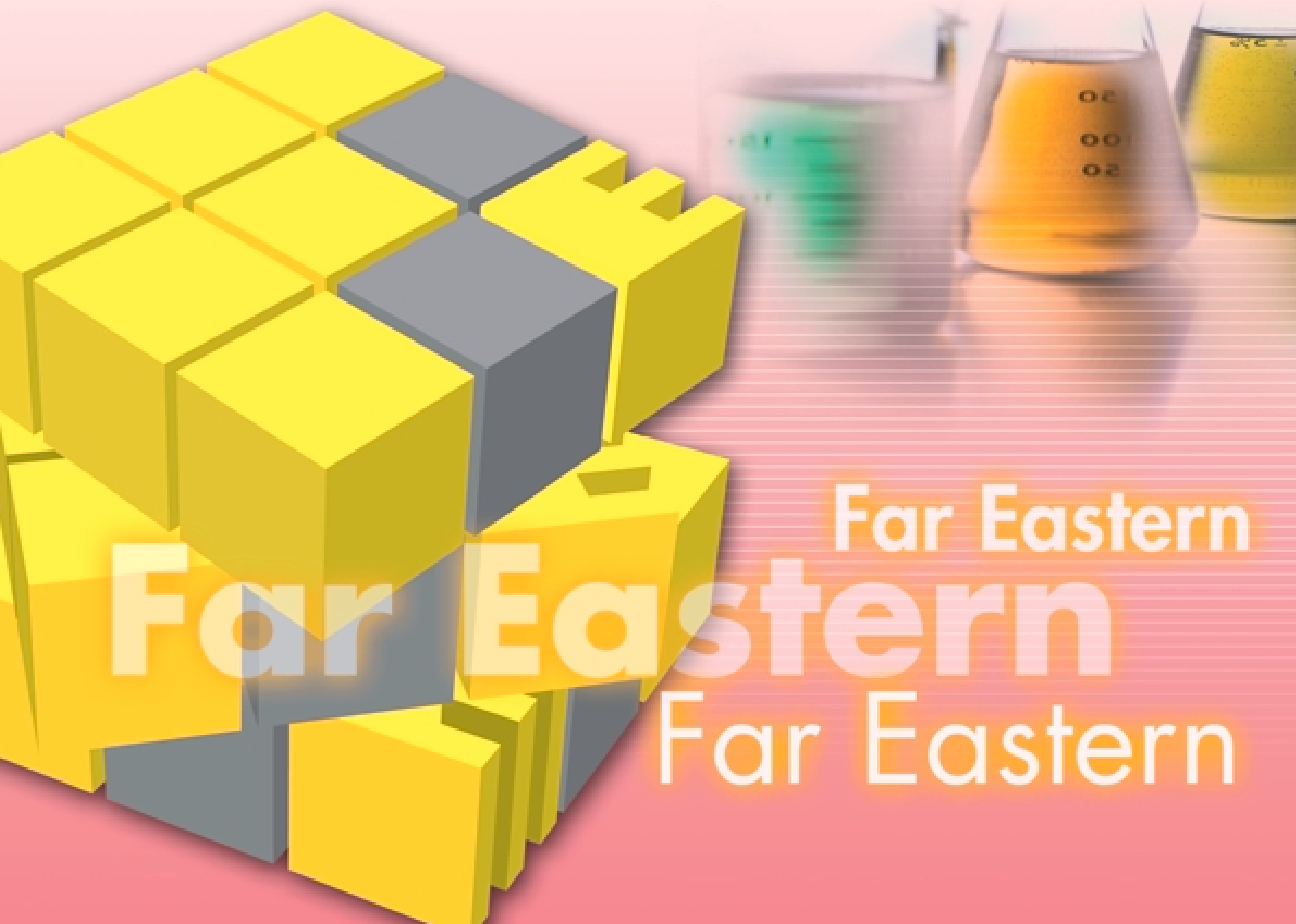
Far Eastern Polychem Industries Limited

遠東化聚工業股份有限公司



Annual Report 2004

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This annual report, for which the directors of Far Eastern Polychem Industries Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Exchange (the "GEM Listing Rules") for the purpose of giving information with regard to Far Eastern Polychem Industries Limited. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this annual report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this annual report misleading; and (3) all opinions expressed in this annual report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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CORPORATE INFORMATION

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

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

NON-EXECUTIVE DIRECTOR

Shaw-Y WANG

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

AUDIT COMMITTEE

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

QUALIFIED ACCOUNTANT

Wai-Man YIM, *FCPA, FCCA*

COMPANY SECRETARY

Wai-Man YIM, *FCPA, FCCA*

AUTHORIZED REPRESENTATIVES

Chin-Sen TU
Wai-Man YIM, *FCPA, FCCA*

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Certified Public Accountants
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PRINCIPAL BANKERS

The Hong Kong and Shanghai Banking Corporation Limited, Tsim Sha Tsui Branch
Hang Seng Bank, Nanjing Branch
The Bank of Tokyo-Mitsubishi Limited, Hong Kong Branch
Citibank N.A., Shanghai Branch
Bank of China, Shanghai Pudong Branch
Bank of Shanghai, Pudong Branch
Industrial Commercial Bank of China, Shanghai Branch

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E-mail:	fepi@fepihk.com.hk

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.

CORPORATE PROFILE

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

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

As at 31st December 2004, the Group had a total of 2,354 employees.

The following table sets forth 2004 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 2004 net sales	Typical uses
PET chips	61%	Used mainly in the manufacturing of carbonated soft drink and hot-filled bottles
Polyester filaments	9%	Used in the production of yarn and woven fabrics for further processing into apparel, especially shirts and dresses
Polyester staple fibers	16%	Used in fiber-fill for pillows, carpeting, insulation, toys, upholstery, sleeping bags, sport shoes and diapers and in the production of yarn and woven fabrics
Finished fabrics	14%	Used in the manufacturing of apparel, curtains and furnitures
	100%	

CONSOLIDATED INCOME STATEMENTS

	Year ended 31st December				
	2004	2003	2002	2001	2000
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Sales, net	**2,602,033**	2,080,494	1,910,211	1,474,062	1,298,649
Profit from operations	**54,565**	20,384	108,809	232,282	241,793
Other income	**—**	21,456	—	—	—
Finance costs, net	**(17,826)**	(11,599)	(19,005)	(8,804)	(21,655)
Share of result of an associate before tax	**(3,649)**	(2,130)	—	—	—
Profit before tax	**33,090**	28,111	89,804	223,478	220,138
Income tax expense	**(5,509)**	(2,751)	(7,282)	(18,228)	—
Profit before minority interest	**27,581**	25,360	82,522	205,250	220,138
Minority interests	**79**	28	—	—	—
Profit attributable to shareholders	**27,660**	25,388	82,522	205,250	220,138
Earnings per share (in HK$)					
- Basic	**0.07**	0.06	0.20	0.50	0.55
- Diluted	**N/A**	N/A	N/A	N/A	N/A
Dividends per share (in HK$)	**0.10**	0.10	0.10	0.25	0.28

CONSOLIDATED BALANCE SHEETS

	As at 31st December				
	2004	2003	2002	2001	2000
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
ASSETS					
Fixed assets and land use rights	**1,878,815**	1,349,379	1,428,749	1,448,851	1,271,145
Investment in an associate	**80,694**	84,343	—	—	—
Other non-current assets	**9,021**	11,608	11,517	12,888	11,208
Current assets	**1,436,778**	869,237	925,561	797,134	748,223
Total assets	**3,405,308**	2,314,567	2,365,827	2,258,873	2,030,576
LIABILITIES AND EQUITY					
Share capital	**410,296**	410,296	410,296	410,296	410,296
Retained earnings	**243,414**	261,057	292,975	346,748	288,923
Other reserves	**652,294**	633,495	617,185	583,464	541,233
Shareholders' equity	**1,306,004**	1,304,848	1,320,456	1,340,508	1,240,452
Minority interests	**39,316**	395	—	—	—
Current liabilities	**1,279,829**	583,816	618,677	549,512	403,566
Long-term bank loans, non-current portion	**776,765**	424,308	425,494	367,653	385,358
Deferred tax liabilities	**3,394**	1,200	1,200	1,200	1,200
Total liabilities and equity	**3,405,308**	2,314,567	2,365,827	2,258,873	2,030,576

It is my pleasure to present to you the annual report of the Company for the year ended 31st December 2004.

OPERATING RESULTS

During the year 2004, the Group achieved a total turnover of approximately HK$2,602 million, an increase of 25% as compared to the year 2003. Gross profit was approximately HK$212 million and audited profit attributable to shareholders amounted to approximately HK$28 million, representing an increase of 17% and 9%, respectively, as compared to 2003. Earnings per share in 2004 amounted to approximately HK$0.07.

DIVIDENDS

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

BUSINESS REVIEW

2004 was another tough year after 2003. Over-supply in the market meant that trading conditions in the PRC continued to deteriorate. All polyester producers in the PRC are in keen competition and face significant pressure on product margins.

Despite the challenging environment, there was a 25% increase in turnover, driven primarily by increases in unit selling prices to pass on incremental raw material costs. The Group's 2004 sales revenue of HK$2.6 billion set a record high since its incorporation.

To enhance its competitiveness, the Group is in the process of expanding its production capacities to further improve its economies of scale, streamline its production process to enhance product quality. It is the Group's persistence of product quality that helps it to build a solid reputation in the polyester industry and overcomes all market challenges. Finally, it is pleasing to report that the Group was able to make a profit in 2004 while many polyester manufacturers in the PRC are believed to be sustaining losses.

FUTURE PROSPECTS

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

The Directors are optimistic about the future growth in PET resins demand in China. As China's economy continues to grow at a fast pace, the Directors believe that market demand for PET resins in China may reach approximately 1,450,000 tonnes per annum in 2005, representing a substantial growth as compared to the estimated demand of approximately 1,000,000 tonnes in 2004.

FUTURE PROSPECTS (Cont'd)

Despite rapid growth in product demand, recovery of the China PET resin market hinges heavily on the rate of elimination of small-scale or inefficient producers. Certain small-scale PET resin producers have been operating at inefficient, loss making levels for prolonged periods since 2002.

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

The Group will continue to focus on high value-added and specialty products. Diversification and differentiation will be keys to the Group's future development. The Group will continue to position itself at the high-end market, to produce products that involve technology that cannot easily be copied by other producers in China. As always, the Group will continue to focus on the production of high-quality bottle-grade PET chips for carbonated soft drink and hot-filled bottles, low denier filaments and specialty fabrics. It is believed that the Group's current product mix is competing effectively and efficiently under the current adverse market conditions, and the Directors will continue to monitor the market situation so as to achieve the optimal product mix with a view to maximising profit of the Group.

Major capacity expansion to be completed in 2005 and 2006

The Group is currently undergoing the most significant capacity expansion since its listing in 2000. This expansion covers mainly the Group's Chip Strategic Business Unit ("SBU"), Filament SBU and Fiber SBU and will be completed in phases throughout 2005 and early 2006. After this major expansion, the Group will have production capacity that almost doubles its current scale. The Directors believe this expansion will escalate the Group's competitiveness to an even higher level and contribute to position the Group as one of the leading polyester producers in the PRC.

The acquisition of polymerization facilities from Dupont Suzhou Polyester Company Limited ("DSPC") was completed in 2004

The completion of the acquisition of polymerization facilities from DSPC took place on 1st November 2004. The facilities, which cost approximately US$32.0 million, provide the Group with an additional 100,000 tonnes per annum polymerization production capacity and ease the production bottleneck in base polymers. The facilities commenced full operations in early 2005.

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

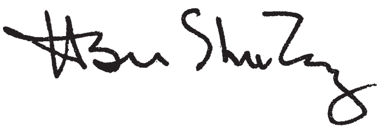
In 2003, the Group formed a joint venture with two connected parties to establish and operate a new PTA plant adjacent to the Group's existing manufacturing facilities in Pudong, Shanghai. This PTA plant is now under construction as planned and is expected to commence operation by the end of 2005. The Group's investment amounted to US$11.1 million. Since PTA is a fundamental raw material for manufacturing polyester products, this investment will enable the Group to vertically integrate its production process. The Group is confident that it will also improve its production efficiency and, as a result, strengthen its competitiveness.

FUTURE PROSPECTS (Cont'd)

Concluding remarks

Although 2004 was another tough year for the Group given the market factors impacting the polyester industry in the PRC, the management of the Group has made continuous efforts so as to react to the market conditions on a timely basis. The management's efforts have been proven effective, as the Group manages to deliver profits under these adverse market conditions. Going forward, the Group is committed to enhancing its production efficiency and effectiveness, and to maintain an optional mix of high-quality high-end products. With these strategies in place, the Group is confident of capturing future growth opportunities to bring fruitful returns to our shareholders.

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



SHU-TONG HSU
Chairman

Taipei
24th March 2005

OPERATIONAL REVIEW

The business environment in the first quarter of 2004 showed a recovery after a prolonged period of depression in the polyester industry. In light of the continuing rise of PTA and MEG prices, certain polyester producers scaled down their production which immediately alleviated the over-supply situation and rebounds in product prices were observed. However, such recovery was subsequently found to be temporary in nature.

Driven by various political and speculative factors, crude oil prices have been rising since the second quarter of 2004. Since the raw materials for polyester production are all petrochemical derivative products, the rising crude oil price inevitably led to an immediate rise in production costs and, to certain extent, a squeeze in product margins. As a result, the Group only achieved break even in the second, third and fourth quarters of 2004.

Active changes in product mix to react to unfavorable business environment

The following is a summary of the Group's sales volume achieved by various strategic business units ("SBUs"):

	For the year ended 31st December		Percentage increase/ (decrease)
	2004	2003	(%)
Chip SBU (tonnes)	**176,789**	179,797	(2)
Filament SBU (tonnes)	**18,193**	21,112	(14)
Fiber SBU (tonnes)	**48,700**	41,863	16
Dyeing and Finishing SBU (thousand yards)	**27,379**	20,797	32

The Group achieved almost full utilisation of its chip production capacity while many other chip manufacturers are believed to be substantially under-utilised and the 2004 sales volume of chips remained comparable with 2003.

Sales volume of the Filament SBU has been decreasing since 2001 notwithstanding that it has operated at similar utilisation level throughout these years. The decrease in sales volume was anticipated due to the Group's strategic shift to produce more high-end specialty products such as low denier filaments which are subject to relatively less competition in the PRC. Although such products command higher selling prices, they require a more sophisticated manufacturing processes that are more time consuming and eventually lead to a drop in production and sales volume.

Both the Fiber SBU and the Dyeing and Finishing SBU have gradually expanded their production capacities and client bases in the past years. The results are promising and considerable growth in sales volume was achieved in 2004.

OPERATIONAL REVIEW (Cont'd)

Change in geographical sales mix to capture growth in the PRC market

The following is a summary of the Group's geographical sales mix:

	For the year ended 31st December			
	2004	Percentage	2003	Percentage
	HK$'000	(%)	HK$'000	(%)
PRC	**2,062,320**	79	1,504,063	72
Asia (excluding PRC)	**35,694**	1	59,702	3
Europe	**384,053**	15	368,429	18
Middle East	**27,512**	1	96,642	5
North America	**66,701**	3	47,289	2
Others	**25,753**	1	4,369	—
	2,602,033	100	2,080,494	100

Due to the strong growth in the PRC polyester market and in anticipation of the Group's additional production capacities which will come into play in 2005, the Group strategically sold more products in the PRC market during 2004 in order to build a strong clientele. Management believes that the expanded clientele provides a solid foundation for the Group's future businesses.

Future trends in raw materials costs are critical to the Group's future profitability

Average crude oil prices in 2004 were 55% higher than those in 2003. Political tensions throughout the world and speculative forces were precursors to continuing surges in crude oil prices, which in turn led to increases in the Group's feedstock costs. Prices of upper stream petrochemical products, in particular paraxylene ("PX") and natural gas, which are respectively the major constituents of PTA and MEG, are expected to continue their upward trends due to the lack of new capacity. The Group's profitability in 2005 is likely to be critically dependent on the future trends in raw material costs which are expected to remain high in the near future.

In order to actively manage its inventory level, the Group formulates its raw material purchase strategy based on forecasts of PTA and MEG prices. In periods of fluctuating raw material prices, the Group's risk management policy is to maintain a low level of inventories to reduce the price exposure associated with the inventory balance.

OPERATIONAL REVIEW (Cont'd)

Both supply and demand of PET resins in the PRC is growing

As China reported strong economic development, demand for PET resins in the PRC showed double-digit growth in the past years. Given the relatively low consumption of PET resins in the PRC as compared to other more developed western countries, it is expected that domestic demand for PET resins will sustain double-digit growth in the near future.

On the other hand, given the over-supply situation of PET resins in the PRC, the average utilisation rate of PET resins was in the order of 70% in 2003 and 2004 but it is pleasing to report that the Group achieved almost full utilisation in both years. However, with a strong emphasis on economies of scale, it can be observed that major polyester producers in the PRC continue to expand their production capacities which will put additional pressures on the market and those smaller producers in particular.

Active management of domestic and export sales mix

Since sales of PET resins is subject to seasonal demand, the Group actively maintains an optimal mix of domestic and export sales of PET resins. During the first three quarters of 2004, export sales only accounted for 9% of the sales of the Chip SBU. However, during the last quarter which is usually the low season of PET resin sales, 38% of the sales of the Chip SBU is from export. This strategy is proved effective to maintain a reasonable margin as it helps to avoid competing excessively with other manufacturers especially during the low season. Going forward, the Group will continue to adopt such strategy which will play an important role to balance the sales exits when the Group scales up its production.

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 product mix of the Group's Dyeing and Finishing Strategic Business Unit ("SBU") has been shifting to a higher proportion of its specialty products such as furniture fabrics. Such products are produced by sophisticated manufacturing processes and are subject to stringent quality control that cannot typically be offered by other fabric manufacturers in China. Such high value-added specialty products are mostly exported to overseas markets and are well accepted by the customers. Accordingly, the Dyeing and Finishing SBU managed to improve its gross margin from 14% in 2003 to 15% in 2004 in challenging market conditions. Currently, the Group's furniture fabrics are mainly used in sofa production. In 2005, the Group will try to promote its furniture fabrics to curtain manufacturers and other manufacturers that use fabrics to produce decoratives.

OPERATIONAL REVIEW (Cont'd)

Small scale polyester producers scaling down or suspending their operations

As a result of the over-supply of polyester products in the PRC, a lot of small scale polyester producers have been selling their products at gross losses. These producers price their products simply based on their variable production costs while ignoring those costs associated with other fixed or non-cash overheads and with the goal of converting their on-hand inventories into cashflow so as to maintain operations or service bank loans. However, after running at losses for a long period, many small scale polyester producers in the PRC have scaled down or suspended their operations. In addition, due to the extremely tight supply of PTA and MEG, some polyester producers have encountered difficulty in sourcing adequate supplies of these important raw materials at reasonable prices and this factor also contributed to the reduction in production scale as mentioned above. The above phenomenon, anticipated by the Directors (and which they have commented on in previous reports), is considered by the Directors to be a positive factor for the long-term development of the PRC polyester industry as a whole. However, the consolidation process takes place much slower than previously expected. Nonetheless, the Directors remain confident that the future polyester market in the PRC will be a market for large producers.

Major capacity expansion

The Company is currently in the process of fundamentally upgrading its production capacity. The most important project in the pipeline is to construct a new polymerization facility which will double the Group's polymerization capacity as of 31st December 2004. The polymers so produced are fed into various production lines to manufacture different polyester products of the Group. The new polymerization facility is expected to be completed by the end of 2005 and will be put into operations in 2006. The Directors believe that this facility, coupled with the capital expansion of other SBUs, will contribute significantly to streamline the Group's production process and put the Group in a position of comparative advantage in terms of production cost and product quality.

The Chip SBU will gradually increase its production capacity throughout 2005 with an ultimate objective to match the output of the new polymerization facilities referred to above.

The production capacity of the Filament SBU will be substantially increased in 2005. Consistent with the strategic focus as in the past years, the Group will continue to focus on the development of specialty filament products. New products expected to be launched in 2005 including polytrimethylene terephthalate ("PTT") filament, polylactic acid ("PLA") filament and polybutylene terephthalate ("PBT") filament. PTT and PLA filaments are both bio-degradable products which can satisfy the increasing public awareness of environmental protection. In addition, all PTT, PLA and PBT filaments offer desirable product characteristics, such as soft touch, good elasticity and easy dyeing, which are essential to apparel production.

The Fiber SBU will also double its production capacity in 2005. With the new facilities, the Fiber SBU will be able to better balance the mix of conjugate and spinning fibers it produced and react to market changes on a more timely basis.

RESULTS OF OPERATIONS

The following is a summary of turnover, cost of sales and gross margin achieved by various SBUs:

	Chip SBU		Filament SBU		Fiber SBU		Dyeing and Finishing SBU		Others		Consolidated	
	2004 HK$'000	2003 HK$'000	**2004 HK$'000**	2003 HK$'000	**2004 HK$'000**	2003 HK$'000	**2004 HK$'000**	2003 HK$'000	**2004 HK$'000**	2003 HK$'000	**2004 HK$'000**	2003 HK$'000
Sales, net	**1,589,314**	1,283,084	**226,373**	221,137	**423,286**	320,864	**362,312**	255,409	**748**	—	**2,602,033**	2,080,494
Cost of sales	**(1,428,215)**	(1,160,032)	**(228,822)**	(212,400)	**(425,743)**	(306,067)	**(307,257)**	(220,395)	**—**	—	**(2,390,037)**	(1,898,894)
Gross profit (loss)	**161,099**	123,052	**(2,449)**	8,737	**(2,457)**	14,797	**55,055**	35,014	**748**	—	**211,996**	181,600
Gross margin	**10.1%**	9.6%	**(1.1)%**	4.0%	**(0.6)%**	4.6%	**15.2%**	13.7%	**100%**	—	**8.1%**	8.7%

1. Sales, net

The Group's total sales increased by 25% from HK$2,080 million in 2003 to HK$2,602 million in 2004.

Net sales for PET resins increased by 24% from HK$1,283 million in 2003 to HK$1,589 million in 2004. This was mainly attributable to an increase in average sales price of 25% driven by the increase in raw material costs. The quantity of PET resins sold decreased slightly by 1%.

Net sales for filaments increased by 2% from HK$221 million in 2003 to HK$226 million in 2004. As the Group underwent a shift in product mix to produce more specialty products, such as low denier filaments, quick dry filaments, full-dull filaments and cation filaments, the average unit selling prices increased by 15% during the year 2004, when compared to that of 2003. As specialty filaments require additional processing time, they lead to a reduction in production and sales volume of 14%.

Net sales for polyester staple fibers increased by 32% from HK$321 million in 2003 to HK$423 million in 2004. The Group has been improving its production efficiency since the staple fiber plant commenced operations in the third quarter of 2001 and sales volume for polyester staple fiber increased by 16% from 2003 to 2004. Average unit-selling prices increased by 16% during 2004.

RESULTS OF OPERATIONS (Cont'd)

1. Sales, net (Cont'd)

Net sales for finished fabrics increased by 42% from HK$255 million in 2003 to HK$362 million in 2004. The increase was mainly attributable to an increase in average unit selling prices of fabrics by 10% in 2004, due to a change in product mix to more high value-added products, such as furniture fabrics, which demand more sophisticated production technique that cannot easily be copied by others. Sales volume increased by 32% as a result of additional production facilities that were put into operations in 2004.

2. Cost of sales and gross margin

During 2004, the average unit costs of PTA and MEG rose by 29% and 37% respectively, when compared to those of 2003. Consequently, the cost of sales in 2004 increased by 26%, as compared to 2003, whereas sales only increased by 25%. The unparalleled increase in cost of sales translated directly into a margin squeeze from 9% in 2003 to 8% in 2004.

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

Export ratio in terms of sales revenue decreased from 28% in 2003 to 21% in 2004 and there was a 15% decrease in distribution costs over 2004. The decrease in distribution costs was a result of the Group's effort in negotiating better terms of goods distribution with customers.

Additional administrative costs, including staff salaries, depreciation expenses and other general office expenses were increased by 26% from HK$54 million to HK$69 million due to an increase in the number of employees and the costs incurred by the new subsidiaries of the Group established for the purpose of expanding the Group's operations.

Other income for the year ended 31st December 2003 represented a tax refund income amounted to HK$21 million. Based on the investment and tax rules governing wholly foreign owned enterprises ("WFOE") in the PRC, an investor of a WFOE is entitled to a tax refund income upon re-investment of the undistributed profits of the WFOE as its capital. The amount of tax refund income is calculated based on the amounts of enterprise income taxes previously paid by the WFOE attributable to the undistributed profits re-invested. During the year ended 31st December 2003, the Company re-invested undistributed profits of FEIS in the amount of HK$265 million and the tax refund income of HK$21 million was related to enterprise income taxes of FEIS for the years ended 31st December 2001 and 2002.

The 54% increase in finance costs was mainly due to an increase in interest rate and additional loans obtained to finance the Group's expansion plans. In addition, the Group realized less exchange gains, which is included in arriving at the net finance costs, as compared with last year.

RESULTS OF OPERATIONS (Cont'd)

4. Profit before tax

Profit before taxation increased by 18% from HK$28 million in 2003 to HK$33 million in 2004.

5. Income tax expense

After expiration of FEIS's tax holiday in 2003, FEIS, as a "High-technology Enterprise", is subject to enterprise income tax at a rate of 10% from 2004 to 2006. A provision of HK$6 million for enterprise income tax was made during 2004. The "High-technology Enterprise" status is subject to review every year.

6. Profit attributable to shareholders

The Group's profit attributable to shareholders increased by 9% from HK$25 million in 2003 to HK$28 million in 2004. The increase was mainly caused by various factors affecting gross profit explained above.

LIQUIDITY AND FINANCIAL RESOURCES

1. Cash and cash equivalents

As at 31st December 2004, the Group's cash and cash equivalents amounted to approximately HK$323 million (compared to HK$191 million in 2003) of which 44% were denominated in United States dollars, 53% were denominated in Renminbi and the remaining were denominated in Hong Kong dollars, Euros and British pounds.

2. Cash flows

Cash generated from operations decreased from HK$91 million in 2003 to HK$32 million in 2004. This was mainly due to an increase in the Group's net working capital such as receivables and inventories.

Net cash used in investment activities significantly increased from HK$172 million in 2003 to HK$635 million in 2004, due to the Group's investment to expand its production scale.

In 2004, approximately HK$1,042 million of bank loans (of which HK$695 million were long-term bank loans) were obtained for operational purposes and to finance capital expenditures, while approximately HK$268 million of bank loans (of which HK$94 million were long-term bank loans) were repaid. Dividends of HK$41 million were paid during 2004. Minority interests contributed HK$39 million in respect of their investments in a non-wholly owned subsidiary of the Group.

LIQUIDITY AND FINANCIAL RESOURCES (Cont'd)

3. Borrowings

The following is a summary of the Group's bank borrowings:

	As at 31st December			
	2004	Percentage	2003	Percentage
	HK$'000	(%)	HK$'000	(%)
Short-term borrowings	**295,645**	21	123,708	19
Long-term borrowings	**1,119,788**	79	518,308	81
	1,415,433	100	642,016	100
Currency denomination				
– Renminbi	**625,100**	44	284,820	44
– United States dollar	**790,333**	56	357,196	56
	1,415,433	100	642,016	100
Interest rate structure				
– fixed rate	**625,100**	44	284,820	44
– floating rate	**790,333**	56	357,196	56
	1,415,433	100	642,016	100

Maturity profile of the Group's long-term borrowings is as follows:

	As at 31st December	
	2004	2003
	HK$'000	HK$'000
2004	**—**	94,000
2005	**343,023**	424,308
2006	**465,115**	—
2007	**191,575**	—
2008	**62,475**	—
2009	**57,600**	—
	1,119,788	518,308

LIQUIDITY AND FINANCIAL RESOURCES (Cont'd)

3. Borrowings (Cont'd)

As at 31st December 2004, approximately HK$228 million (2003: HK$156 million) of the Group's property had been pledged as collateral to secure the borrowings.

The following is a summary of the Group's key liquidity ratio:

	2004	2003
Current ratio	**1.12**	1.49
Net debt to equity	**0.84**	0.35
Gross debt to equity ratio	**1.08**	0.49
Earnings before interest, taxation, depreciation and amortisation interest coverage	**7.2 times**	8.3 times

The Group's capital expenditures for the year amounted to HK$636 million (2003: HK$75 million), which was funded by borrowings and internally generated cash. The capital expenditures during 2004 were mainly incurred for the acquisition of additional production facilities for various SBUs, especially the Chip SBU, to fundamentally upgrade the Group's production capacities.

Committed borrowing facilities that are available to the Group companies, but not drawn as at 31st December 2004 amounted to HK$976 million (2003: HK$1,451 million).

TREASURY POLICIES AND CAPITAL STRUCTURE

The Group adopts a prudent approach over treasury and funding policies, with a focus on risk management and those transactions that are directly related to the underlying business of the Group. For risk diversification purpose, the Group intends to maintain a balance of Renminbi and United States dollar denominated loans and a balance of floating and fixed interest rate loans.

EXPOSURE TO FOREIGN EXCHANGE RISK AND ANY RELATED HEDGES

The Group operates primarily in the PRC and is exposed to foreign exchange risk arising from export sales denominated in US dollar and Euro and from purchase of major raw materials denominated in US dollar. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities.

The Group's risk management policy is to use derivative financial instruments to hedge foreign currency exposure when the relevant currency is expected to fluctuate significantly. In 2003 and 2004, the Group did not enter into any derivative foreign currency contract.

EXECUTIVE DIRECTORS

Shu-Tong HSU, aged 63, is the Chairman of the Company. He has been serving as a Director since 1995. He is also the Chairman of Far Eastern Textile Limited ("FET") (which has an interest in the share capital of the Company) and the chairman of each of the boards of Far Eastern Department Stores Ltd., Oriental Union Chemical Corporation, Far EasTone Telecommunications Ltd., Far Eastern International Bank, U-Ming Marine Transport Corp. and Asia Cement Corporation. Mr. Hsu is also a director of Everest Textile Co., Ltd ("Everest Textile") (which has an interest in the share capital of the Company). He joined the Far Eastern Group in 1971 and served as the Executive Vice President of the apparel division of FET and the President of FET from 1979 to 1994. He has more than 33 years of experience in managing different areas of business of the Far Eastern Group. Mr. Hsu received a Bachelor's and Master's Degree in economics at the University of Notre Dame and pursued post-graduate studies in economics at Columbia University in the United States. Mr. Hsu also has a honorary Doctor's Degree in management granted by the National Chiao Tung University in Taiwan. Mr. Hsu is a brother-in-law of Mr. Jar-Yi Shih.

Jar-Yi SHIH, aged 58, is the Deputy Chairman of the Company. He has been serving as a Director since 1995. He is currently also a director and the President of FET, a director of Asia Cement Corporation, a director of Oriental Union Chemical Corporation and Far Eastern International Bank and the Chairman of Everest Textile. Mr. Shih joined the Far Eastern Group in 1974 and has been an executive officer of FET since 1979, and had served as the head of the Computer Center and the Procurement Division of the Far Eastern Group and as the senior executive vice president of the polyester division of FET. He has more than 30 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 57, 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 30 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 65, is the Chairman of the Board of Directors of FEIS. He joined FEIS in 1999. Mr. Zhang is currently also a senior executive vice president of the chemical fibre plant of FET. He joined the Far Eastern Group in 1970 and has been an executive officer of FET since 1980. He had served as the manager and chief factory manager of the technical department and chief factory manager of the chemical fibre plant of FET. He has more than 34 years' experience in management of chemical fibre production. Mr. Chang was previously the General Manager of FEIS and he retired from that position in 2003. Mr. Chang received a Bachelor's Degree in Chemical Engineering from Chung Yuen University in Taiwan.

Chin-Sen TU, aged 57, is the Chief Accountant and Compliance Officer of the Group. He has been serving as a Director since 1995. Mr. Tu is currently a director and the executive vice president of the accounting department of FET. Mr. Tu is also a director of Everest Textile. Mr. Tu joined the Far Eastern Group in 1973 and has been an executive officer since 1989. He has more than 30 years of experience in auditing and accounting. Mr. Tu received a Bachelor's Degree in accounting and statistics from National Cheng Kung University in Taiwan.

NON-EXECUTIVE DIRECTOR

Shaw-Y WANG, aged 65, 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 40 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 58, is a non-executive director and the vice chairman of Playmates Toys Holdings Limited. He is also the chairman of New-Alliance Asset Management (Asia) Ltd. He operates his own consultancy business, advising multi-national companies on risk management and strategic planning. Mr. Tsim is very active in various community services in Hong Kong. He is a Justice of the Peace and served two terms on the Central Policy Unit of the Hong Kong Government. He also served as a trustee of Shaw College of The Chinese University of Hong Kong.

Kennedy Ying-Ho WONG, aged 41, is a solicitor of the High Court of Hong Kong and a China-Appointed Attesting Officer. He is the managing partner of Philip K.H. Wong, Kennedy Y.H. Wong & Co., a solicitors' firm in Hong Kong. Mr. Wong is the executive deputy chairman of Raymond Industrial Limited, co-chairman of Asia Investment Capital Partners' Limited and an independent director of Capinfo Company Limited, Hang Seng Insurance Company Limited, HSBC Life (International) Limited, China Overseas Land & Investment Ltd., Goldlion Holdings Limited, Qin Jia Yuan Media Services Company Limited, Computime Limited and i-Steel Asia Holdings Limited. Mr. Wong is also a Justice of the Peace of the HKSAR and National Committee Member of Chinese People's Political Consultative Conference.

Shih-Hung CHAN, aged 61, 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 New York University, University of Wisconsin-Milwaukee and the Argonne National Laboratory in the United States. He has also served as a consultant to various industrial corporations, including Kohler Corporation and Eaton Corporation, and as an advisor to the President Science Council and the Subcommittee Chair of the Council on Energy and Sustainability in Taiwan.

SENIOR MANAGEMENT

Pai-Jan CHENG, aged 49, is the General Manager of FEIS. He graduated from National Tsing Hua University and has over 24 years' experience in the engineering field. Mr. Cheng joined the Far Eastern Group in 1980, and held the posts of section chief, manager and vice president of the maintenance and engineering division of Far Eastern chemical fiber plant. Mr. Cheng was assigned as a deputy general manager of FEIS in 2003 and was promoted to the General Manager in the same year.

Guangrong CHEN, aged 57, is a deputy general manager of FEIS. He joined the Far Eastern Group in 1973 and previously held the posts of mechanical engineer section chief and manager in the chemical fibre plant of FET from 1973 to 1997. Mr. Chen joined the Group as a deputy general manager of FEIS in June 1997, and was in charge of the construction and maintenance of FEIS's plant in Pudong. He graduated from the mechanical engineering faculty of the Datong Institute of Technology in Taiwan in 1970 and has over 31 years' experience in mechanical engineering.

Wai-Man YIM FCPA, FCCA, aged 34, is the company secretary and qualified accountant of the Company. He has over ten years of experience financial management, auditing and taxation. Mr. Yim holds a bachelor of arts degree in accountancy from the City University of Hong Kong and started his professional career with a major international accountancy firm in 1994. Prior to joining the Company, he worked for another Hong Kong listed company. He is a fellow member of Hong Kong Institute of Certified Public Accountants and Association of Charted Certified Accountants.

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 2004.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Principal activities of the Company's subsidiaries are set out in Note 26 to the accompanying financial statements.

SEGMENTAL INFORMATION

The Group's turnover, gross profit and operating results for the year ended 31st December 2004 are analysed as follows:

a. By product range

	Turnover HK$'000	Operating results HK$'000
PET chips	1,589,314	161,099
Polyester filaments	226,373	(2,449)
Polyester staple fibers	423,286	(2,457)
Finished fabrics	362,312	55,055
Others	748	748
	2,602,033	211,996
Distribution costs, administrative expenses and other operating income		(157,431)
Profit from operations		54,565

b. By geographical locations*

	Turnover HK$'000
PRC	2,062,320
Overseas	
Asia (excluding PRC)	35,694
Europe	384,053
Middle East	27,512
North America	66,701
Others	25,753
	2,602,033

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

CUSTOMERS AND SUPPLIERS

For the year ended 31st December 2004, the five largest customers of the Group accounted for approximately 48% of the Group's total sales and the five largest suppliers accounted for approximately 82% of the Group's total purchases. In addition, the largest customer accounted for approximately 12% of the Group's total sales and the largest supplier accounted for approximately 50% 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 2004 are set out in the consolidated income statement on page 34 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 2004.

SHARE CAPITAL

Details of share capital of the Company are set out in Note 24 to the accompanying financial statements.

RESERVES AND RETAINED PROFITS

Details of the Group's movements in the reserves and retained profits during the year 2004 are set out in the consolidated statement of changes in equity on page 37 of this annual report.

Details of the Company's movements in the reserves and retained profits during the year 2004 are set out in Note 27 to the accompanying financial statements.

As at 31st December 2004, the Company's retained profits of approximately HK$349,532,000 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 2004 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 26 to the accompanying financial statements.

INTEREST CAPITALISED

Details of the interest capitalised during the year 2004 are set out in Notes 7 and 15 to the accompanying financial statements.

FIXED ASSETS

Details of movements in fixed assets during the year 2004 are set out in Note 15 to the accompanying financial statements.

BANK LOANS

Particulars of bank loans as at 31st December 2004 are set out in Note 22 to the accompanying financial statements.

PENSION SCHEME

Details of the pension scheme are set out in Note 32 to the accompanying financial statements.

CONTINUING CONNECTED TRANSACTION

During the year 2004, the Group was a party to the following continuing connected transaction:

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

The licence fee was calculated on the basis of the historical research and development expenses of FET and is payable by FEIS at a rate of US$10 per tonne of polyester polymer produced by FEIS. The amount payable by FEIS to FEIH for the year ended 31st December 2004 was approximately HK$11.7 million (for the year ended 31st December 2003 - HK$11.7 million). For the three years ending 31st December 2004, the annual amount payable by FEIS pursuant to the agreement have been capped at US$1.5 million (approximately HK$11.7 million). Caps to be set for the sixth to tenth years of the term of the agreement shall be determined in due course in accordance with the provisions of the GEM Listing Rules.

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.

The non-executive directors of the Company are not appointed for a specific term but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's Bye-laws.

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

The Company has received from each of its independent non-executive directors an annual confirmation of his independence pursuant to Rule 5.09 of the GEM Listing Rules and the Company considered all the independent non-executive directors to be independent.

DIRECTORS' SERVICE CONTRACTS

No Director has any existing or proposed service contract with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

DIRECTORS' INTERESTS IN SECURITIES

As at 31st December 2004, the interests and short positions of the Directors and chief executive in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.40 of the GEM Listing Rules were as follows:

Associated Corporations

Long positions in shares of FET (Note 1)

	Number of shares				
Name of director	**Personal interests**	**Family interests**	**Corporate interests**	**Other interests**	**Total**
Mr. Shu-Tong Hsu	66,807,468	Nil	Nil	Nil	66,807,648
Mr. Jar-Yi Shih	1,562,152	27,449,017	Nil	Nil	29,011,169
Mr. Champion Lee	243	Nil	Nil	Nil	243
Mr. Chin-Sen Tu	241	Nil	Nil	Nil	241
Mr. Shaw-Y Wang	110,356	Nil	Nil	Nil	110,356
Mr. Lih-Teh Chang	20,657	Nil	Nil	Nil	20,657

Note:

1. FET is an associated corporation of the Company as FET is the Company's ultimate holding company. As at 31st December 2004, FET had a 64.2% interest in the Company, comprising (i) a direct interest of 11.4%; (ii) an indirect interest of 46.8% through its controlling shareholding in Yuang Ding Investment Corporation; and (iii) an indirect interest (arising by virtue of FET's status as the discretionary object of a discretionary trust) of 6%.

In aggregate, the above interests represented, as at 31st December 2004, approximately 2.6% of the total issued common shares of FET.

Save as disclosed above, none of the Directors or the chief executive had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Exchange pursuant to Rule 5.40 of the GEM Listing Rules.

CONTRACT OF SIGNIFICANCE

Save as disclosed under the section headed Continuing Connected Transaction in this report, no contract of significance in relation to the Group's business, to which the Company or any of its subsidiaries was a party and in which any of the Directors had a material interest, either directly or indirectly, subsisted at 31st December 2004 or at any time during 2004.

DIRECTORS' RIGHTS TO PURCHASE SHARES OR DEBENTURES

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

As at 31st December 2004, no options had been granted under the Company's share option scheme.

SUBSTANTIAL SHAREHOLDERS

As at 31st December 2004, the following persons (other than the Directors and chief executive of the Company) were the substantial shareholders of the Company who had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

Long positions in shares of the Company

Name	Capacity	Number and class of shares	Approximate percentage of interest
FET *(Note 1)*	Beneficial Owner	263,400,800 ordinary shares	64.2%
Yuang Ding Investment Corporation ("YDIC")	Beneficial Owner	191,870,160 ordinary shares	46.8%
Everest Textile Co. Ltd. ("Everest Textile") *(Note 2)*	Beneficial Owner	69,750,000 ordinary shares	17.0%
Everest Investment (Holding) Limited ("Everest Investment")	Beneficial Owner	69,750,000 ordinary shares	17.0%

Notes:

1. FET is interested in approximately 99.99% of the issued share capital of YDIC and is accordingly deemed to have an interest in the Company's shares in which YDIC has an interest. FET owns approximately 100% of the issued share capital of Far Eastern Investment (Holdings) Company Limited ("FEIH") and is accordingly taken to be interested in the Company's shares in which FEIH has an interest.

2. Everest Textile is interested in the entire issued share capital of Everest Investment and is accordingly deemed to have an interest in the Company's shares in which Everest Investment is deemed to have an interest.

INTERESTS DISCLOSEABLE UNDER THE SFO

As at 31st December 2004, the following persons (other than the substantial shareholders, the Directors and chief executive of the Company) had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

Long positions in Shares

Name	Capacity	Number and class of shares	Approximate percentage of interest
Far Eastern Investment (Holdings) Company Limited ("FEIH") *(Note 1)*	Founder of Trust	24,733,040 ordinary shares	6.0%
Glorious Victory Limited *(Note 2)*	Beneficial Owner	24,733,040 ordinary shares	6.0%
HSBC International Trustee Limited *(Note 3)*	Trustee	24,733,040 ordinary shares	6.0%

Notes:

1. FEIH, as the founder of The Kai Yuan Trust, is deemed to have an interest in the shares of the Company held by Glorious Victory Limited, the entire share capital of which is held under The Kai Yuan Trust.

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

3. HSBC International Trustee Limited is the trustee of The Kai Yuan Trust and as such is deemed to be interested in the shares of the Company held by Glorious Victory Limited.

Save as disclosed above, the Company had no notice of any interests required to be recorded in the register required to be kept under Section 336 of the SFO as at 31st December 2004.

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 2004, FET produced approximately 677,700 tonnes of polyester polymer, 269,401 tonnes of various types of PET chips (for PET bottles, food and industrial packaging), 231,677 tonnes of polyester staple fibers, 146,347 tonnes of pre-oriented yarn (POY), 60,976 tonnes of draw textured yarn (DTY), 355,546 bales of yarn, 32,588 thousand yards of finished fabrics and 369,235 thousand pieces of PET preforms. Everest Textile also produced approximately 22,047 tonnes of polyester filaments and 78,902 thousand yards of finished fabrics.

Notes:

1. As at 31st December 2004, 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 2004, Mr. Shu-Tong Hsu, Mr. Jar-Yi Shih and Mr. Chin-Sen Tu were also directors of Everest Textile.

MATERIAL LITIGATION

Neither the Company nor its subsidiaries was involved in any material litigation or arbitration in the year 2004.

CORPORATE GOVERNANCE

In light of changes to the GEM Listing Rules, which came into effect on 1 January, 2005, the Directors are in the process of reviewing and making appropriate changes to the Group's corporate governance practices by reference to the new Code on Corporate Governance Practices.

The Company has, from its listing in 2000, always had three independent non-executive directors who have played a significant part in overseeing the Company's affairs, in particular through their consistent attendance and presence on the audit committee, as noted further below.

The Board comprises 9 individuals, each bringing a different facet of expertise or experience to the Company and each with a clearly defined role as referred to at the outset of this report. In particular, the roles of Chairman and Chief Executive are vested in different people (Mr. Shu-Tong Hsu and Mr. Lih-Teh Chang respectively) with the former concentrating on strategic overview and direction and the latter on the Group's day to day operations.

Particulars on the directors' emoluments are set out in Note 12 of the Financial Statements. As can be seen, it has been the Board's policy to date to limit the remuneration of directors, other than the Chief Executive, to what the Board considers to be standard directors' fee.

CORPORATE GOVERNANCE (Cont'd)

Remuneration matters for the Company at Board level are not complicated. Nevertheless, the Company is in the process of assessing the need for, and the scope of, a remuneration committee and/or nomination committee and these matters will, in due course, be reported on the shareholders.

Shareholders might also be reminded of the fact that the Company has yet to issue any share options. Moreover, it has not, since it was listed, effected any allotment of shares pursuant to the annual general mandate afforded to the Directors. Finally, it has never sought from shareholders a general mandate to repurchase any of its shares.

Audit Committee

The Company has established an audit committee with written terms of reference based upon the guidelines published by the Hong Kong Institute of Certified Public 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 twenty one times since its formation and four times during the year ended 31st December 2004. The annual results of the Group for the year ended 31st December 2004 have been reviewed by the audit committee.

Code of Conduct Regarding Securities Transactions by Directors

During the year ended 31st December 2004, the Company continued to adopt a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company has made specific enquiry of all Directors, and the Company is not aware of any non-compliance with the required standard of dealings or otherwise in connection with its code of conduct regarding securities transactions by Directors.

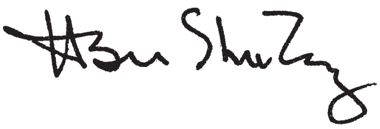
AUDITORS

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

Taipei
24th March 2005

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

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REPORT OF THE AUDITORS 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 (together, the "Group") as at 31 December 2004 and the related consolidated statements of income, cash flows and changes in shareholders' equity for the year then ended. These financial statements set out on pages 34 to 74 are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company and of the Group as at 31 December 2004 and of the results of the Group's operations and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 24 March 2005.

CONSOLIDATED INCOME STATEMENT

For the year ended 31st December 2004
(Expressed in Hong Kong dollars)

	Note	2004 $'000	2003 $'000
Sales, net	4	**2,602,033**	2,080,494
Cost of sales		**(2,390,037)**	(1,898,894)
Gross profit		**211,996**	181,600
Other operating income	5	**17,077**	17,507
Distribution costs		**(105,824)**	(124,230)
Administrative expenses		**(68,684)**	(54,493)
Profit from operations	6	**54,565**	20,384
Other income		**—**	21,456
Finance costs, net	7	**(17,826)**	(11,599)
Share of result of an associate before tax		**(3,649)**	(2,130)
Profit before tax		**33,090**	28,111
Income tax expense	8(a)	**(5,509)**	(2,751)
Profit before minority interest		**27,581**	25,360
Minority interest		**79**	28
Profit attributable to shareholders	9	**27,660**	25,388
Dividends	10(b)	**41,030**	41,030
Basic earnings per share	11(a)	**$0.067**	$0.062
Diluted earnings per share	11(b)	**N/A**	N/A

CONSOLIDATED BALANCE SHEET

As at 31st December 2004

(Expressed in Hong Kong dollars)

	Note	2004 $'000	2003 $'000
Non-current assets			
Investment in an associate	13	**80,694**	84,343
Available-for-sale investments	14	**3,009**	4,419
Property, plant and equipment	15	**1,742,616**	1,237,512
Land use rights	16	**136,199**	111,867
Deferred assets	17	**5,712**	7,082
Other non-current assets		**300**	107
		1,968,530	1,445,330
Current assets			
Inventories	18	**663,968**	365,493
Deposits, prepayments and other receivables		**35,944**	71,569
Trade and notes receivables	19	**406,350**	221,763
Amount due from a related company	25(b)	**—**	19,500
Tax recoverable		**7,466**	—
Cash and bank deposits	20	**323,050**	190,912
		1,436,778	869,237
Current liabilities			
Trade payables	21	**561,422**	296,597
Other payables and accruals		**79,665**	55,553
Taxes payable		**74**	13,958
Short-term bank loans	22(a)	**295,645**	123,708
Long-term bank loans, current portion	22(b)	**343,023**	94,000
		1,279,829	583,816
Net current asset		**156,949**	285,421
Total assets less current liabilities		**2,125,479**	1,730,751

CONSOLIDATED BALANCE SHEET (Cont'd)

As at 31st December 2004

(Expressed in Hong Kong dollars)

	Note	2004	2003
		$'000	$'000
Non-current liabilities			
Long-term bank loans, non-current portion	22(b)	**776,765**	424,308
Deferred tax liabilities	23	**3,394**	1,200
Total non-current liabilities		**780,159**	425,508
Minority interest		**39,316**	395
Net assets		**1,306,004**	1,304,848
Represented by:			
Share capital	24	**410,296**	410,296
Reserves		**895,708**	894,552
		1,306,004	1,304,848

Jar-Yi SHIH
Deputy Chairman

Chin-Sen TU
Director

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended 31st December 2004
(Expressed in Hong Kong dollars)

			Reserves					
	Share capital	Share premium	Statutory reserve fund	Revaluation reserve	Cumulative translation adjustments	Retained earnings	Total reserves	Total equity
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Balance as at 1 January 2003	410,296	523,001	86,370	5,645	2,169	292,975	910,160	1,320,456
Profit for the year	—	—	—	—	—	25,388	25,388	25,388
Profit appropriation (Note 10(a))	—	—	16,276	—	—	(16,276)	—	—
Dividends (Note 10(b))	—	—	—	—	—	(41,030)	(41,030)	(41,030)
Translation adjustments	—	—	—	—	34	—	34	34
Balance as at 31 December 2003	410,296	523,001	102,646	5,645	2,203	261,057	894,552	1,304,848
Profit for the year	—	—	—	—	—	27,660	27,660	27,660
Profit appropriation (Note 10(a))	—	—	5,684	—	—	(5,684)	—	—
Dividends (Note 10(b))	—	—	—	—	—	(41,030)	(41,030)	(41,030)
Surplus on revaluation of buildings (Note 15)	—	—	—	15,299	—	—	15,299	15,299
Realisation of revaluation reserve due to additional depreciation	—	—	—	(1,411)	—	1,411	—	—
Translation adjustments	—	—	—	—	(773)	—	(773)	(773)
Balance as at 31 December 2004	410,296	523,001	108,330	19,533	1,430	243,414	895,708	1,306,004

Representing:	
2004 final dividend proposed (Note 10(b))	41,030
Other distributable retained earnings	202,384
Retained earnings as at 31 December 2004	243,414

CONSOLIDATED STATEMENT OF CASH FLOW

For the year ended 31st December 2004
(Expressed in Hong Kong dollars)

	Note	2004	2003
		$'000	$'000
Cash flows from operating activities			
Cash generated from operations	25(a)	**31,638**	90,977
Interest paid		**(28,547)**	(22,544)
Income tax paid		**(6,837)**	(2,355)
Net cash (used in) generated from operations		**(3,746)**	66,078
Cash flows from investing activities			
Purchase of property, plant and equipment		**(630,091)**	(72,393)
Purchase of land use rights		**(27,232)**	(4,619)
Proceeds from disposals of property, plant and equipment		**—**	478
Investment in an associate		**—**	(86,473)
(Increase) decrease in other non-current assets		**(193)**	1,547
Decrease in amount due from a related company		**19,500**	—
Interest received		**3,286**	2,879
Net cash outflow from disposal of subsidiaries	25(b)	**—**	(13,060)
Net cash used in investing activities		**(634,730)**	(171,641)
Cash flows from financing activities			
Proceeds from short-term bank loans		**346,216**	769,695
Proceeds from long-term bank loans		**695,480**	92,814
Repayments of short-term bank loans		**(174,279)**	(825,118)
Repayments of long-term bank loans		**(94,000)**	(46,060)
Capital contributed by minority interest		**39,000**	423
Dividends paid		**(41,030)**	(41,030)
Net cash generated from (used in) financing activities		**771,387**	(49,276)
Effect of exchange rate changes		**(773)**	34
Net increase (decrease) in cash and cash equivalents		**132,138**	(154,805)
Cash and cash equivalents at beginning of year		**190,912**	345,717
Cash and cash equivalents at end of year		**323,050**	190,912

BALANCE SHEET

As at 31st December 2004
(Expressed in Hong Kong dollars)

	Note	2004 $'000	2003 $'000
Non-current assets			
Investment in subsidiaries	26	**1,423,090**	1,109,427
Investment in an associate	13	**80,694**	84,343
Available-for-sale investments	14	**3,009**	3,009
Other non-current assets		**106**	107
		1,506,899	1,196,886
Current assets			
Deposits, prepayments and other receivables		**686**	22,088
Trade and notes receivables	19	**157,529**	69,113
Amount due from a related company		**—**	19,500
Cash and bank deposits	20	**30,261**	73,106
		188,476	183,807
Current liabilities			
Trade payables	21	**138,197**	57,233
Other payables and accruals		**28,867**	19,506
Long-term bank loans, current portion	22(b)	**39,975**	—
		207,039	76,739
Net current (liabilities) assets		**(18,563)**	107,068
Total assets less current liabilities		**1,488,336**	1,303,954
Non-current liabilities			
Long-term bank loans, non-current portion		**182,325**	—
Net assets		**1,306,011**	1,303,954
Represented by:			
Share capital	24	**410,296**	410,296
Reserves	27	**895,715**	893,658
		1,306,011	1,303,954

Jar-Yi SHIH
Deputy Chairman

Chin-Sen TU
Director

1 GENERAL INFORMATION

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

The Company is principally engaged in investment holding and trading of products produced by one of its subsidiaries in the People's Republic of China (the "PRC"). The principal activities of the Company's subsidiaries (together with the Company hereinafter collectively referred to as the "Group") are set out in Note 26.

The Company's shares are listed on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited since 31 January 2000.

The average number of employees in 2004 was 2,098 (2003: 1,743).

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 consolidated financial statements are set out as below:

(a) Basis of preparation

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

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.

In the current year, the Group adopted IFRS 3 – "Business Combinations", International Accounting Standard ("IAS") 36 – "Impairment of Assets" and IAS 38 – "Intangible Assets". IFRS 3 is effective prospectively after 31 March 2004 and IFRS 3 requires simultaneous adoption with IAS 36 and IAS 38. The adoption of these new IFRS/IAS has no material effect on the Group's consolidated financial statements.

2 PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(b) Group accounting

(i) Subsidiaries

Subsidiaries, which are those entities (including Special Purpose 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 by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless cost cannot be recovered. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

(ii) Associates

Investments in associates are accounted for by the equity method of accounting. Under this method the Company's share of the post-acquisition profits or losses of associates is recognised in the income statement and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the cost of the investment. Associates are entities over which the Group generally has between 20% and 50% of the voting rights, or over which the Group has significant influence, but which it does not control. Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The Group's investment in associates includes goodwill (net of accumulated amortisation) on acquisition. When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not to recognise further losses, unless the Group has incurred obligations or made payments on behalf of the associates.

2 PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(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 Company.

(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.

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. Translation differences on available-for-sale equities are included in the revaluation reserve in equity.

(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 on 31 December. Exchange differences arising from the translation of the net investment in foreign entities and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign entity is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2 PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(d) Available-for-sale investments

Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available-for-sale; and are included in non-current assets unless management has the express intention of holding the investment for less than 12 months from the balance sheet date or unless they will need to be sold to raise operating capital, in which case they are included in current assets.

Available-for-sale investments are carried at fair value. Unrealised gain and losses arising from changes in the fair value of available-for-sale are recognised in equity. Fair values for unlisted equity securities are estimated using applicable price/earnings or price/cash flow ratios refined to reflect the specific circumstances of the issuer. Equity securities for which fair values cannot be measured reliably are recognised at cost less impairment. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains and losses from investment securities.

(e) Property, plant and equipment

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

Increases in the carrying amount arising on revaluation of buildings are credited to fair value and revaluation reserves in shareholders' equity. Decreases that offset previous increases of the same asset are charged against fair value and revaluation reserves; all other decreases are charged to the income statement. Each year the difference between depreciation based on the revalued carrying amount of the asset (the depreciation charged to the income statement) and depreciation based on the asset's original cost is transferred from fair value and other reserves to retained earnings.

2 PRINCIPAL ACCOUNTING POLICIES (Cont'd)

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

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

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

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

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

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

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

Construction-in-progress represents plant under construction and machinery pending installation and is stated at cost. This includes cost of construction, plant and equipment and other direct costs plus borrowing costs which include interest charges and exchange differences arising from foreign currency borrowings used to finance these projects during the construction period, to the extent these are regarded as an adjustment to interest costs. Construction-in-progress is not depreciated until such time when the assets are completed and ready for their intended use.

(f) Land use rights

Land use rights represent amounts paid for the acquisition of rights to use land for periods ranging from 40 years to 50 years. Land use rights are recognised as prepayments for operating leases (see (p) below).

(g) Deferred assets

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

2 PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(h) Impairment of long lived assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment 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 asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

(i) 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.

(j) 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.

(k) Cash and cash equivalents

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

(l) 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.

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.

2 PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(m) Deferred income taxes

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

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

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

(n) Employee benefits

(i) Defined contribution plans

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

(ii) Pension scheme

Pursuant to the PRC laws and regulations, contributions to the basic old age insurance for the staff of the Company's subsidiaries operating in the PRC are to be made monthly to a government agency based on 30% of the standard salary set by the provincial government, of which 22% is borne by the Company's subsidiaries operating in the PRC and the remainder is borne by the staff. The government agency is responsible for the pension liabilities relating to such staff on their retirement. The Company's subsidiaries operating in the PRC account for these contributions on an accrual basis.

(o) Revenue recognition

Revenue comprises the invoiced value for the sale of goods and services net of 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.

2 PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(p) 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.

(q) Dividends

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

(r) 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.

(s) Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

3 FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments to hedge certain risk exposures.

Risk management is carried out by Finance Department under policies approved by the Board of Directors. The Finance Department identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest-rate risk, credit risk, use of derivative financial instruments and investing excess liquidity.

3 FINANCIAL RISK MANAGEMENT (Cont'd)

(a) Foreign exchange risk

The Group operates primarily in the PRC and is exposed to foreign exchange risk arising from export sales denominated in US dollar and Euro and from purchase of major raw materials denominated in US dollar. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

The Group's risk management policy is to use derivative financial instruments to hedge foreign currency exposure when the relevant currency is expected to fluctuate significantly. In 2003 and 2004, the Group did not enter into any derivative foreign currency contract.

(b) Price risk

The Group is exposed to oil price risk as the Group's major raw materials are petrochemical products. Since raw materials are normally acquired before customers placing orders, effective hedging of changes in raw material prices is impractical. To address this price risk, the Group's risk management policy is to maintain a low level of inventories to reduce the price exposure associated with the inventory balance.

(c) Credit risk

The Group has no significant concentrations of credit risk. It has policies in place to ensure that sales are made to customers with an appropriate credit history.

(d) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient operating cash and the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, the Group aims to maintain flexibility in funding by keeping committed credit lines available.

4 SEGMENTAL INFORMATION

The Group operates principally in the production and distribution of PET chips, polyester filaments and polyester staple fibers, and dyeing and finishing of polyester textile products and have four strategic business units ("SBUs"), namely the Chip SBU, the Filament SBU, the Fiber SBU and the Dyeing and Finishing SBU which are managed separately.

4 SEGMENTAL INFORMATION (Cont'd)

Primary reporting format - business segments

	Chip SBU		Filament SBU		Fiber SBU		Dyeing and Finishing SBU		Others		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Sales, net	1,589,314	1,283,084	226,373	221,137	423,286	320,864	362,312	255,409	748	—	2,602,033	2,080,494
Segment result	161,099	123,052	(2,449)	8,737	(2,457)	14,797	55,055	35,014	748	—	211,996	181,600
Unallocated corporate expenses											(157,431)	(161,216)
Profit from operations											54,565	20,384
Other income											—	21,456
Finance costs, net											(17,826)	(11,599)
Share of result of an associate before tax											(3,649)	(2,130)
Profit before tax											33,090	28,111
Income tax expense											(5,509)	(2,751)
Group profit before minority interest											27,581	25,360
Minority interest											79	28
Profit attributable to shareholders											27,660	25,388
Segment assets	1,599,408	794,565	334,970	308,971	405,840	266,571	562,124	465,356	1,226	—	2,903,568	1,835,463
Investment in an associate											80,694	84,343
Unallocated corporate assets											421,046	394,761
Total assets											3,405,308	2,314,567
Segment liabilities	734,880	195,435	182,707	47,511	260,861	56,788	404,285	43,068	13	—	1,582,746	342,802
Unallocated corporate liabilities											477,242	666,522
Total liabilities											2,059,988	1,009,324
Capital expenditures	411,618	7,091	45,380	18,879	120,234	422	51,466	25,280	274	—	628,972	51,672
Unallocated corporate capital expenditures											33,865	27,631
Total capital expenditures											662,837	79,303
Depreciation and amortisation	56,729	54,582	29,820	27,236	18,856	16,880	37,551	34,028	34	—	142,990	132,726
Unallocated depreciation and amortisation											9,213	12,275
Total depreciation and amortisation											152,203	145,001
Impairment of inventory	846	—	1,130	—	3,237	—	2,015	—	—	—	7,228	—
Impairment of trade receivables	3,140	—	106	—	109	—	869	—	—	—	4,224	—
Impairment of available-for-sale investments	—	—	—	—	—	—	—	—	1,410	—	1,410	—

4 SEGMENTAL INFORMATION (Cont'd)

Primary reporting format - business segments (Cont'd)

Segment assets consist primarily of property, plant and equipment, inventories, receivables and operating cash, and mainly exclude investments. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings. Capital expenditure comprises additions to property, plant and equipment and land use rights (Note 15 and 16).

Secondary report format - geographical segments

An analysis by geographical segment, as determined by location of customers, is presented below. No segment assets and liabilities are presented as majority of the Group's assets are located in the PRC. Capital expenditures are mainly for the Group's plants in the PRC.

	2004	2003
	$'000	$'000
Sales		
– The PRC	**2,062,320**	1,504,063
– Europe	**384,053**	368,429
– North America	**66,701**	47,289
– Asia (excluding the PRC)	**35,694**	59,702
– Middle East	**27,512**	96,642
– Others	**25,753**	4,369
	2,602,033	2,080,494

5 OTHER OPERATING INCOME

Other operating income mainly represents income from sale of scrap materials.

6 PROFIT FROM OPERATIONS

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

	2004 **$'000**	2003 $'000
Cost of inventories recognised as expense (included in 'Cost of sales')	**2,193,946**	1,724,939
Staff costs		
– wages and salaries	**74,608**	61,554
– pension costs (defined contribution plan)	**4,433**	4,086
Depreciation on property, plant and equipment	**147,933**	141,029
Amortisation of land use rights (included in 'Administrative expenses')	**2,900**	2,601
Amortisation of deferred assets (included in 'Cost of sales')	**1,370**	1,371
Operating lease rentals on property	**4,375**	4,551
Impairment charges for bad and doubtful debts (included in administrative expenses)	**4,224**	—
Write down of inventories to net realisable value	**7,228**	—
Provision for impairment of available-for-sale investments	**1,410**	—
Auditors' remuneration	**437**	380
Loss (gain) on disposals of property, plant and equipment	**61**	(353)
Gain on disposal of subsidiaries	**—**	4,347

7 FINANCE COSTS, NET

	2004 **$'000**	2003 $'000
Interest expenses on bank loans wholly repayable within five years	**28,547**	22,544
Less: Amount capitalised as construction-in-progress (Note 15)	**(5,514)**	(2,291)
Interest income	**(3,286)**	(2,879)
Net foreign currency exchange gains	**(3,818)**	(11,136)
Other financial expenses	**1,897**	5,361
	17,826	11,599

8 TAXATION

(a) Income tax

The Company is exempted from taxation in Bermuda.

No Hong Kong profits tax was provided as the Group had no assessable profits arising in or deriving from Hong Kong.

The Company's subsidiaries registered in the PRC are subject to Enterprise Income Tax ("EIT") on the taxation income as reported in their PRC statutory accounts adjusted in accordance with relevant PRC income tax laws. The general applicable EIT rate is 33%. However, being registered in a designated high-technology development zone in the PRC, Far Eastern Industries (Shanghai) Ltd. ("FEIS") (the Company's major operating subsidiary in the PRC) is entitled to a preferential EIT rate of 15%. In addition, in accordance with the PRC "Law of Enterprise Income Tax for Enterprise with Foreign Investment", FEIS 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. Furthermore, being qualified as a "High-technology Enterprise", FEIS is entitled to a further reduced EIT rate of 10% for an additional three years following the end of the five-year period during which FEIS enjoyed the preferential EIT treatment as stated above. The "High-technology Enterprise" status is subject to review every year. The first profitable year of FEIS was 1999.

No PRC EIT had been provided for all the other PRC subsidiaries of the Company as they were either in pre-operating stage or had incurred losses for the year. The deferred tax assets derived from losses for previous years have not been recognized as these PRC subsidiaries have not yet commenced their first profitable year. A tax holiday creates a non-taxable status and the effective tax rate is zero. Since the loss carryforward accumulated prior to tax holiday will be either lost or used up before the tax holiday is activated, no deferred tax asset is recognized with respect to the loss carryforward as at 31 December 2004.

The amount of income tax expense charged to the consolidated income statement represents:

	2004	2003
	$'000	$'000
Current tax – PRC taxation	**5,509**	2,751
Share of tax of an associate	**—**	—
Taxation charge	**5,509**	2,751

8 TAXATION (Cont'd)

(a) Income tax (Cont'd)

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the tax rate of the home country of the Company as follows:

	2004	2003
	$'000	$'000
Profit before taxation	**33,090**	28,111
Calculated at a taxation rate of 10% (2003: 7.5%)	**3,309**	2,108
Effect of different taxation rates in other countries	**1,022**	936
Income not subject to taxation	**(162)**	(443)
Expenses not deductible for taxation purposes	**1,340**	150
Taxation charge	**5,509**	2,751

(b) Value-added-tax ("VAT")

The Group's operating subsidiaries registered in the PRC are subject to VAT, which is charged on top of the selling price at a general rate of 17%. An input credit is available whereby input VAT previously paid on purchase of raw materials or semi-finished products can be used to offset the output VAT on sales to determine the net VAT payable.

9 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of approximately $26,859,000 (2003: $25,388,000).

10 PROFIT APPROPRIATION

(a) Statutory reserve funds

PRC laws and regulations require wholly-owned foreign enterprises ("WOFE") 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. Far Eastern Industries (Shanghai) Ltd. ("FEIS") and Far Eastern Industries (Suzhou) Ltd., both being WOFE, are 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 respective registered capital. Appropriation to the staff and workers' bonus and welfare fund is at the discretion of the board of directors of the relevant subsidiaries. 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 employees, and assets acquired through this fund shall not be treated as assets of the Group.

For the year ended 31 December 2004, the repsective directors of the Company's PRC subsidiaries resolved in aggregate to appropriate approximately $5,684,000 (2003: $16,276,000) to the reserve fund.

Under IFRS, appropriations to the staff and workers' bonus and welfare fund have been included as expenses and the balance of the fund have been accounted for as a liability of the Group.

According to the relevant PRC regulations, retained earnings available for distribution by the PRC subsidiaries should be the retained earnings recorded in their PRC statutory financial statements that are prepared under the accounting principals and financial regulations applicable in the PRC.

(b) Dividends

	2004	2003
	$'000	$'000
Final, proposed, of $0.1 (2003: $0.1) per ordinary share	**41,030**	41,030

At a meeting held on 24 March 2005, the directors proposed a final dividend of $0.1 per ordinary share. This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2005.

11 EARNINGS PER SHARE

(a) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year.

	2004	2003
Profit attributable to shareholders ($'000)	**27,660**	25,388
Weighted average number of ordinary shares in issue ('000)	**410,296**	410,296
Basic earnings per share ($ per share)	**0.067**	0.062

(b) Diluted earnings per share

Diluted earnings per share is not presented because there has been no potentially dilutive ordinary shares in existence during the year.

12 DIRECTORS' AND MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

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

	2004 Fees $'000	2004 Basic salaries and allowances $'000	2004 Total $'000	2003 Fees $'000	2003 Basic salaries and allowances $'000	2003 Total $'000
Executive directors						
Mr. Shu-Tong Hsu	**180**	**—**	**180**	180	—	180
Mr. Jar-Yi Shih	**144**	**—**	**144**	144	—	144
Mr. Champion Lee	**120**	**—**	**120**	120	—	120
Mr. Lih-Teh Chang	**120**	**879**	**999**	120	616	736
Mr. Chin-Sen Tu	**120**	**—**	**120**	120	—	120
Non-executive directors						
Mr. Shaw-Y Wang	**120**	**—**	**120**	120	—	120
Mr. Tak-Lung Tsim, Dominic	**120**	**—**	**120**	120	—	120
Mr. Ying-Ho Wong, Kennedy	**120**	**—**	**120**	120	—	120
Mr. Shih-Hung Chan	**120**	**—**	**120**	120	—	120
	1,164	**879**	**2,043**	1,164	616	1,780

During the year, none of the directors waived any emoluments or has agreed to waive 2004 emoluments.

The emoluments of the directors fell within the following bands:

	Number of directors 2004	Number of directors 2003
Emolument bands		
Nil to $1,000,000	**9**	9

12 DIRECTORS' AND MANAGEMENT'S EMOLUMENTS (Cont'd)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the years include 1 (2003: 1) director whose emolument is reflected in the analysis presented above. The emoluments payable to the remaining 4 (2003: 4) individuals during the year are as follows:

	2004	2003
	$'000	$'000
Basic salaries and allowances	**2,770**	2,810
Others	**12**	—
	2,782	2,810

The emoluments fell within the following bands:

	Number of individuals	
	2004	2003
Emolument bands		
Nil to $1,000,000	**4**	4

13 INVESTMENT IN AN ASSOCIATE

Investment in an associate comprised:

	2004	2003
	$'000	$'000
Investment in unlisted shares, at cost	**86,473**	86,473
Share of results before tax	**(5,779)**	(2,130)
Share of tax	**—**	—
	80,694	84,343

13 INVESTMENT IN AN ASSOCIATE (Cont'd)

Details of the associate are as follows:

Name	Place of incorporation and operation	Issued and fully paid up share capital	Attributable equity interest Directly held	Attributable equity interest Indirectly held	Principal activities
PET Far Eastern Holding Limited ("PETH")	Bermuda	US$50,755,000	21.7%	—	Investment holding

14 AVAILABLE-FOR-SALE INVESTMENTS

	Group		Company	
	2004	2003	**2004**	2003
	$'000	$'000	**$'000**	$'000
Unlisted investments	**4,419**	4,419	**3,009**	3,009
Less: provision for impairment	**(1,410)**	—	**—**	—
	3,009	4,419	**3,009**	3,009

Details of the investments as at 31 December 2004 are as follows:

Name activities	Country of incorporation	Equity interest held by the Company	Date of investment/ establishment	Principal
China Chemical Fiber Industrial Consortium Limited	The PRC	10% (indirectly)	3 August 2001	Provision of B-to-B e-commerce platform for trading of chemical fiber in the PRC
Nippon Parison Co., Ltd.	Japan	10% (directly)	7 May 2003	Production of polyethylene terephthalate ("PET") bottle preforms in Japan

Available-for-sale investments are classified as non-current assets, unless they are expected to be realized within 12 months of the balance sheet date or unless they will need to be sold to raise operating capital.

15 PROPERTY, PLANT AND EQUIPMENT

	2004						2003
	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	347,169	1,348,774	39,759	14,012	33,776	1,783,490	1,724,737
Additions	9,559	8,581	4,271	960	612,234	635,605	74,684
Transfers	2,511	56,730	148	256	(59,645)	—	—
Disposals	—	(82)	—	—	—	(82)	(354)
Disposal of subsidiaries	—	—	—	—	—	—	(15,577)
Revaluation	17,493	—	—	—	—	17,493	—
As at 31 December 2004	376,732	1,414,003	44,178	15,228	586,365	2,436,506	1,783,490
Representing							
At cost	—	1,414,003	44,178	15,228	586,365	2,059,774	1,524,859
At professional valuation	376,732	—	—	—	—	376,732	258,631
	376,732	1,414,003	44,178	15,228	586,365	2,436,506	1,783,490
Accumulated depreciation							
Beginning of year	64,283	455,915	17,889	7,891	—	545,978	405,837
Charge for the year	15,793	124,818	5,651	1,671	—	147,933	141,029
Disposals	—	(21)	—	—	—	(21)	(229)
Disposal of subsidiaries	—	—	—	—	—	—	(659)
	80,076	580,712	23,540	9,562	—	693,890	545,978
Net book value							
End of year	296,656	833,291	20,638	5,666	586,365	1,742,616	1,237,512
Beginning of year	282,886	892,859	21,870	6,121	33,776	1,237,512	1,318,900

15 PROPERTY, PLANT AND EQUIPMENT (Cont'd)

The Group's buildings were appraised by Greater China Appraisal Limited, an independent professional property valuer, in December 2004. 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 $17,493,000 as at 31 December 2004 after deducting relevant deferred tax liabilities of $2,194,000, was credited to the revaluation reserve.

As at 31 December 2004, 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 $274,062,000 (2003: $277,410,000).

As at 31 December 2004, net book value of approximately $228 million (2003: $156 million) of the Group's buildings were pledged as collateral to secure the Group's long-term bank loans (Note 22(b)).

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 $5,514,000 (2003: $2,291,000) (Note 7). The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation was approximately 4.11% (2003: 3.55%).

16 LAND USE RIGHTS

	2004	2003
	$'000	$'000
Cost		
Beginning of year	**129,430**	124,811
Additions	**27,232**	4,619
End of year	**156,662**	129,430
Accumulated amortisation		
Beginning of year	**17,563**	14,962
Charge for the year	**2,900**	2,601
End of year	**20,463**	17,563
Net book value		
End of year	**136,199**	111,867
Beginning of year	**111,867**	109,849

16 LAND USE RIGHTS (Cont'd)

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

As at 31 December 2004, the remaining periods of the land use rights where the Group's premises located are as follows:

Location in the PRC	**Remaining years**
Shanghai	42 years
Suzhou	40 years
Wuhan	49 years

17 DEFERRED ASSETS

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

	2004	2003
	$'000	$'000
Cost		
Beginning and end of year	**13,213**	13,213
Accumulated amortisation		
Beginning of year	**6,131**	4,760
Charge for the year	**1,370**	1,371
End of year	**7,501**	6,131
Net book value		
End of year	**5,712**	7,082
Beginning of year	**7,082**	8,453

18 INVENTORIES

	2004	2003
	$'000	$'000
Raw materials	**357,573**	172,455
Work-in-progress	**89,033**	48,291
Finished goods	**217,362**	144,747
	663,968	365,493

As at 31 December 2004 approximately $166,496,000 (2003: $55,944,000) finished goods were carried at net realisable value.

19 TRADE AND NOTES RECEIVABLES

	Group		**Company**	
	2004	2003	**2004**	2003
	$'000	$'000	**$'000**	$'000
Trade receivables				
Current to 30 days	**109,527**	85,484	**38,830**	16,427
31 to 60 days	**105,070**	45,186	**66,996**	23,263
61 to 90 days	**49,717**	17,010	**26,292**	29,423
90 to 120 days	**27,766**	44,530	**27,012**	—
	292,080	192,210	**159,130**	69,113
Less: provision for doubtful debts	**(4,224)**	—	**(1,601)**	—
	287,856	192,210	**157,529**	69,113
Notes receivable	**118,494**	29,553	**—**	—
	406,350	221,763	**157,529**	69,113

19 TRADE AND NOTES RECEIVABLES (Cont'd)

Credit policy

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

Concentrations of credit risk

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

20 CASH AND BANK DEPOSITS

	Group		Company	
	2004	2003	**2004**	2003
	$'000	$'000	**$'000**	$'000
Cash and bank deposits denominated in:				
– Renminbi ("RMB")	**172,737**	108,987	**—**	—
– United states dollar	**142,689**	65,576	**23,719**	56,758
– Hong Kong dollar	**231**	391	**231**	390
– Others	**7,393**	15,958	**6,311**	15,958
	323,050	190,912	**30,261**	73,106

RMB is not freely convertible currency in the PRC and the remittance of funds out of the PRC is subject to the exchange restriction imposed by the PRC government.

The effective interest rate ranges from 0.01% to 2.45% per annum (2003: 0.01% to 1.44%).

21 TRADE PAYABLES

	Group		Company	
	2004	2003	**2004**	2003
	$'000	$'000	**$'000**	$'000
Current to 30 days	**224,155**	105,993	**31,953**	15,323
31 to 90 days	**274,597**	167,365	**92,953**	41,910
Over 90 days	**62,670**	23,239	**13,291**	—
	561,422	296,597	**138,197**	57,233

Trade payables of the Company represented payables to Far Eastern Industries (Shanghai) Ltd. ("FEIS"), the Company's wholly-owned subsidiary, which are unsecured, non-interest bearing and payable according to the trading terms of FEIS.

22 BANK BORROWINGS

(a) Short-term bank loans

	2004	2003
	$'000	$'000
Unsecured	**295,645**	123,708

The Group's short-term bank loans were granted by third party banks, denominated in United States dollar, bore interests at floating rates and were unsecured. As at 31 December 2004, the effective interest rate of the Group's short-term bank loans was 3.24% (2003: 1.76%) per annum.

As at 31 December 2004, certain of the Group's short-term loans amounting to approximately HK$285,000,000 were guaranteed by the Company.

22 BANK BORROWINGS (Cont'd)

(b) Long-term bank loans

	Group		Company	
	2004	2003	**2004**	2003
	$'000	$'000	**$'000**	$'000
Secured	**185,000**	168,260	**—**	—
Unsecured	**934,788**	350,048	**222,300**	—
	1,119,788	518,308	**222,300**	—
Less: Amount repayable within one year included in current liabilities	**(343,023)**	(94,000)	**(39,975)**	—
	776,765	424,308	**182,325**	—

The Group's long-term bank loans were granted by third party banks and the secured portion were secured by certain of the Group's buildings (Note 15).

As at 31 December 2004, the interest rate structure and currency denomination of the long-term bank loans are as follows:

	Group		Company	
	2004	2003	**2004**	2003
	$'000	$'000	**$'000**	$'000
Renminbi and fixed rates	**625,100**	284,820	**—**	—
United States dollar and floating rates	**494,688**	233,488	**222,300**	—
	1,119,788	518,308	**222,300**	—

As at 31 December 2004, the effective interest rate of the Group's and the Company's long-term bank loans was 4.43% (2003: 3.64%) and 3.65% (2003: nil), respectively.

22 BANK BORROWINGS (Cont'd)

(b) Long-term bank loans (Cont'd)

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

	Group		Company	
	2004	2003	**2004**	2003
	$'000	$'000	**$'000**	$'000
Repayable in:				
2004	**—**	94,000	**—**	—
2005	**343,023**	424,308	**39,975**	—
2006	**465,115**	—	**64,350**	—
2007	**191,575**	—	**64,350**	—
2008	**62,475**	—	**29,250**	—
2009	**57,600**	—	**24,375**	—
	1,119,788	518,308	**222,300**	—

23 DEFERRED TAX LIABILITIES

Deferred taxation are calculated in full on temporary differences under the liability method using a principal taxation rate of 10%.

The movement on the deferred tax assets account is as follows:

	2004	2003
	$'000	$'000
As at 1 January	**1,200**	1,200
Charged to equity (Note 15)	**2,194**	—
As at 31 December	**3,394**	1,200

23 DEFERRED TAX LIABILITIES (Cont'd)

The movement in deferred tax liabilities (prior to offsetting of balances within the same taxation jurisdiction) during the year is as follows:

	Revaluation of buildings	
	2004	2003
	$'000	$'000
As at 1 January	**1,200**	1,200
Charged to equity	**2,194**	—
As at 31 December	**3,394**	1,200

The amount shown in the balance sheet include the following:

	2004	2003
	$'000	$'000
Deferred tax liabilities to be settled after more than 12 months	**3,394**	1,200

24 SHARE CAPITAL

The details of share capital are as follows:

	Number of shares		Amount	
	2004	2003	**2004**	2003
	$'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

25 NOTES TO CASH FLOW STATEMENT

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

	2004	2003
	$'000	$'000
Profit attributable to shareholders	**27,660**	25,388
Adjustments for:		
Minority interest	**(79)**	(28)
Tax	**5,509**	2,751
Share of result of an associate before tax	**3,649**	2,130
Gain on disposal of subsidiaries	**—**	(4,347)
Impairment for available-for-sale investments	**1,410**	—
Impairment for bad and doubtful debts	**4,224**	—
Write down of inventory to net realizable value	**7,228**	—
Depreciation on property, plant and equipment	**147,933**	141,029
Amortisation of land use rights and deferred assets	**4,270**	3,972
Loss (gain) on disposals of property, plant and equipment	**61**	(353)
Interest expense	**23,033**	20,253
Interest income	**(3,286)**	(2,879)
Changes in working capital:	**221,612**	187,916
Increase in trade and notes receivables	**(188,811)**	(7,767)
Decrease (increase) in deposits, prepayments and other receivables	**35,625**	(19,865)
Increase in inventories	**(305,703)**	(52,181)
Increase (decrease) in trade, other payables and accruals	**288,937**	(16,409)
Decrease in taxes payable	**(20,022)**	(717)
Cash generated from operations	**31,638**	90,977

25 NOTES TO CASH FLOW STATEMENT (Cont'd)

(b) Disposal of subsidiaries

	2004	2003
	$'000	$'000
Net assets disposed of:		
Fixed assets	**—**	14,918
Cash and bank deposits	**—**	13,060
Trade receivables	**—**	832
Trade payables	**—**	(13,657)
	—	15,153
Gain on disposal	**—**	4,347
Recorded as receivable from a related company	**—**	19,500
Net cash outflow from disposal of subsidiaries:		
Cash consideration	**—**	—
Cash and bank deposits disposed of	**—**	(13,060)
Net cash outflow from disposal of subsidiaries	**—**	(13,060)

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

26 INVESTMENTS IN SUBSIDIARIES

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

	2004	2003
	$'000	$'000
Unlisted investment, at cost	**1,135,290**	873,600
Share of post-acquisition profit less dividends received	**265,008**	228,873
Share of revaluation reserve	**20,944**	5,645
Effect of translation of the financial statements of subsidiaries	**1,848**	1,309
	1,423,090	1,109,427

(Amounts expressed in Hong Kong dollars unless otherwise stated)

26 INVESTMENTS IN SUBSIDIARIES (Cont'd)

Details of the Company's subsidiaries are as follows:

Name	Country/place of incorporation/ Establishment and kind of legal entity	Issued and fully paid up share capital/registered capital	Attributable equity interest		Principal activities and place of operations
			Directly held	Indirectly held	
Far Eastern Industries (Shanghai) Ltd. ("FEIS") (a)	The PRC Wholly-owned foreign enterprise	US$125,550,000	100%	—	Production and distribution of PET chips, polyester filaments and polyester staple fibers, and dyeing and finishing of polyester textile products in the PRC
FEDP (Holding) Limited	Bermuda Limited liability company	US$25,000,000	80%	—	Investment holding in Bermuda
Shanghai Yuanzi Information Co., Ltd. ("SYI") (b)	The PRC Limited liability company	Rmb2,000,000	—	95%	Provision of information technology consultancy services in the PRC
Wuhan Far Eastern Industrial Trading Co., Ltd. ("WFEIT") (c)	The PRC Limited liability company	Rmb7,000,000	—	95%	Distribution of products of FEIS in the PRC
Far Eastern Industries (Suzhou) Ltd. ("FEIZ") (d)	The PRC Wholly-owned foreign enterprise	US$25,000,000	—	80%	Production of polyester polymers

(a) FEIS was established on 25 September 1996 as a wholly-owned foreign enterprise in the PRC to be operated for 50 years up to 24th September 2046.

(b) SYI was established on 15 April 2003 as a PRC limited company in the PRC to be operated for a period of 18 years up to 14 April 2021.

(c) WFEIT was established on 9 July 2003 as a PRC limited company in the PRC to be operated for a period of 50 years up to 8 July 2053.

(d) FEIZ was established on 22 March 2004 as a wholly-owned foreign enterprise in the PRC to be operated for 50 years up to 21 March 2054.

27 RESERVES — THE COMPANY

	Share premium $'000	Revaluation reserve $'000	Cumulative translation adjustments $'000	Retained earnings $'000	Total $'000
Balance as at 1 January 2003	523,001	—	(1,383)	379,345	900,963
Profit for the year	—	—	—	25,388	25,388
Dividends (Note 10(b))	—	—	—	(41,030)	(41,030)
Share of revaluation reserve of a subsidiary	—	5,645	—	—	5,645
Translation adjustments	—	—	2,692	—	2,692
Balance as at 31 December 2003	523,001	5,645	1,309	363,703	893,658
Profit for the year	—	—	—	26,859	26,859
Dividends (Note 10(b))	—	—	—	(41,030)	(41,030)
Share of revaluation reserve of a subsidiary	—	15,299	—	—	15,299
Translation adjustments	—	—	929	—	929
Balance as at 31 December 2004	523,001	20,944	2,238	349,532	895,715

28 FINANCIAL INSTRUMENTS

The carrying amounts of the Group cash and cash equivalents, receivables and payables approximate their fair values due to the short-term maturity of these instruments. As at 31 December 2004, the estimated fair values of long-term loans including current portions were approximately $1,119,788,000 (2003: $518,308,000) based on current market interest rates for comparable instruments.

29 OPEARTING LEASES

As at 31 December 2004, the Group had future aggregate minimum lease payments under non-cancelable operating leases for buildings as follows:

	2004	2003
	$'000	$'000
Within one year	**4,215**	2,900
2 to 5 years	**3,454**	5,558
	7,669	8,458

30 COMMITMENTS

(a) Capital commitments

As at 31 December 2004, the Group had the following capital commitments which were not provided for in the accounts:

	2004	2003
	$'000	$'000
Authorised and contracted for		
— Acquisition of property, plant and equipment	**92,183**	71,753

(b) Investment commitments

As at 31 December 2004, the Group had entered into agreement with the minority shareholders of FEDP (Holding) Limited ("FEDP"), currently an 80% subsidiary of the Group, to have the right to acquire the remaining 20% of the shareholding in FEDP. In addition, the minority shareholders of FEDP also have the right to sell the remaining 20% shareholding of FEDP to the Group. These rights are exercisable during the period from 2 October to 31 October 2006. The consideration upon exercise of the rights by either of the parties is US$5,000,000 (equivalent to approximately RMB39,000,000) together with interest calculated at London Inter Bank Offer Rate plus 0.5% from 1 November 2004 to the date of exercise.

31 RELATED PARTY TRANSACTIONS

(a) Name and relationship

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

(b) Transactions

During the year ended 31 December 2004, the Group had the following significant transactions with related parties:

	2004	2003
	$'000	$'000
Technological license fee paid to FEIH	**11,675**	11,674

32 RETIREMENT BENEFITS

All of the full-time PRC employees of the Group's PRC subsidiaries 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. The Group's PRC subsidiaries are required to make monthly contributions to the state-sponsored retirement plan at rates ranging from 22.0% to 22.5% of the employees' basic salaries as defined by relevant rules.

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

For the year ended 31 December 2004, the amount of retirement benefit costs charged to the income statement was approximately $4,433,000 (2003: $4,086,000).

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

33 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 $228 million as at 31 December 2004 (2003: $156 million) (Note 15).

As at 31 December 2004, the Group had aggregate banking facilitates as follows:

	2004	2003
	$'000	$'000
Aggregate amount of banking facilities	**2,391,942**	2,133,680
Less: Amount utilised	**(1,415,557)**	(683,052)
Unused facilities	**976,385**	1,450,628

34 SUBSEQUENT EVENTS

On 24 March 2005, the board of directors declared a final dividend of $0.10 per ordinary share, totaling approximately $41,030,000.

35 CONTINGENT LIABILITY

As at 31 December 2004, the Group has contingent liabilities of discounted notes of approximately $77,614,000 (2003: $119,438,000).

36 APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 24 March 2005.

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 17th June 2005 at Gloucester Room, 2/F, Mandarin Oriental Hotel, 5 Connaught Road Central, Hong Kong for the following purposes:

Ordinary Business

1. To receive and consider the audited financial statements and the reports of the directors and auditors of the Company for the year ended 31st December 2004.

2. To re-elect retiring Directors.

3. To divide amongst the executive and non-executive Directors of the Company an amount not exceeding HK$1,563,000 and HK$480,000 respectively, as remuneration to such Directors, as the Board sees fit and to ratify any bonus payments.

4. To declare a final dividend for the year ended 31st December 2004.

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

Special Business

6. To consider and, if thought fit, pass with or without modifications, the following resolution as an Ordinary Resolution:

   "**THAT**

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

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

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

   (d) for the purposes of this Resolution:

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

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

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

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

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

By Order of the Board of Directors
Wai-Man Yim
Company Secretary

30th March 2005
Hong Kong

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

Notes:

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

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

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

4. The register of members of the Company will be closed from 10th June 2005 to 17th June 2005, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the final dividend payable on 24th June 2005 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 Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:00 p.m. on 9th June 2005.

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

Far Eastern Polychem Industries Limited

(incorporated in the Bermuda with limited liability)

FORM OF PROXY FOR ANNUAL GENERAL MEETING

I/We (Note 1) ____

of ____

being the registered holder(s) of (Note 2) ____________________ shares of HK$1.00 each in the capital of the Company, HEREBY APPOINT (Note 3) ____________________

of ____

or falling him, the Chairman of the Meeting, as my/our proxy to attend the annual general meeting, or at any adjournment thereof, of the Company to be held at 2:00 p.m. on Friday, 17th June 2005 at Gloucester Room, 2/F, Mandarin Oriental Hotel, 5 Connaught Road Central, Hong Kong and vote for me/us on my/our behalf in respect of the undermentioned resolutions as indicated (Note 4):

Resolution	**For** (Note 4)	**Against** (Note 4)
1. To receive and consider the audited financial statements and the reports of the directors and auditors for the year ended 31st December 2004.	☐	☐
2. (i) To re-elect Mr. Shu-Tong HSU as an executive director	☐	☐
(ii) To re-elect Mr. Jar-Yi SHIH as an executive director	☐	☐
(iii) To re-elect Mr. Shih-Hung CHAN as an independent non-executive director	☐	☐
3. To divide amongst the executive and non-executive directors of the Company an amount not exceeding HK$1,563,000 and HK$480,000 respectively, as remuneration to such Directors, as the board sees fit and to ratify any bonus payments.	☐	☐
4. To declare a final dividend of HK$0.10 per share for the year ended 31st December 2004.	☐	☐
5. To appoint auditors and to authorise the board of directors to fix their remuneration.	☐	☐
6. To grant a general mandate to the directors to allot shares not exceeding 20% of the issued capital of the Company.	☐	☐

Signature:____________________ Date:____________________ 2005

NOTES:

1. Full name(s) and address(es) to be inserted in BLOCK CAPITALS.
2. Please insert the number of shares of HK$1.00 each in the Company registered in your name(s). If no number is inserted, this form of proxy will be deemed to relate to all the shares in the Company registered in your name(s).
3. A proxy need not be a member of the Company, Please insert the name and address of the proxy desired. If no name is inserted, the Chairman of the meeting will act as your proxy. Any alteration made to this form of proxy must be initialled by the person who signs it.
4. Please indicate with a "√" in the appropriate space beside each of the resolutions how you wish the proxy to vote on your behalf. If this form is returned duly signed but without any indication, the proxy will vote for or against the resolution or will abstain at his discretion.
5. You are requested to lodge this form, together with the power of attorney, if any, or other authority, if any, under which it is signed or a notarially certified copy thereof, at the Company's place of business in Hong Kong at Unit A, 11th Floor, Lippo Leighton Tower, 103-109, Leighton Road, Causeway Bay, Hong Kong not less than 48 hours before the time for holding the meeting or any adjournment thereof.
6. In the case of joint holders the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of the other joint holder(s), and for this purpose seniority will be determined by the order in which the names stand in the register of member.
7. This form of proxy must be signed by you or your attorney duly authorised in writing or, in the case of a corporation, must be either under its common seal or under the hand of any officer or attorney or other person duly authorised.