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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 Transactions

Joint ventures in Shanghai and Wuhan with a connected person

FEIS, a wholly-owned subsidiary of the Company, has entered into two joint venture agreements with Far Eastern (Suzhou) with the intention of developing the Wuhan JV and the Shanghai JV. Far Eastern (Suzhou) is an associate of FET, the controlling shareholder of FEIS and the Company.

The registered capital requirement of Shanghai JV is RMB2 million, of which the Shanghai JV Agreement requires FEIS and Far Eastern (Suzhou) to contribute the same, in cash, in the portions of 95% and 5% respectively. Shanghai JV will primarily engage in the provision of information technology consultancy services in the PRC.

The registered capital requirement of Wuhan JV is RMB7 million, 95% of which has been provided by FEIS in cash and 5% of which has been provided by Far Eastern (Suzhou) in cash. It is intended that Wuhan JV will distribute products of FEIS to enable the Group to better serve its customers in the Wuhan region and surrounding regions in the PRC.

The Company's investment in each of Shanghai JV and Wuhan JV, through FEIS, represents a connected transaction for the Company under Rule 20.12 of the GEM Listing Rules. This announcement discloses information with respect to the JV Agreements, as required pursuant to Rule 20.35 of the GEM Listing Rules.

The Company's aggregate investments in Shanghai JV and Wuhan JV, through FEIS, represent approximately 0.63% of the latest published net tangible asset value of the Group as at 30th September 2003 (being HK\$1,282,747,000). Since the aggregate investments represent less than 3% of the latest published net tangible asset value of the Group as at 30th September 2003, the transactions are only subject to the reporting and announcement requirements under the GEM Listing Rules, but are exempt from the requirement for shareholders' approval.

A. SHANGHAI JV AGREEMENT

Background

On 23rd December 2003, FEIS entered into a joint venture agreement, the Shanghai JV Agreement, with Far Eastern (Suzhou) with respect to the establishment of Shanghai JV. FEIS is a wholly-owned subsidiary of the Company. Far Eastern (Suzhou) is a wholly-owned subsidiary of FET, the controlling shareholder of FEIS and the Company. A summary of the principal terms of the Shanghai JV Agreement is set out below.

Parties

- (i) FEIS; and
- (ii) Far Eastern (Suzhou).

Term of the Shanghai JV

Term of 18 years from the date of establishment of the Shanghai JV.

Purpose and structure

The Company is alert to the potential benefits arising out of the increasing popularity of advanced computer software in the PRC and the related demand for information technology consultancy services. With this in mind, the Company intends, through FEIS, to develop the Shanghai JV, with Far Eastern (Suzhou), to provide information technology consultancy services, including but not limited to implementation and maintenance of enterprise resource planning systems, technology risk assessment and staff training, to third parties in the PRC. Shanghai JV may also provide information technology consultancy services to the Company, the Parties and other FET group companies within the PRC, if appropriate.

The registered capital requirement of Shanghai JV is RMB2 million, of which the Shanghai JV Agreement requires FEIS and Far Eastern (Suzhou) to contribute the same, in cash, in the portions of 95% and 5% respectively. The Company's attributable interest in the registered capital of Shanghai JV is 95%. The relative contributions of the Parties and their respective interests in the registered capital of Shanghai JV will be as follows:

Party	Equity investment in Shanghai JV (RMB million)	Interest in Shanghai JV
FEIS	1.9	95%
Far Eastern (Suzhou)	<u>0.1</u>	<u>5%</u>
Total:	<u>2.0</u>	<u>100%</u>

FEIS has sufficient general working capital for the purposes of funding its investment contribution to the joint venture. FEIS is not required to make any additional capital commitment in relation to the establishment of the Shanghai JV and no other guarantee or indemnity has been provided by the Group in relation to the Shanghai JV.

The profits of the Shanghai JV will be shared between FEIS and Far Eastern (Suzhou) according to their respective interests in the registered capital of Shanghai JV.

B. WUHAN JV AGREEMENT

Background

FEIS also entered into a joint venture agreement, the Wuhan JV Agreement, with Far Eastern (Suzhou), on 20th March 2003, with respect to the establishment of Wuhan JV, which was issued a business licence on 9th July 2003, although it has yet to commence operations. A summary of the principal terms of the Wuhan JV Agreement is set out below.

Parties

- (i) FEIS; and
- (ii) Far Eastern (Suzhou).

Term of the Wuhan JV

Term of 50 years from the date of establishment of the Wuhan JV.

Purpose and structure

In response to increased demand for the products of FEIS in the Wuhan region and other surrounding regions, the Company made plans to set up the Wuhan JV to distribute the products of FEIS to the Group's customers in Wuhan and the north-western part of the PRC. The Company envisages that it will be able to better serve its customers through the establishment of Wuhan JV, in particular by achieving quicker delivery times.

The registered capital requirement of Wuhan JV is RMB7 million, 95% of which (being RMB6.65 million) has been provided by FEIS and the remaining 5% of which (being RMB0.35 million) has been provided by Far Eastern (Suzhou). The Company's attributable interest in the registered capital of Wuhan JV is 95%. The relative contributions of the Parties and their respective interests in the registered capital of Wuhan JV as at the date of this announcement are as follows:

Party	Equity investment in Wuhan JV (RMB million)	Interest in Wuhan JV
FEIS	6.65	95%
Far Eastern (Suzhou)	<u>0.35</u>	<u>5%</u>
Total:	<u>7.00</u>	<u>100%</u>

The investment contribution of FEIS has been funded out of the general working capital of the Group. FEIS is not required to make any additional capital commitment in relation to the establishment of the Wuhan JV and no other guarantee or indemnity has been provided by the Group in relation to the Wuhan JV.

The profits of the Wuhan JV will be shared between FEIS and Far Eastern (Suzhou) according to their respective interests in the registered capital of Wuhan JV.

C. REASONS FOR AND BENEFITS OF THE JV AGREEMENTS

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

The Company is of the view that the Shanghai JV will provide a value-added business diversification by enabling the Group to provide information technology consultancy services to third parties, and as appropriate (and subject to full compliance with the GEM Listing Rules) to the Company, the Parties and other FET group companies within the PRC. The FEIS business already deploys highly sophisticated elements of information technology, giving the Group a pre-disposed degree of expertise in this area, which the Company regards as a logical business diversification. As regards the Wuhan JV, as noted above, the Company believes that it will enable the Group to improve its distribution capabilities through the Wuhan region and surrounding regions.

The reason why both the Shanghai JV and the Wuhan JV are not being established as wholly-owned subsidiaries within the Group (which would have had the advantage of removing any connected transaction implications as regards all intra-Group dealings) is that it is not possible for FEIS to establish a wholly-owned subsidiary in the PRC. Under the laws of the PRC, at least two members are required for the establishment of a domestic limited liability company in the PRC and the Company chose not to establish wholly foreign owned enterprises for these ventures because of the additional complexities that this would have entailed.

The Company's aggregate investments in Shanghai JV and Wuhan JV, through FEIS, represent approximately 0.63% of the latest published net tangible asset value of the Group as at 30th September 2003 (being HK\$1,282,747,000). Since the aggregate investments represent less than 3% of the latest published net tangible asset value of the Group as at 30th September 2003, the transactions are only subject to the reporting and announcement requirements under the GEM Listing Rules, but are exempt from the requirement for shareholders' approval.

The Board, including the non-executive directors of the Company, believes that the Company's investment in each of Shanghai JV and Wuhan JV represents an investment on normal commercial terms that is in the best interests of the Company and all of its shareholders.

D. GEM LISTING RULES IMPLICATIONS

The JV Agreements entered into between FEIS and Far Eastern (Suzhou) constitute connected transactions for the Company, as Far Eastern (Suzhou) is an associate of FET, the Company's controlling shareholder, and is a "connected person" of the Company, as defined under Rule 20.10 of the GEM Listing Rules.

Due to an inadvertent oversight by the Company, no announcement was made when the Wuhan JV Agreement was signed in March 2003. The Stock Exchange has reserved its rights as regards any non-compliance with the provisions of Chapter 20 of the GEM Listing Rules.

E. CONTINUING CONNECTED TRANSACTIONS

From such time as the Shanghai JV and the Wuhan JV are in a position to commence business operations, all dealings between either of them and members of the Group and/or between either of them and FET group companies (other than members of the Group) will constitute connected transactions (or continuing connected transactions) for the purposes of the GEM Listing Rules, in which regard, such dealings must be on terms that comply with the GEM Listing Rules, in which regard further announcement(s), approvals and/or waiver applications will be made, as applicable, in due course.

F. FURTHER INFORMATION ON THE PARTIES

FEIS is a wholly-owned subsidiary of the Company. It is a wholly foreign owned enterprise duly established in the PRC, principally engaged in the production and distribution of PET chips, polyester filaments and polyester staple fibers, and dyeing and finishing of polyester textile products.

Far Eastern (Suzhou) is a wholly-owned subsidiary of FET. It is a wholly foreign owned enterprise duly established in the PRC, principally engaged in the production and distribution of apparel.

G. 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;
“Far Eastern (Suzhou)”	遠東服裝(蘇州)有限公司 (Far Eastern Apparel (Suzhou) Ltd.), a wholly foreign owned enterprise duly established in Suzhou, the PRC;
“FEIS”	遠紡工業(上海)有限公司 (Far Eastern Industries (Shanghai) Ltd.), a wholly foreign owned enterprise duly established in Shanghai, the PRC;
“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;
“GEM”	the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited;
“GEM Listing Rules”	the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited;
“Group”	the Company and its subsidiaries including FEIS;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“HK\$”	HK dollars, the lawful currency of Hong Kong;
“JV Agreements”	Shanghai JV Agreement and Wuhan JV Agreement;
“Parties”	the parties to the Shanghai JV Agreement and the Wuhan JV Agreement, meaning FEIS and Far Eastern (Suzhou);

“PRC”	the People’s Republic of China, for the purpose of this announcement, excluding Hong Kong and Taiwan;
“PET”	polyethylene terephthalate, an intermediate product which is then processed into a wide range of end products such as bottles and other packaging materials;
“RMB”	Renminbi, the lawful currency of the PRC;
“Shanghai JV Agreement”	the joint venture agreement entered into between FEIS and Far Eastern (Suzhou) for the terms of the proposed development of Shanghai JV;
“Shanghai JV”	上海遠資信息技術有限公司, a PRC domestic limited liability company to be established under the laws of PRC;
“Wuhan JV Agreement”	the joint venture agreement entered into between FEIS and Far Eastern (Suzhou) for the terms of the proposed development of Wuhan JV; and
“Wuhan JV”	武漢遠紡工貿有限公司, a PRC domestic limited liability company duly established under the laws of PRC.

For the purpose of this announcement, translations of RMB into HK\$ are made for illustration purposes only at the approximate exchange rate of HK\$1.00 to RMB1.057.

By order of the Board
Far Eastern Polychem Industries Limited
Wai-Kit Kong
Company Secretary

Hong Kong, 23rd December 2003

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.

** for identification purposes only*