trade payable approximate their fair values due to the short-term maturity of these instruments. As at 31st December, 2001, the estimated fair values of long-term loans including current portions were approximately $367,653,000 (2000: $385,358,000) based on current market interest rates for comparable instruments. As of the same date, the book value of these liabilities was approximately $367,653,000 (2000: $385,358,000).

31. OPERATING LEASE

Total future minimum lease payments under non-cancelable operating leases are as follows:

	2001	2000
	$'000	$'000
Land and buildings		
- within next year	**2,647**	746
- 2 to 5 years	**9,791**	249
- after 5 years	**—**	—
	12,438	995

32. CAPITAL COMMITMENTS

As at 31st December, 2001, the Group had the following capital commitments:

	2001	2000
	$'000	$'000
Authorized but not contracted for		
- Investment in an associated company*	**44,346**	—
Authorized and contracted for		
- Acquisition of property, plant and equipment	**7,711**	49,657
	52,057	49,657

* During 2001, the Group has entered into a memorandum of understanding to establish an associated company together with other third party investors ("the other investors"). The Group's total capital contribution commitment as at 31st December, 2001 was estimated to be US$8,000,000 (equivalent to approximately $62,240,000). In connection with this transaction, the Group has pledged bank deposits amounting to US$2,300,000 (equivalent to approximately $17,894,000) to secure the other investors' bank borrowings which will be used for the development of the associated company (Note 4).

32. CAPITAL COMMITMENTS (Cont'd)

Payment of the above commitments is further analyzed as follows:

	2001	2000
	$'000	$'000
2001	**—**	41,946
2002	**52,057**	7,711
	52,057	49,657

33. 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) Limited ("FEIH")	Subsidiary of FET
Everest Textile (H.K.) Company Limited ("Everest HK")	Associated company of FET

(b) Significant transactions with related parties for the year ended 31st December 2001 were as follows:

	2001	2000
	$'000	$'000
Processing fee income received from		
- Everest HK	**22,250**	87,362

The receipt of processing fee income ceased after December 2001.

Technological license fee paid to		
- FEIH	**11,413**	10,144

In the opinion of the directors of the Company, the above related party transactions were carried out in the usual course of business of the Group and on normal commercial terms.

34. 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' salaries.

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.

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

35. BANKING FACILITIES AND PLEDGE OF ASSETS

The Group had certain banking facilities from several banks for loans and trade financing. These facilities were secured by the Company and the pledge of the Group's land and buildings, with a net book value of approximately $91.8 million as at 31st December, 2001 (2000: $41 million) (Notes 8 and 9).

Details of the banking facilities of the Group are as follows:

	2001	2000
	$'000	$'000
Aggregate amount of banking facilities	**2,193,000**	1,217,970
Less: Amount utilized	**(874,000)**	(589,955)
Unused facilities	**1,319,000**	628,015

36. SUBSEQUENT EVENT

On 18th March, 2002, the board of directors declared a final dividend of $0.25 per ordinary share, totaling approximately $102,574,000.

37. 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 11:00 a.m. on Wednesday, 26th June, 2002 at Harcourt Room, Lower Lobby, Conrad Hotel, Pacific Place, 88 Queensway, Hong Kong for the following purposes:

1. To receive and consider the audited consolidated financial statements of the Company and its subsidiary and the reports of the directors and auditors for the year ended 31st December, 2001.

2. To re-elect retiring directors, to ratify a bonus payment to executive directors and to authorize the board of directors to divide amongst the executive and non-executive directors of the Company an amount not exceeding HK$684,000 and HK$480,000 respectively, as remuneration to such directors, as the board sees fit.

3. To declare a final dividend for the year ended 31st December, 2001.

4. To re-appoint auditors and to authorize the board of directors to fix their remuneration.

5. As special business to consider and, if thought fit, pass with or without modifications, the following resolutions as an Ordinary Resolution:

   "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 authorize 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 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)."

By Order of the Board of Directors
SHUN-FAI LIU
Secretary

22nd March, 2002
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 is 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 19th June, 2002 to 26th June, 2002, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the final dividend payable on 5th July, 2002 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, Central Registration Hong Kong Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:00p.m. on 18th June, 2002.

5. With reference to the Ordinary Resolution sought in item 5 of this notice, the directors wish to state that they have no immediate plans to issue any new shares of the Company.