Far Eastern
Polychem
Industries
Limited

2002 annual report

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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.

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CORPORATE INFORMATION

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
Ying-Ho WONG
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*

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Certified Public Accountants
22nd Floor Prince's Building
Central
Hong Kong

SOLICITORS

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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 China, Shanghai Pudong Branch
Bank of Shanghai, Pudong Branch
Far Eastern International Bank, International Banking Department
Industrial Commercial Bank of China, Shanghai Branch

SHARE REGISTRAR

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PLACE OF LISTING, NAME AND CODE OF ITS STOCKS

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

Stock Name:	FE Polychem
Stock Code:	8012

ANNOUNCEMENTS AND PUBLICATIONS

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

Far Eastern Polychem Industries Limited (the “Company”) and its subsidiaries (together the “Group”) are principally engaged in the production and distribution of polyester products in the People’s Republic of China (the “PRC”). Currently, the Group’s polyester products include bottle-grade polyethylene terephthalate (“PET”) chips, polyester filament, 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 major operating subsidiary of the Group, Far Eastern Industries (Shanghai) Ltd. (“FEIS”), which was established as a wholly foreign owned enterprise in Shanghai in 1996, commenced production operations in September 1998. Despite the short history of its operations, the Group is 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 which 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 2002, the Group had a total of 1,642 employees.

The following table sets forth 2002 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 2002 net sales	Typical uses
PET chips	63%	Used mainly in the manufacturing of carbonated soft drink bottles
Polyester filaments	10%	Used in the production of yarn and woven fabrics for further processing into apparel, especially shirts and dresses
Polyester staple fibers	13%	Used in fibre-fill for pillows, carpeting, insulation, toys, upholstery, sleeping bags, sport shoes and diapers
Finished fabrics	14%	Used in the manufacturing of apparel
	100%	

FINANCIAL SUMMARY

CONSOLIDATED INCOME STATEMENTS

	Year ended 31st December				
	2002	2001	2000	1999	1998
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Turnover	**1,910,211**	1,474,062	1,298,649	1,035,001	29,230
Profit (loss) from operations	**108,809**	232,282	241,793	167,087	(30,601)
Financial expense, net	**(19,005)**	(8,804)	(21,655)	(43,701)	6,881
Profit (loss) before taxation	**89,804**	223,478	220,138	123,386	(23,720)
Taxation	**(7,282)**	(18,228)	—	—	—
Profit (Loss) attributable to shareholders	**82,522**	205,250	220,138	123,386	(23,720)
Earnings (Loss) per share (in HK$)					
- Basic	**0.20**	0.50	0.55	0.39	(0.07)
- Diluted	**N/A**	N/A	N/A	N/A	N/A
Dividends per share (in HK$)	**0.10**	0.25	0.28	—	—

CONSOLIDATED BALANCE SHEETS

	As at 31st December				
	2002	2001	2000	1999	1998
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Fixed assets	**1,428,749**	1,448,851	1,271,145	1,203,055	1,134,930
Deferred assets	**8,453**	9,824	9,524	10,680	11,613
Other long-term assets	**3,064**	3,064	1,684	1,814	2,371
Current assets	**925,561**	797,134	748,223	475,370	695,976
Current liabilities	**(618,677)**	(549,512)	(403,566)	(476,507)	(335,089)
Net current assets (liabilities)	**306,884**	247,622	344,657	(1,137)	360,887
Total assets less current liabilities	**1,747,150**	1,709,361	1,627,010	1,214,412	1,509,801
Loans from related companies	**—**	—	—	(225,931)	(211,849)
Loans from shareholding companies	**—**	—	—	(85,470)	(85,250)
Long-term bank loans, less current portion	**(425,494)**	(367,653)	(385,358)	(488,146)	(929,587)
Deferred taxation	**(1,200)**	(1,200)	(1,200)	(1,200)	—
Net assets	**1,320,456**	1,340,508	1,240,452	413,665	283,115
Share capital	**410,296**	410,296	410,296	6,302	6,302
Reserves	**617,185**	583,464	541,233	318,471	311,307
Retained earnings	**292,975**	346,748	288,923	88,892	(34,494)
Shareholders' funds	**1,320,456**	1,340,508	1,240,452	413,665	283,115

CHAIRMAN'S STATEMENT

It is my pleasure to present to you the audited financial statements of the Group for the year ended 31st December 2002.

OPERATING RESULTS

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

DIVIDENDS

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

MARKET OVERVIEW

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

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

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

Political tension led to an increase in crude oil prices

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

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

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

MARKET OVERVIEW (Cont'd)

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

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

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

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

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

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

Profit margins for the Group's other product lines improved as a result of a re-adjustment in product mix

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

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

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

OPERATIONAL REVIEW

The Group maintained a high level of operational efficiency

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

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

Active inventory management to control costs of raw materials

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

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

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

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

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

FUTURE PROSPECTS

The growth in demand for PET resins likely to be sustained but the rate of recovery for the PET resins market will depend on the rate of elimination of small-scale, inefficient producers

The Directors are optimistic about the future growth in PET resins demand in China. As China's economy continues to grow at a fast pace, the Directors expect the market demand for PET resins to reach 800,000 tonnes per year in 2003, representing a growth rate well above 20%.

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

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

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

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

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

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

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

FUTURE PROSPECTS (Cont'd)

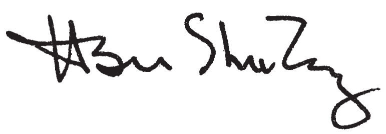
The acquisition of polymerization facilities from Dupont Suzhou Polyester Company Limited ("DSPC") should complete this year

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

Concluding remarks

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

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
14th March 2003

BUSINESS ENVIRONMENT

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

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

RESULTS OF OPERATIONS

1. Turnover

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

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

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

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

RESULTS OF OPERATIONS (Cont'd)

2. Cost of sales

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

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

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

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

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

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

4. Profit before taxation

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

5. Taxation

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

RESULTS OF OPERATIONS (Cont'd)

6. Profit attributable to shareholders

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

GROUP LIQUIDITY AND FINANCIAL RESOURCES

1. Cash and cash equivalents

As at 31st December 2002, the Group's cash and cash equivalents amounted to approximately HK$346 million (compared to HK$348 million in 2001) of which 41% were denominated in United States dollars, 28% were denominated in Renminbi, 25% denominated in Hong Kong dollars, 5% were denominated in Euros and 1% denominated in British pounds.

2. Cash flows

Cash generated from operations decreased from HK$357 million in 2001 to HK$190 million in 2002. This was mainly due to the decrease in the Group's profit before taxation from HK$223 million in 2001 to HK$89 million in 2002.

Net cash used in investment activities decreased from HK$274 million in 2001 to HK$91 million in 2002, due to completion of the construction of the polyester staple fiber in 2001. There were no major production facilities constructed in 2002.

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

3. Borrowings

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

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

GROUP LIQUIDITY AND FINANCIAL RESOURCES (Cont'd)

3. Borrowings (Cont'd)

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

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

Committed borrowing facilities that are available to the Group companies, but not drawn as at 31st December 2002 amounted to HK$2,051 million (compared to HK$1,319 million in 2001).

TREASURY POLICIES AND CAPITAL STRUCTURE

The Group adopts a prudent approach over treasury and funding policies, with a focus on risk management, and those transactions that are directly related to the underlying business of the Group. During the year, the Group has re-adjusted its capital structure by borrowing a higher portion long-term bank loans with fixed interest rates, taking a view that the interest rate cycle is bottoming out.

EXECUTIVE DIRECTORS

Shu-Tong HSU, aged 61, is the Chairman of the Company. He has been serving as a Director since 1995. He is also the Chairman of Far Eastern Textile Limited ("FET") (which has an interest in the share capital of the Company) and the chairman of each of the boards of Far Eastern Department Stores Ltd., Oriental Union Chemical Corporation 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 31 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 56, is the Deputy Chairman of the Company. He has been serving as a Director since 1995. He is currently also a director and the President of FET, a director of Asia Cement Corporation, a director of Oriental Union Chemical Corporation and the Chairman of Everest Textile Co., Ltd. ("Everest Textile") (which has 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 28 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 55, is the Chief Financial Officer of the Group. He has been serving as a Director since 1995. Mr. Lee is currently a director and a senior executive vice president of FET in charge of finance. Mr. Lee joined the Far Eastern Group in 1974 and has been an executive officer since 1988. He also served as the President of Yuang Ding Construction Co., Ltd. He has more than 28 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 63, 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 32 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 55, is the Chief Accountant and Compliance Officer of the Group. He has been serving as a Director since 1995. Mr. Tu is currently a director and the executive vice president of the accounting department of FET. Mr. Tu joined the Far Eastern Group in 1973 and has been an executive officer since 1989. He has more than 28 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 63, has been serving as a Director since 1995. He is currently also a director and the first senior executive vice president of the administration department of FET. Mr. Wang joined the Far Eastern Group in 1964 and has been an executive officer since 1979. He has more than 38 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 56, 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 has 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, aged 39, 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 59, is currently the president of Yuan-Ze University of Taiwan. He graduated from the University of California-Berkeley with a Ph.D. degree in mechanical engineering. He had successively served various teaching and research posts in several universities and institutes, including the University of Wisconsin-Milwaukee, the New York University and the Argonne National Laboratory in the United States. He has also served as a consultant to various industrial corporations, including Kohler Corporation and Eaton Corporation, and as advisor to the Council for Economic Planning and Development of Taiwan.

SENIOR MANAGEMENT

Min-Tsai SHU, aged 52, is a deputy general manager of FEIS. He joined FEIS in October 2002 and is in charge of the general administration function of FEIS, comprising the human resource department, accounting department, purchasing department, information department and international trade department. Mr. Shu graduated with a Ph D. degree from the chemical engineering faculty of Drexel University in 1981 and has over 21 years' experience in the petrochemical industry. Prior to joining FEIS, Mr. Shu worked for DuPont USA as a General Manager, Sterling Diagnostic Imaging as a Managing Director, Agfa-Gevaert NV, Belgium as a PRC Country Manager and Wilmax Technology Consulting Company as a consultant.

SENIOR MANAGEMENT (Cont'd)

Pai-Jan CHENG, aged 47, is a deputy general manager of FEIS. Mr. Cheng joined the Far Eastern Group in 1980, and held the posts of section chief, manager and vice president of the mechanical engineer division of Far Eastern chemical fiber plant. Mr. Cheng joined the Group in 2003 as deputy general manager. He graduated from National Tsing Hua University, who has over 22 years' experience in mechanical engineering.

Guangrong CHEN, aged 55, 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 27 years' experience in mechanical engineering.

Wei-Ming YANG, aged 48, is a vice president of FEIS. Mr.Yang joined Far Eastern Group in 1990, and had held posts as section supervisor and manager of FET's polyester staple fiber marketing division. Mr. Yang was transferred to the Group in 2003. He graduated from University of Dallas with master degree in Business Administration and has over 12 years' experience in the sales of polyester staple fiber products.

Hung-Tsun LAI, aged 52, is a vice president of FEIS. Mr. Lai joined Far Eastern Group in 1973, who held the posts of section chief and manager of the engineering division of FET. Mr. Lai joined FEIS in 2002 as vice president of research and development. Mr. Lai graduated in Lan Yang Institute of Technology, who had over 30 years' experience in environmental protection and industrial engineering.

Shun-Fai LIU, aged 32, 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 10 years' experience in accounting and auditing.

REPORT OF THE DIRECTORS

The Directors have the pleasure of presenting this annual report together with the audited financial statements of Far Eastern Polychem Industries Limited (the "Company") and its subsidiaries (together the "Group") for the year ended 31st December, 2002.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Principal activities of the Company's subsidiaries are set out in Note 24 to the accompanying financial statements.

SEGMENTAL INFORMATION

The Group's turnover, gross profit and operating results for the year ended 31st December 2002 are analyzed as follows:

a. By Product Range

	Turnover	**Operating results**
	$'000	**$'000**
PET chips	1,188,476	179,105
Polyester filament	199,649	12,568
Polyester staple fiber	272,194	21,979
Finished fabrics	249,892	28,776
	1,910,211	242,428
Finance cost, other operating expenses, distribution costs and administrative expenses		(159,906)
Profit before tax		82,522

b. By geographical locations*

	Turnover	**Contribution to gross profit**
PRC	1,388,192	176,178
Overseas		
Asia (excluding PRC)	104,061	13,207
Europe	314,979	39,974
Middle East	11,456	1,454
Others	91,523	11,615
	1,910,211	242,428

* 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 2002, the five largest customers of the Group accounted for approximately 49% of the Group's total sales and the five largest suppliers accounted for approximately 93% of the Group's total purchases. In addition, the largest customer accounted for approximately 29% of the Group's total sales and the largest supplier accounted for approximately 67% of the Group's total purchases.

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

RESULTS AND APPROPRIATION

Details of the Group's results for the year ended 31st December 2002 are set out in the consolidated income statement on page 31 of this annual report.

No interim dividend was recommended by the Board of Directors. The Board of Directors recommend a final dividend of HK$0.10 per share for the year ended 31st December 2002.

SHARE CAPITAL

Details of share capital of the Company are set out in Note 15 to the accompanying financial statements.

RESERVES AND RETAINED PROFIT

Details of the Group's movements in the reserves and retained earnings during the year 2002 are set out in the consolidated statement of changes in equity on page 32 of this annual report.

Details of the Company's movements in the reserves and retained earnings during the year 2002 are set out in Note 25 to the accompanying financial statements.

As at 31st December 2002, the Company's retained earnings of HK$379,345,000 were available for distribution.

PURCHASE, SALE OR REDEMPTION OF SHARES AND WARRANTS

Neither the Company nor its subsidiaries has purchased, sold or redeemed any of the Company's listed shares during the year ended 31st December 2002 and up to the date of this report.

PRE-EMPTIVE RIGHTS

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

SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in Note 24 to the accompanying financial statements.

INTEREST CAPITALIZED

Details of the interest capitalized during the year 2002 are set out in Notes 7 and 20 to the accompanying financial statements.

FIXED ASSETS

Details of movements in fixed assets during the year 2002 are set out in Note 7 to the accompanying financial statements.

BANK LOANS

Particulars of bank loans as at 31st December 2002 are set out in Notes 12 and 13 to the accompanying financial statements.

PENSION SCHEME

Details of the pension scheme are set out in Note 33 to the accompanying financial statements.

CONTINUING CONNECTED TRANSACTION

During the year 2002, the Group was party to the following continuing connected transaction:

Far Eastern Investment (Holdings) Limited ("FEIH") (being an associate of the Company's controlling shareholder, FET) and Far Eastern Industries (Shanghai) Ltd. ("FEIS") (being the Company's subsidiary) entered into a Technological License Agreement dated 11th January 2000, pursuant to which FEIH has granted a license to FEIS for the use of technological know-how and the provision of technical assistance in relation to polyester products produced by FEIS. The Technological License Agreement is for a term of 10 years and is subject to review by the parties and may be terminated by mutual agreement at the end of every 36-month period from the commencement of the agreement. Pursuant to the terms of the Technological Licence Agreement, FEIH has agreed to procure 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. The amount payable by FEIS to FEIH for the year ended 31st December 2002 was approximately HK$11.7 million. (For the year ended 31st December 2001 - HK$11.4 million) For the three year ending 31st December 2004, the annual amount payable by FEIS pursuant to the agreement have been capped at US$1.5 million (approximately HK$11.7 million). Caps to be set for the sixth to tenth years of the term of the agreement shall be determined in due course and are proposed to be approved on an annual basis by independent shareholders if the then proposed caps exceed the higher of HK$10 million and 3 per cent. of the Company's net tangible assets at that time.

CONTINUING CONNECTED TRANSACTION (Cont'd)

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

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

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

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

DIRECTORS

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

Executive directors

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

Non-executive directors

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

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

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

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' INTERESTS IN SECURITIES

As at 31st December 2002, the following Directors had or were deemed to have interests in the securities of the Company under the provision of the Securities (Disclosure of Interest) Ordinance (the "SDI Ordinance") by virtue of their shareholdings in FET, as recorded in the Register of Directors' Interests required to be maintained by the Company pursuant to Section 29 of the SDI Ordinance:

Shares in FET:

	Number of shares				
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 16(1) of the SDI Ordinance as at 31st December 2002.

Notes:

FET is regarded as one of the initial management shareholders (as such term is defined in the GEM Listing Rules) of the Company. As at 31st December 2002, FET had a 58.2% (including a direct interest of 11.4% and an indirect interest of 46.8% through 99.99% shareholding in Yuang Ding Investment Corporation) interest 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 2002 or at any time during 2002.

DIRECTORS' RIGHTS TO PURCHASE SHARES OR DEBENTURES

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

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

SUBSTANTIAL SHAREHOLDERS

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

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

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

Notes:

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

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

COMPETING INTERESTS

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

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

Notes:

1. As at 31st December 2002, Mr. Shu-Tong Hsu, Mr. Jar-Yi Shih, Mr. Champion Lee, Mr. Chin-Sen Tu and Mr. Shaw-Y Wang, who were Directors of the Company, were also directors of FET.

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

SPONSOR'S INTERESTS

As at 31 December 2002, associates of the Company's sponsor, HSBC Investment Bank Asia Limited ("HIBA"), 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 HIBA nor any of its executive directors had any interest in the issued share capital of the Company as at 31st December 2002.

Pursuant to the sponsor agreement dated 11th January 2000 ("Sponsor Agreement") entered into between the Company and HIBA, HIBA 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.

Pursuant to a novation agreement between the Company, HIBA and The Hongkong and Shanghai Banking Corporation Limited (of which HIBA is an indirect wholly-owned subsidiary) dated 29th January 2001, the rights and obligations of HIBA under the Sponsor Agreement have been novated to The Hongkong and Shanghai Banking Corporation Limited effected from 29th January 2001.

MATERIAL LITIGATION

Neither the Company nor its subsidiaries was involved in any material litigation or arbitration in the year 2002.

AUDIT COMMITTEE

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

USE OF PROCEEDS

By 31st December 2002, the Group had used up all the proceeds from the new shares issued for listing on GEM of the Exchange, substantially in line with the information set out in the section headed "Summary" in the Prospectus dated 20th January 2000.

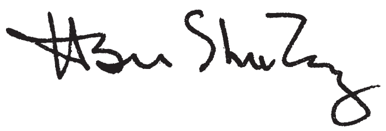
AUDITORS

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

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

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

On behalf of the Board of Directors,



SHU-TONG HSU
Chairman

Hong Kong
14th March 2003

AUDITORS' REPORT

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor Prince's Building
Central, Hong Kong
Telephone (852) 2289 8888
Facsimile (852) 2810 9888

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

We have audited the accompanying balance sheets of Far Eastern Polychem Industries Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") as at 31st December 2002, 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 29 to 62 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 financial statements give a true and fair view of the financial position of the Company and the Group as at 31st December 2002 and of the results of the Group's operations, its cash flows and changes in equity for the year then ended in accordance with International Financial Reporting Standards and comply with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong,
14th March 2003.

CONSOLIDATED BALANCE SHEET

As at 31st December 2002

(Expressed in Hong Kong dollar)

	Note	2002 $'000	2001 $'000
ASSETS			
Current assets			
Cash and bank deposits	3	**345,717**	347,511
Pledged bank deposits		**—**	17,894
Trade and notes receivables	4	**214,828**	141,678
Deposits, prepayments and other receivables		**51,704**	50,949
Prepaid value-added tax		**—**	1,264
Inventories	5	**313,312**	237,838
Total current assets		**925,561**	797,134
Non-current assets			
Long-term investment	6	**1,410**	1,410
Property, plant and equipment	7	**1,318,900**	1,336,506
Land use rights	8	**109,849**	112,345
Deferred assets	9	**8,453**	9,824
Other non-current assets	10	**1,654**	1,654
Total non-current assets		**1,440,266**	1,461,739
Total Assets		**2,365,827**	2,258,873
LIABILITIES AND EQUITY			
Current liabilities			
Trade, other payables and accruals	11	**379,207**	302,417
Income tax payable		**14,279**	7,977
Short-term bank loans	12	**179,131**	239,118
Long-term bank loans, current portion	13	**46,060**	—
Total current liabilities		**618,677**	549,512
Non-current liabilities			
Long-term bank loans, less current portion	13	**425,494**	367,653
Deferred tax liabilities	14	**1,200**	1,200
Total non-current liabilities		**426,694**	368,853

CONSOLIDATED BALANCE SHEET (Cont'd)

As at 31st December 2002

(Expressed in Hong Kong dollar)

	Note	**2002**	2001
		$'000	$'000
Equity			
Share capital	15	**410,296**	410,296
Reserves		**617,185**	583,464
Retained earnings		**292,975**	346,748
Total equity		**1,320,456**	1,340,508
Total Liabilities and Equity		**2,365,827**	2,258,873

Approved by the Board of Directors on 14th March 2003 and signed on behalf of the Board by:

Jar-Yi SHIH
Deputy Chairman

Chin-Sen TU
Director

CONSOLIDATED INCOME STATEMENT

For the year ended 31st December 2002

(Expressed in Hong Kong dollar)

	Note	**2002**	2001
		$'000	$'000
Sales		**1,910,211**	1,474,062
Cost of sales	16	**(1,667,783)**	(1,163,449)
Gross profit		**242,428**	310,613
Distribution costs	17	**(99,060)**	(43,949)
Administrative expenses	18	**(45,160)**	(41,265)
Other operating income	19	**10,601**	6,883
Profit from operations		**108,809**	232,282
Finance costs, net	20	**(19,005)**	(8,804)
Profit before tax		**89,804**	223,478
Income tax expense	21	**(7,282)**	(18,228)
Profit attributable to shareholders		**82,522**	205,250
Earnings per share	22		
— Basic		**$0.20**	$0.50
— Diluted		**N/A**	N/A

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December 2002

(Expressed in Hong Kong dollar)

	Share capital $'000	Share premium $'000	Reserve fund $'000	Hedging reserve $'000	Revaluation reserve $'000	Translation reserve $'000	Retained earnings $'000	Total $'000
Balance as at 1st January 2001	410,296	523,001	20,107	(9,689)	5,645	2,169	288,923	1,240,452
Dividends (Note 23(a))	—	—	—	—	—	—	(114,883)	(114,883)
Profit appropriation (Note 23(b))	—	—	32,542	—	—	—	(32,542)	—
Cash flow hedges transferred to property, plant and equipment	—	—	—	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
Dividends (Note 23(a))	—	—	—	—	—	—	(102,574)	(102,574)
Profit appropriation (Note 23(b))	—	—	33,721	—	—	—	(33,721)	—
Profit for the year	—	—	—	—	—	—	82,522	82,522
Balance as at 31st December 2002	410,296	523,001	86,370	—	5,645	2,169	292,975	1,320,456

BALANCE SHEET

As at 31st December 2002

(Expressed in Hong Kong dollar)

	Note	**2002**	2001
		$'000	$'000
ASSETS			
Current assets			
Cash and bank deposits	3	**234,911**	253,517
Trade receivables	4	**53,985**	53,876
Deposits, prepayments and other receivables		**2,351**	89,753
Total current assets		**291,247**	397,146
Non-current assets			
Investment in subsidiaries	24	**1,073,989**	960,239
Total Assets		**1,365,236**	1,357,385
LIABILITIES AND EQUITY			
Current liabilities			
Amount due to a subsidiary		**47,220**	19,173
Accruals and other current liabilities		**6,757**	6,901
Total current liabilities		**53,977**	26,074
Equity			
Share capital	15	**410,296**	410,296
Reserves	25	**900,963**	921,015
Total equity		**1,311,259**	1,331,311
Total Liabilities and Equity		**1,365,236**	1,357,385

Approved by the Board of Directors on 14th March 2003 and signed on behalf of the Board by:

Jar-Yi SHIH
Deputy Chairman

Chin-Sen TU
Director

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st December 2002

(Expressed in Hong Kong dollar)

	Note	**2002**	2001
		$'000	$'000
Cash flows from operating activities			
Cash generated from operations	26	**189,855**	357,291
Interest paid		**(24,362)**	(21,252)
Income tax paid		**(17,170)**	(10,251)
Net cash from operations		**148,323**	325,788
Cash flows from investing activities			
Purchase of property, plant and equipment		**(114,112)**	(267,075)
Payment for deferred assets		**—**	(1,551)
Decrease in other long-term assets		**—**	30
Payment for long-term investment		**—**	(1,410)
Decrease (increase) in pledged deposits		**17,894**	(17,894)
Proceeds from disposal of property, plant and equipment		**—**	496
Interest received		**4,761**	13,618
Net cash used in investing activities		**(91,457)**	(273,786)
Cash flows from financing activities			
Proceeds from short-term bank loans		**739,554**	616,157
Proceeds from long-term bank loans		**500,694**	46,061
Repayment of short-term bank loans		**(799,541)**	(546,239)
Repayment of long-term bank loans		**(396,793)**	(63,766)
Dividends paid		**(102,574)**	(114,883)
Net cash used in financing activities		**(58,660)**	(62,670)
Net decrease in cash and cash equivalents		**(1,794)**	(10,668)
Cash and cash equivalents at beginning of year		**347,511**	358,179
Cash and cash equivalents at end of year		**345,717**	347,511

1 GENERAL INFORMATION

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

The Company is principally engaged in investment holding and the trading of the products produced by its subsidiary. The principal activities of the Company's subsidiaries (together with the Company hereinafter collectively referred to as the "Group") are set out in Note 24.

For the year ended 31st December 2002, the average number of employees in the Group was 1,639 (2001: 1,429).

The Company has its listing on The Growth Enterprise Market of the Stock Exchange of Hong Kong Limited.

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

2 PRINCIPAL ACCOUNTING POLICIES

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

(a) Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Growth Enterprise Market of the Stock Exchange of Hong Kong Limited. The financial statements have been prepared under the historical cost convention as modified by the revaluation of buildings included in property, plant and equipment.

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

2 PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(b) Group accounting

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

The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity.

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

(c) Foreign currency translation

(i) Measurement currency

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

(ii) Transactions and balances

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

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

(iii) Group companies

Income statements and cash flows of foreign entities are translated into the Group's reporting currency at average exchange rates for the year and their balance sheets are translated at the exchange rates ruling at 31st December. Exchange differences arising from the translation of the net investment in foreign entities are taken to shareholders' equity.

2 PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(d) Cash and cash equivalents

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

(e) Trade receivables

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

(f) Inventories

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

(g) Long-term investment

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

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

2 PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(h) Property, plant and equipment

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

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

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

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

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

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

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

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

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

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

2 PRINCIPAL ACCOUNTING POLICIES (Cont'd)

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

Construction-in-progress is not depreciated until such time when the assets are completed and ready for their intended 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 recognised as prepayments for operating leases (see (q) below).

(j) Deferred assets

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

(k) Deferred income taxes

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

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

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

(l) Equity

(i) Liabilities and equity

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

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

2 PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(l) Equity (Cont'd)

(ii) Equity transaction costs

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

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

(iii) Reserves

(a) 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)

(m) Revenue recognition

Revenue comprises the invoiced value for the sale of goods and services net of value-added tax, rebates and discounts, and after eliminating sales within the Group. Revenue from the sale of goods is recognised when significant risks and rewards of ownership of the goods are transferred to the buyer. Revenue from rendering of services is based on the stage of completion determined by reference to services performed to date as a percentage of total services to be performed.

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

(n) 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 People's Republic of China (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.

2 PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(o) Borrowings

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

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

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

(p) Impairment of long lived assets

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

(q) Operating leases

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

(r) Dividends

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

(s) Segment reporting

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

3 CASH AND BANK DEPOSITS

	Group		Company	
	2002	2001	**2002**	2001
	$'000	$'000	**$'000**	$'000
Cash in hand	**171**	94	**5**	5
Short-term bank deposits	**149,680**	100,484	**39,040**	9,399
Time deposits with maturity less than 3 months	**195,866**	246,933	**195,866**	244,113
	345,717	347,511	**234,911**	253,517

4 TRADE AND NOTES RECEIVABLES

	Group		Company	
	2002	2001	**2002**	2001
	$'000	$'000	**$'000**	$'000
Trade receivables				
Current to 30 days	**65,553**	49,319	**28,668**	28,931
31 to 60 days	**33,007**	37,069	**11,076**	20,348
60 to 90 days	**45,505**	25,252	**14,241**	4,597
	144,065	111,640	**53,985**	53,876
Notes receivable	**70,763**	30,038	**—**	—
	214,828	141,678	**53,985**	53,876

Credit policy

The Group adopted a prudent approach in granting credit to customers. No credit terms were granted to the PRC customers except for those with sound financial background and good repayment histories, for which the Group would grant credit terms ranging from 7 days to 60 days. For overseas customers, the Group would grant credit terms from 90 to 120 days. In addition, a predetermined maximum credit limit is set for each customer.

Concentrations of credit risk

Concentrations of credit risk with respect to trade receivables are limited due to the Group's large number of customers, who are internationally dispersed, cover the spectrum of manufacturing and distribution and have a variety of end markets in which they sell. Due to these factors, management believes that no additional credit risk beyond amounts provided for collection losses, if any, is inherent in the Group's trade receivables.

5 INVENTORIES

	2002	2001
	$'000	$'000
Raw materials	**138,743**	86,324
Work-in-process	**34,973**	16,335
Finished goods	**115,444**	101,728
Consumables and supplies	**24,152**	33,451
	313,312	237,838

6 LONG-TERM INVESTMENT

	2002	2001
	$'000	$'000
Investment in unlisted shares, at cost	**1,410**	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 2002.

Details of the investment as at 31st December 2002 are as follows:

Name	**Place of establishment/ operation and date of establishment**	**Registered capital**	**Percentage of equity interest directly held by the Group**	**Principal activities**
China Chemical Fiber Industrial Consortium Limited	Shanghai, the PRC 3rd August 2001	Renminbi ("RMB") 15,000,000	10%	Provision of B-to-B e-commerce platform for trading of chemical fiber

7 PROPERTY, PLANT AND EQUIPMENT

	2002						2001
	Buildings	**Machinery and equipment**	**Furniture, fixtures and office equipment**	**Motor vehicles**	**Construction-in-progress**	**Total**	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Cost/valuation							
Beginning of year	326,119	1,227,761	17,855	11,124	25,585	1,608,444	1,333,217
Additions	8	2,330	17,478	—	96,740	116,556	276,764
Transfers	18,741	41,393	5,348	1,529	(67,011)	—	—
Disposals	—	—	—	(263)	—	(263)	(1,537)
End of year	344,868	1,271,484	40,681	12,390	55,314	1,724,737	1,608,444
Representing							
At cost	86,237	1,271,484	40,681	12,390	55,314	1,466,106	1,349,813
At professional valuation	258,631	—	—	—	—	258,631	258,631
	344,868	1,271,484	40,681	12,390	55,314	1,724,737	1,608,444
Accumulated depreciation							
Beginning of year	33,776	225,540	8,242	4,380	—	271,938	176,914
Charge for the year	14,595	113,563	3,621	2,007	—	133,786	95,361
Revaluation	342	—	—	—	—	342	342
Disposals	—	—	—	(229)	—	(229)	(679)
End of year	48,713	339,103	11,863	6,158	—	405,837	271,938
Net book value							
End of year	296,155	932,381	28,818	6,232	55,314	1,318,900	1,336,506
Beginning of year	292,343	1,002,221	9,613	6,744	25,585	1,336,506	1,156,303

7 PROPERTY, PLANT AND EQUIPMENT (Cont'd)

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

As at 31st December 2002, 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 $290,337,000 (2001: $286,182,000).

Approximately $265 million (2001: $72 million) of the Group's buildings were mortgaged as collateral to secure the Group's long-term bank loans (Note 13).

Construction-in-progress includes borrowing costs incurred in connection with the construction of certain assets. Borrowing costs capitalised as construction-in-progress amounted to approximately $2,444,000 (2001: $14,653,000) (Note 20). The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation was approximately 3.97% (2001: 6.79%).

8 LAND USE RIGHTS

	2002	2001
	$'000	$'000
Cost		
Beginning and end of year	**124,811**	124,811
Accumulated amortisation		
Beginning of year	**12,466**	9,969
Charge for the year	**2,496**	2,497
End of year	**14,962**	12,466
Net book value		
End of year	**109,849**	112,345
Beginning of year	**112,345**	114,842

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.

9 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.

	2002	2001
	$'000	$'000
Cost		
Beginning of year	**13,213**	11,662
Addition	**—**	1,551
End of year	**13,213**	13,213
Accumulated amortisation		
Beginning of year	**3,389**	2,138
Charge for the year	**1,371**	1,251
End of year	**4,760**	3,389
Net book value		
End of year	**8,453**	9,824
Beginning of year	**9,824**	9,524

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

10 OTHER NON-CURRENT ASSETS

	2002	2001
	$'000	$'000
Deposits for reservation of land use rights	**1,652**	1,652
Other non-current assets	**2**	2
	1,654	1,654

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 at an anticipated consideration of approximately $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.

11 TRADE, OTHER PAYABLES AND ACCRUALS

	2002	2001
	$'000	$'000
Trade payables		
Current to 30 days	**236,856**	169,551
31 to 90 days	**9,037**	41,826
Over 90 days	**46,879**	17,643
	292,772	229,020
Other payables and accruals	**86,435**	73,397
	379,207	302,417

12 SHORT-TERM BANK LOANS

	2002 $'000	2001 $'000
Secured	—	16,920
Unsecured	179,131	222,198
	179,131	239,118

The Group's short-term bank loans were granted by third party banks, bore interests at 1.94% to 5.04% (2001: 2.82% to 5.86%) per annum and were unsecured.

13 LONG-TERM BANK LOANS

	2002 $'000	2001 $'000
Secured	190,820	276,473
Unsecured	280,734	91,180
Less: Amount repayable within one year included in current liabilities, secured	(46,060)	—
	425,494	367,653

The Group's long-term bank loans were granted by third party banks, bore interests at 1.89% to 5.94% (2001: HIBOR plus 0.475% to 5.94%) per annum and the secured portion were secured by certain of the Group's buildings (Note 7).

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

	2002 $'000	2001 $'000
Repayable in:		
2002	—	—
2003	—	137,240
2004	94,000	230,413
2005	331,494	—
	425,494	367,653

14 DEFERRED TAX LIABILITIES

Component of deferred tax liabilities is as follows:

	2002	2001
	$'000	$'000
Effect on revaluation of property, plant and equipment	**1,200**	1,200

15 SHARE CAPITAL

The details of share capital are as follows:

	Number of shares		**Amount**	
	2002	2001	**2002**	2001
	$'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

16 COST OF SALES

	2002	2001
	$'000	$'000
Depreciation on property, plant and equipment	**128,086**	91,475
Amortisation of land use rights and deferred assets	**3,397**	2,739
Cost of in inventories	**1,379,655**	905,235
Personnel expenses	**32,945**	30,457
Others	**123,700**	133,543
	1,667,783	1,163,449

17 DISTRIBUTION COSTS

	2002	2001
	$'000	$'000
Personnel expenses	**17,746**	1,380
Transportation expenses	**67,604**	27,978
Others	**13,710**	14,591
	99,060	43,949

18 ADMINISTRATIVE EXPENSES

	2002	2001
	$'000	$'000
Depreciation on property, plant and equipment	**6,042**	4,228
Amortisation of land use rights	**470**	1,009
Personnel expenses	**18,034**	26,160
Directors' fees	**1,164**	1,164
Audit fees	**334**	237
Consulting and legal fees	**2,652**	410
Others	**16,464**	8,057
	45,160	41,265

19 OTHER OPERATING INCOME

	2002	2001
	$'000	$'000
Sales of scrap materials	**10,055**	6,744
Others	**546**	139
	10,601	6,883

20 FINANCE COSTS

	2002	2001
	$'000	$'000
Interest income	**4,761**	13,618
Interest expense on borrowings	**(24,362)**	(35,905)
Less: Amount capitalised as construction-in-progress (Note 7)	**2,444**	14,653
Net foreign currency exchange loss (gains)	**2,487**	(562)
Other financial expenses	**(4,335)**	(608)
	(19,005)	(8,804)

21 INCOME TAX

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

Pursuant to the relevant laws and regulations in the PRC, the Company's subsidiaries registered in the PRC are subject to PRC enterprise income tax ("EIT") on the taxable income as reported in their PRC statutory accounts adjusted in accordance with relevant PRC income tax laws. Furthermore, in accordance with the PRC "Law of Enterprise Income Tax for Enterprise with Foreign Investment", FEIS, the Company's major PRC subsidiary, is entitled to full exemption from EIT for the first two years and a 50% reduction in EIT for the next three years, commencing from the first profitable year after offsetting all tax losses carried forward from the previous five years. Being registered in a designated high-technology development zone in the PRC, FEIS enjoys a preferable EIT rate of 15%. 2002 is the fourth 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 the 50% reduced EIT rate for an additional three years, after the end of the five years preferential EIT treatment as stated above. The "High-technology Enterprise" status is subject to review every two years.

There was no significant unprovided deferred taxation as at 31st December 2002.

22 EARNINGS PER SHARE

The calculation of basic earnings per share for the year ended 31st December 2002 was based on the consolidated profit attributable to shareholders of approximately $82,522,000 (2001: $205,250,000) and on the weighted average number of ordinary shares in issue during 2002. The number of shares used in the computation is as follows:

	2002	2001
	$'000	$'000
Weighted average number of ordinary shares	**410,296**	410,296

Diluted earnings per share for the year ended 31st December 2002 was not presented because there were no potentially dilutive ordinary shares in existence during the financial year.

23 PROFIT APPROPRIATION

(a) Dividend

On 18th March 2002, the Board of Directors declared a final dividend of $0.25 (2001: $0.28) per ordinary share, totalling approximately $102,574,000 (2001: $114,883,000). 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 the entity's local statutory accounts) but before dividend distribution. FEIS is required to allocate at least 10% of its net profit after tax to the reserve fund until the balance of such fund has reached 50% of its registered capital. Appropriation to the staff and workers' bonus and welfare fund is at the discretion of Board of Directors of FEIS. The reserve fund can only be used, upon approval by the relevant authority, to offset accumulated losses or increase capital. The staff and workers' bonus and welfare fund can only be used for special bonuses or collective welfare of FEIS' employees, and assets acquired through this fund shall not be treated as FEIS' assets.

For the year ended 31st December 2002, the directors of FEIS resolved to appropriate approximately $33,721,000 (2001: $32,542,000) to the reserve fund.

24 INVESTMENT IN SUBSIDIARIES

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

	2002	2001
	$'000	$'000
Investment in unlisted shares, at cost	**624,000**	604,500
Dividends received and receivable	**—**	(202,100)
Share of post-acquisition profit before tax	**457,271**	576,067
Share of tax	**(7,282)**	(18,228)
	1,073,989	960,239

The Company's directors are of the opinion that the underlying value of the subsidiaries was not less than the Company's carrying value of the subsidiaries as at 31st December 2002.

Details of the Company's subsidiaries are as follows:

Name	**Place of establishment/ incorporation and operation**	**Paid in/issued and fully paid capital**	**Attributable equity interest held by the Company**	**Principal activities**
Far Eastern Industries (Shanghai) Ltd. ("FEIS")	The PRC	US$78,000,000	100% (directly)	Production and distribution of polyethylene terephthalate ("PET") chip, polyester filament and polyester staple fiber, and dyeing and finishing of polyester textile products
Far Eastern Info Service (Holding) Limited	Bermuda	US$12,000	100% (directly)	Investment Holding
Far Eastern Network Info-Tech (Shanghai) Ltd.	The PRC	US$2,500,000	100% (indirectly)	Development, design, manufacturing and sales of computer network software, data-processing and related services

24 INVESTMENT IN SUBSIDIARIES (Cont'd)

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.

Far Eastern Network Info-Tech (Shanghai) Ltd. was established on 18th November 2002 as a wholly-owned foreign enterprise in the PRC to be operated for 50 years up to 17th November 2052.

25 RESERVES

	Share premium $'000	Hedging reserve $'000	Translation reserve $'000	Retained earnings $'000	Total $'000
Balance as at 1st January 2001	523,001	(9,689)	(1,383)	309,030	820,959
Dividends (Note 23(a))	—	—	—	(114,883)	(114,883)
Cash flow hedges transferred to property, plant and equipment	—	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
Dividends (Note 23(a))	—	—	—	(102,574)	(102,574)
Profit for the year	—	—	—	82,522	82,522
Balance as at 31st December 2002	523,001	—	(1,383)	379,345	900,963

26 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Reconciliation from profit before tax to cash generated from operations:

	2002	2001
	$'000	$'000
CASH FLOWS FROM OPERATING ACTIVITIES:		
Profit before tax	**89,804**	223,478
Adjustments for:		
Depreciation on property, plant and equipment	**134,128**	95,703
Amortisation of land use rights and deferred assets	**3,867**	3,748
Loss on disposal of property, plant and equipment	**34**	362
Reversal of provision for inventory obsolescence	**—**	(3,422)
Interest expenses	**21,918**	21,252
Interest income	**(4,761)**	(13,618)
Operating profit before working capital changes	**244,990**	327,503
Increase in inventories	**(75,474)**	(68,962)
(Increase) decrease in trade and notes receivables	**(73,150)**	2,914
Decrease in due from related company	**—**	15,784
Decrease in other current assets	**509**	12,001
Increase in trade, other payables and accruals	**92,980**	68,051
Cash generated from operations	**189,855**	357,291

27 SEGMENTAL INFORMATION

The Company and its subsidiaries 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	
	2002 ($'000)	2001 ($'000)	**2002 ($'000)**	2001 ($'000)	**2002 ($'000)**	2001 ($'000)	**2002 ($'000)**	2001 ($'000)	**2002 ($'000)**	2001 ($'000)
Revenue										
Turnover from external sales	**1,188,476**	1,015,749	**199,649**	193,776	**249,892**	226,816	**272,194**	37,721	**1,910,211**	1,474,062
Result										
Gross profit	**179,105**	281,099	**12,568**	9,726	**28,776**	16,806	**21,979**	2,982	**242,428**	310,613
Unallocated corporate expenses	**—**	—	**—**	—	**—**	—	**—**	—	**(133,619)**	(65,884)
Profit from operations	**—**	—	**—**	—	**—**	—	**—**	—	**108,809**	244,730
Finance cost	**—**	—	**—**	—	**—**	—	**—**	—	**(19,005)**	(21,252)
Profit before taxation	**—**	—	**—**	—	**—**	—	**—**	—	**89,804**	223,478
Taxation	**—**	—	**—**	—	**—**	—	**—**	—	**(7,282)**	(18,228)
Profit for the year	**—**	—	**—**	—	**—**	—	**—**	—	**82,522**	205,250
Other information										
Segment assets	**813,598**	787,791	**282,275**	329,963	**465,876**	506,103	**307,932**	233,548	**1,869,681**	1,857,405
Unallocated corporate assets	**—**	—	**—**	—	**—**	—	**—**	—	**496,146**	401,468
Total assets	**—**	—	**—**	—	**—**	—	**—**	—	**2,365,827**	2,258,873
Segment liabilities	**248,072**	259,794	**41,590**	164,494	**46,112**	345,115	**44,448**	139,869	**380,222**	909,272
Unallocated corporate liabilities	**—**	—	**—**	—	**—**	—	**—**	—	**665,149**	9,093
Total liabilities	**—**	—	**—**	—	**—**	—	**—**	—	**1,045,371**	918,365
Capital expenditure	**59,572**	117,088	**2,516**	1,719	**7,150**	17,807	**6,029**	140,150	**75,267**	276,764
Unallocated corporate capital expenditures	**—**	—	**—**	—	**—**	—	**—**	—	**38,845**	—
Total capital expenditures	**—**	—	**—**	—	**—**	—	**—**	—	**114,112**	276,764
Depreciation and amortisation	**41,398**	30,232	**22,079**	30,882	**26,219**	33,012	**15,179**	5,325	**104,875**	99,451
Unallocated depreciation and amortization	**—**	—	**—**	—	**—**	—	**—**	—	**33,120**	—
Total depreciation and amortization	**—**	—	**—**	—	**—**	—	**—**	—	**137,995**	99,451
Non-cash expenses other than depreciation and amortisation	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—

27 SEGMENTAL INFORMATION (Cont'd)

Geographical segments

	PRC		Europe		Others		Consolidated	
	2002 ($'000)	2001 ($'000)	**2002 ($'000)**	2001 ($'000)	**2002 ($'000)**	2001 ($'000)	**2002 ($'000)**	2001 ($'000)
Revenue from external customers	**1,388,192**	1,216,718	**314,979**	102,930	**207,040**	154,414	**1,910,211**	1,474,062
Segment assets	**2,074,611**	1,864,515	**35,922**	157,731	**255,294**	236,627	**2,365,827**	2,258,873
Capital expenditure	**114,112**	276,764	**—**	—	**—**	—	**114,112**	276,764

28 DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

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

	2002 $'000	2001 $'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

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

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

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

	2002	2001
	$'000	$'000
Nil - $1,000,000	**5**	5
$1,000,000 - $2,000,000	**—**	—
	5	5

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 ended 31st December 2003 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:

	2002	2001
	$'000	$'000
Basic salaries and allowances	**3,179**	3,306
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.

29 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 2002, the estimated fair values of long-term loans including current portions were approximately $471,554,000 (2001: $367,653,000) based on current market interest rates for comparable instruments.

30 OPERATING LEASE

As at 31st December 2002, the Group had future aggregate minimum lease payments under non-cancelable operating leases as follows:

	2002	2001
	$'000	$'000
Within next year	**3,096**	2,647
2 to 5 years	**7,291**	9,791
After 5 years	**—**	—
	10,387	12,438

31 CAPITAL COMMITMENTS

As at 31st December 2002, the Group had the following capital commitments which were not provided for in the accounts:

	2002	2001
	$'000	$'000
Authorised but not contracted for		
— Investment in an associated company	**—**	44,346
— Investment in a company	**83,850**	—
Authorised and contracted for		
— Acquisition of property, plant and equipment	**189,689**	7,711
	273,539	52,057

32 RELATED PARTY TRANSACTIONS

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

(a) Name and relationship of related parties:

Name	**Relationship**
Far Eastern Textile Limited ("FET")	Ultimate holding company of the Company
Far Eastern Investment (Holdings) Company Limited ("FEIH")	Subsidiary of FET

(b) Significant transactions with related parties for the year ended 31st December 2002 were as follows:

	2002	2001
	$'000	$'000
Technological license fee paid to		
— FEIH	11,671	11,413

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.

33 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.

34 BANKING FACILITIES

The Group had certain banking facilities from several banks for loans and trade financing. These facilities were guaranteed by the Company and the pledge of the Group's land and buildings, with a net book value of approximately $265 million as at 31st December 2002 (2001: $72 million) (Note 7).

As at 31st December 2002, the Group had aggregate banking facilitates as follows:

	2002	2001
	$'000	$'000
Aggregate amount of banking facilities	**2,092,060**	2,193,000
Less: Amount utilised	**(653,700)**	(874,000)
Unused facilities	**1,438,360**	1,319,000

35 SUBSEQUENT EVENT

On 14th March 2003, the board of directors declared a final dividend of $0.10 per ordinary share, totaling approximately $41,029,600.

36 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 2:00 p.m. on 11th June 2003 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 2002.

2. To re-elect retiring directors, to ratify any bonus payments to executive directors and to authorize the board of directors to divide amongst the executive and non-executive directors of the Company an amount of 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 2002.

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 Ordinary Resolutions:

   "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 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

17th March 2003
Hong Kong

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

Notes:

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

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

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

4. The register of members of the Company will be closed form 5th June 2003 to 11th June 2003, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the final dividend payable on 18th June 2003 to be approved at the meeting and the right to attend and vote at the meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's Share Registrar in Hong Kong, Computershare Hong Kong Investor Services Limited Room 1901-5, 19th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:00p.m. on 3rd June 2003.

5. With reference to the Ordinary Resolutions 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.