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FAR EASTERN POLYCHEM INDUSTRIES LIMITED

(遠東化聚工業股份有限公司)*

(Incorporated in Bermuda with limited liability)

Connected and Potential Discloseable Transaction

Joint venture with connected persons to develop a green-field PTA plant in the PRC

The Company has entered into an agreement with certain associates of the Company's controlling shareholder, FET, with a view to developing, as a joint venture, a new PTA production plant next to the Company's existing polyester production facilities in the Pudong district of Shanghai, the PRC. PTA is a major raw material component for the production of polyester, for which the Directors anticipate healthy general demand over the long term in the PRC. In addition, for the Company itself to have access to PTA produced at a neighbouring plant in which the Company has an interest is considered by the Directors to be of significant prospective benefit to the Company. The PTA production plant will represent a long-term, high-technology investment for the Company, bearing in mind that the plant is not expected to commence commercial production until the fourth quarter of 2005.

The PTA production plant will be owned, developed and operated by OPC, a wholly-foreign owned enterprise, that has been duly established under the laws of the PRC on 21 January 2003 (date of business licence). The Company's attributable interest in the registered capital of OPC will be approximately 11 per cent., for which it is required to invest approximately US\$11 million, and which can be funded out of the Company's general working capital.

OPC's registered capital requirement is approximately US\$101.5 million with the balance, above the Company's contribution, being the responsibility of persons connected to the Company. At the outset, it is proposed that two associates of the Company's controlling shareholder (FET), namely DYIIC and OUCC, will each invest approximately US\$20 million for an attributable interest of approximately 19.5 per cent. each in the registered capital of OPC. The Company is investing in OPC on terms that are identical to DYIIC and OUCC. The balance of the investment required in the registered capital of OPC is likely to be derived from third parties and/or other parties, in any event to be procured by DYIIC. Any such investment made by a connected person of the Company will be on terms that are no more beneficial to such connected person than the terms of the Company's investment in OPC.

In addition to the equity financing for OPC, as described above, it is envisaged that OPC may require debt financing of up to US\$180 million, which it is anticipated will be funded by banks or other independent third party financial institutions. In the event that the Parties are required to provide any form of guarantee, or other financial assistance in connection therewith, the Company would only be providing such on a basis that is pro-rata to its attributable interest in OPC, capped at a maximum amount, on the Company's part, of US\$20 million. The respective amount of financial assistance that would be provided by DYIIC and OUCC would be a matter of agreement among themselves and the third party financier(s).

Since the Company's investment in OPC represents a connected transaction (and, together with the Company's potential liability under any guarantees, or other financial assistance, as described above (if any), would represent a connected and discloseable transaction), it remains subject to the approval of the independent minority shareholders of the Company, to be sought at an Extraordinary General Meeting of the Company. A circular containing further particulars about the Framework Agreement, the advice of the Independent Financial Adviser and a notice to convene an Extraordinary General Meeting of the Company will be sent to shareholders within 21 days from the date of this announcement.

FRAMEWORK AGREEMENT

Background

The Company has entered into a joint venture agreement, called the Framework Agreement, on 7th May, 2003, with certain associates of the Company's controlling shareholder, FET, concerning the proposed

development of a new PTA production plant next to the Company's existing polyester production facilities in the Pudong district of Shanghai, the PRC. A summary of the principal terms of the Framework Agreement is set out below.

Parties

(i) the Company; (ii) DYIIC; and (iii) OUCC

Purpose and structure

The Parties are variously interested in different aspects of the wider petro-chemical industry, as described further below, and are keen to develop and operate, as a joint venture, a new state-of-the-art PET production plant in the PRC. The plant will be owned, developed and operated by OPC, which has already been established on 21 January 2003 as an indirect wholly-foreign owned enterprise of the Company in the PRC. It is not expected that the plant will commence commercial production until the fourth quarter of 2005.

OPC's registered capital requirement is US\$101.5 million which is required to be paid up within 3 years of the date of its business licence i.e. on 21 January 2006. Half of the registered capital of OPC (US\$50.755 million) is to be provided by the Company, DYIIC and OUCC, through PETH, a single purpose investment vehicle established in Bermuda and, currently, a wholly-owned subsidiary of the Company. The relative contributions of the Parties and their respective attributable interests in the registered capital of OPC will be as follows:-

Party	Equity investment in OPC (US\$ million)	Attributable interest in OPC
The Company	11,013,836	10.850%
DYIIC	19,870,582	19.575%
OUCC	<u>19,870,582</u>	<u>19.575%</u>
	<u>50,755,000</u>	<u>50.000%</u>

The balance of the investment required to pay up the registered capital of OPC remains the responsibility of DYIIC, as a the wholly owned subsidiary and a principal investment company of FET. It is likely to be derived from independent third parties and/or other parties, in any event to be procured by DYIIC. Any such investment made by a connected person of the Company will be on terms that are no more beneficial to such connected person than the terms of the Company's investment in OPC.

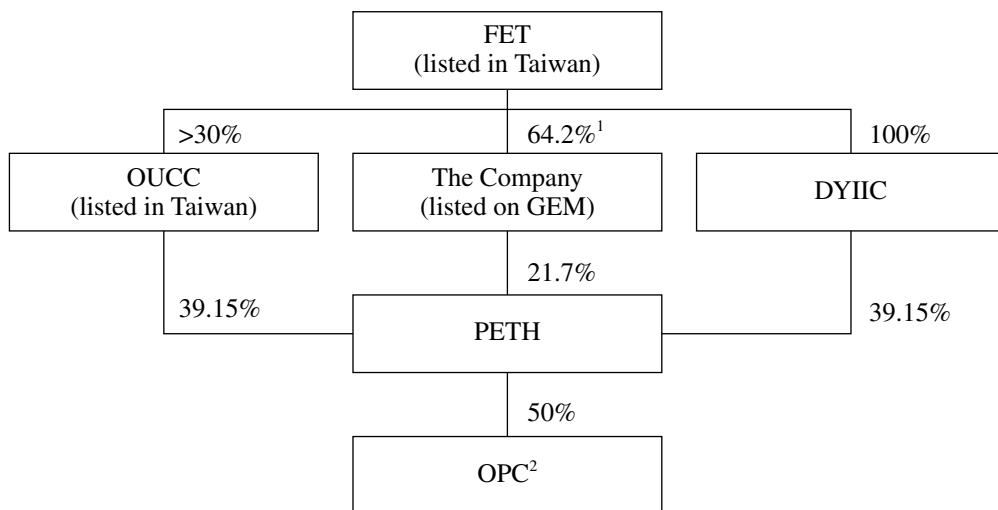
Conditions of the Framework Agreement

Completion of the investment by the Parties in PETH is conditional upon the satisfaction of the following principal conditions:

- (i) the approval in general meeting of the independent shareholders of the Company to the terms of the Framework Agreement and the transactions set out or otherwise contemplated thereunder; and
- (ii) the approval of the Bermuda Monetary Authority to the increase in the authorised share capital of PETH and to the allotments of shares in PETH to the Parties as set out or otherwise contemplated by the Framework Agreement.

The Conditions are required to be fulfilled by 30th June, 2003 (or such later date as the Parties may agree in writing), otherwise the Framework Agreement will lapse.

Interests of the Parties in OPC upon completion of subscriptions pursuant to the Framework Agreement



Notes

- 1 FET's interest in 64.2% of the Company's issued share capital comprises a direct interest of 11.4%, an indirect interest (held through a 99% owned subsidiary, Yuang Ding Investment International Corporation) of approximately 46.8% and an indirect interest (arising by virtue of FET's status as the discretionary object of a discretionary trust) of approximately 6%.
- 2 The remaining 50% interest in OPC is proposed to be held by investors to be procured by DYIIC, including independent third parties not connected to the Company.

Use of proceeds

On completion of the Framework Agreement all subscription proceeds received by PETH will be utilised to fund PETH's investment, of approximately US\$51 million, in the registered capital of OPC, the requisite consents for which have already been obtained from the relevant PRC authorities.

The Company's investment contribution, of approximately US\$11 million will be funded out of the Company's general working capital.

Debt financing

In addition to the equity financing of US\$101.5 million required by OPC, it is envisaged that OPC may require debt financing of up to US\$180 million, which it is anticipated will be funded by banks or other independent third party financial institutions, so far as possible, without recourse to the Parties. In the event that the Parties are required to provide any form of guarantee or other financial assistance in connection therewith, the Company would only be providing such on a basis that is pro-rata to its attributable interest in OPC, capped at a maximum amount, on the Company's part, of US\$20 million. The respective amount of financial assistance that would be provided by DYIIC and OUCC would be a matter of agreement among themselves and the third party financier(s).

REASONS FOR AND BENEFITS OF THE FRAMEWORK AGREEMENT

The Company, which was listed on GEM in 2000, principally engages in the production and distribution of polyester products in the PRC. Currently, the Company's polyester products include bottle-grade PET chips, polyester filaments and finished fabrics, which can be further processed into a wide range of end products.

The Directors anticipate a healthy general demand for PTA over the long term in the PRC. Each of the Parties believes that there are good prospects for a new state-of-the-art PTA production facility in the Pudong district of Shanghai. Of particular relevance to the Company is its own requirement for PTA.

One of the principal raw materials used by the Company in its polyester production process is PTA. The Company has been relying on third parties both inside and outside of the PRC for supplies of PTA. In this regard, the

Company has suffered from fluctuations in price that have ensued from worldwide shortages of PTA. Having access to a source of PTA produced at a plant that is located next to the Company's existing facilities and in which the Company has a minority shareholding interest will, the Directors believe, be of significant benefit to the Company. In particular, the Directors believe that it will lessen the Company's reliance on imports of PTA, thereby addressing the problems associated with the general shortages of PTA and will result in cheaper and more reliable supplies of PTA.

The Company's aggregate investment in OPC (of US\$11 million, together with potential financial assistance in the form of guarantees for debt financing of up to US\$20 million (if necessary), equivalent to approximately 18.36% of the net tangible asset value of the Company (being HK\$1,320,456,000) as at 31 December 2002), represents the extent of investment to which the Directors feel comfortable committing the Company bearing in mind the Company's other working capital requirements generally.

The Board believes that the Company's investment in OPC, by means of the Framework Agreement, represents an investment on normal commercial terms that is in the best interests of the Company and all of its shareholders.

GEM LISTING RULES IMPLICATIONS

The investment in OPC, by means of the Framework Agreement, represents a connected transaction for the Company, as DYIIC and OUCC are both associates of FET, the Company's controlling shareholder, and are, as such, considered to be "connected persons" of the Company as defined under Rule 20.10 of the GEM Listing Rules.

Bearing in mind the size of the Company's investment in OPC (which, in the event that the Company is required to give guarantees or other financial assistance for OPC's benefit, up to a maximum liability, on the Company's part, of US\$20 million, would constitute a discloseable transaction for the Company), the Framework Agreement and the Company's participation thereunder, requires the approval of the independent shareholders of the Company, which will be sought at an Extraordinary General Meeting of the Company.

In this regard, an Independent Financial Adviser will be appointed to the independent board committee of the Company which has been established to consider and advise the independent shareholders of the Company.

A circular containing further particulars about the Framework Agreement, the advice of the independent board committee and the Independent Financial Adviser and a notice to convene an Extraordinary General Meeting of the Company will be sent to shareholders within 21 days from the date of this announcement.

The terms on which OPC ultimately contracts with the Company for the supply of PTA to the Company may constitute a separate continuing connected transaction for the Company which will, in due course, be carried out in accordance with and subject to the GEM Listing Rules.

In circumstances where the Company is not required to provide any financial assistance for OPC's benefit (i.e. such that the Company's only interest would be its equity investment in OPC) the transaction would be a connected but not a discloseable transaction for the Company. However, for the sake of good order and clarity, the disclosures in this announcement and the circular and the relevant consents sought from shareholders of the Company are being based on the assumption that the Company might have to provide the financial assistance to OPC, as described above.

FURTHER INFORMATION ON THE OTHER PARTIES

DYIIC is a wholly-owned subsidiary of FET. It is a private investment company through which FET has made a number of substantial investments in polyester and related businesses as well as in other unrelated businesses.

OUCG is an associate of FET, as defined under the GEM Listing Rules, and is separately listed on the Taiwanese Stock Exchange Corporation. Its principal business is the production and sale of ethylene glycol.

DYIIC and OUCG, like the Company, having interests in the wider petro-chemical industry are keen to participate in the development of a PTA plant in the PRC, in particular, to secure reliable supplies of PTA.

DEFINITIONS

In this announcement, the following expressions have the meanings set out below unless the context requires otherwise.

“associate”	has the meaning ascribed to it under the GEM Listing Rules;
“Board”	the board of Directors;

“Company”	Far Eastern Polychem Industries Limited;
“Directors”	the directors of the Company;
“DYIIC”	Ding Yuang International Investment Corporation, a company incorporated in Taiwan;
“FET”	Far Eastern Textile Ltd., a company incorporated in Taiwan the shares of which are listed on the Taiwan Stock Exchange Corporation, and the ultimate holding company of the Company;
“Framework Agreement”	the framework agreement dated 7th May, 2003 entered into between the Parties providing for the terms of the proposed development of a new PTA plant in the PRC;
“GEM Listing Rules”	the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“OPC”	Oriental Petrochemical (Shanghai) Corporation, a wholly foreign owned enterprise duly established under the laws of the PRC;
“OUCC”	Oriental Union Chemical Corporation, a company incorporated in Taiwan, whose registered office is at 13th Floor, 101 Fu-Hsing N. Rd., Taipei, Taiwan;
“Parties”	the parties to the Framework Agreement, meaning the Company, DYIIC and OUCC;
“PETH”	PET Far Eastern Holding Limited, a company incorporated in Bermuda;
“PRC”	the People’s Republic of China, for the purpose of this announcement, excluding Hong Kong and Taiwan;

“PTA”	Purified Terephthalic acid, a raw material for the production of polyester; and
“US\$”	US dollars, the lawful currency of the United States of America.

For the purpose of this announcement, translations of US dollars into Hong Kong dollars are made for illustration purposes only at the approximate exchange rate of US\$1.0 to HK\$7.8.

By order of the Board
Far Eastern Polychem Industries Limited
Liu Shun Fai
Company Secretary

Hong Kong, 7th May, 2003

** For identification purpose only*

This announcement, for which the Directors collectively and individually accept full responsibility, include particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) information contained in this announcement is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this announcement misleading; and (iii) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

This announcement will remain on the GEM website on the “Latest Company Announcements” page for at least 7 days from the day of its posting and on the website of the Company at <http://www.fepi.com.hk/index1.htm>.