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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)*

**(Stock Code: 8012)**

### **Continuing Connected Transaction**

The Company's wholly-owned subsidiary, Far Eastern Industries (Shanghai) Ltd., is party to an on-going technological licence agreement with an associate of the Company's controlling shareholder, Far Eastern Textile Ltd. The Agreement, entered into prior to the Company's listing in January, 2000, is for a term of ten years expiring on 31st December 2009 and is in its sixth year of operation.

A waiver from strict compliance with the announcement and shareholders' approval requirements contained in Chapter 20 of the GEM Listing Rules was granted by the Stock Exchange at the time of the Company's listing. At the time of listing, the Company set and disclosed annual caps on the licence fee payable by FEIS for the financial years up to the year ended 31st December 2001. In January 2002, the annual caps on the licence fee payable by FEIS were renewed at the same level for a period of three years from 1st January 2002 to 31st December 2004.

On 15 April 2005, the parties to the Agreement agreed to a reduction in the annual licence fee payable by FEIS from US\$10 per metric tonne of polyester polymer to US\$2.50 per metric tonne of polyester and agreed to set a reduced annual cap for a further period of three years from 1st January 2005 to 31st December 2007. The annual cap in respect of the licence fee payable by FEIS has been reduced from US\$1.25 million to US\$0.7 million (approximately HK\$5.5 million) per annum.

The new annual cap represents considerably less than 2.5% of the Company's annual sales and less than HK\$10 million. It is only subject to the reporting and announcement requirements as set out in Rules 20.45 to 20.47 of the GEM Listing Rules and is exempt from the independent shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

## **Background**

Prior to the Company's listing in January 2000, its wholly-owned subsidiary, FEIS, entered into a technological licence agreement with an associate of the Company's controlling shareholder. The Agreement was for a term of ten years, expiring on 31st December 2009 and is in its sixth year of operation. Pursuant to the Agreement, FEIS was granted a licence to use certain technological know-how and receives on-going technical assistance in relation to its production of polyester materials.

The licensor pursuant to the Agreement is FEIH, a subsidiary of FET, the Company's controlling shareholder and, itself, a member of a group of companies that comprise one of the largest business conglomerates in Taiwan and a leading producer of polyester and related products in Asia. FEIH is an offshore investment holding and licencing vehicle within the FET group of companies. The Company and its subsidiaries are principally engaged in the production and distribution of polyester products in the Peoples' Republic of China.

Full particulars of the Agreement, which constitutes a continuing connected transaction for the Company and remains, subject to the amendments referred to below, in full force and effect, were disclosed in the Company's prospectus dated 20th January 2000 (the "Prospectus"), issued in the context of its listing on the Stock Exchange.

Pursuant to a letter from the Stock Exchange dated 19th January 2000, a waiver from strict compliance with the GEM Listing Rules was granted subject to the following conditions:-

- (1) The annual amounts payable under the Agreement were not, in respect of the period to 31st December 2001, to exceed the relevant annual cap referred in the Prospectus, (i.e. US\$1.5 million); and
- (2) If the cap in respect of the licence fee payable under the Agreement for any of the years of 2002 to 2009 was to exceed the amount as set out in Rule 20.30 of the GEM Listing Rules (as it then was), the terms of the agreement and the cap would be the subject of review and approval by independent shareholders and the opinion of the independent non-executive Directors would have to be sought in accordance with Rule 20.30 of the GEM Listing Rules.

For the three years ended 31st December 2004, the annual cap on the licence fee was, with the permission of Stock Exchange, renewed at the same level of US\$1.5 million (which fell below the limit referred to in Rule 20.30, as it then was).

The licence fee payable by FEIS under the Agreement was calculated by reference to the historical research and development expense of FET and was payable by FEIS at a rate of US\$10 (approximately HK\$77.8) per metric tonne of polyester polymer produced by FEIS

Although the GEM Listing Rules generally limit continuing connected transactions to fixed terms of not more than three years, the nature of the Agreement was such that a longer term was regarded as necessary and appropriate in the circumstances. Licence fee payments spread over a 10 year period have enabled the Company to remain continuously competitive whilst having been afforded access to state of the art know-how from the outset of the Company's operations.

### **Reduced License Fee**

On 15 April 2005, the parties to the Agreement agreed, with effect from 1st January 2005, to a reduction in the annual licence fee payable by FEIS from US\$10 per metric tonne of polyester to US\$2.50 per metric tonne of polyester. The reduced fee was so agreed on the basis that the know-how that is the subject of the Licence has matured over the years (but still remains critical to the operations of FEIS) and the business environment in which FEIS operates has become increasingly competitive since the Company was listed in 2000.

Although the licence fee has always been capped, a reduction in the fee payable will result in savings to the Company to the extent that the fees do not reach the cap.

The Directors (including the independent non-executive Directors) regard the reduced licence fee as reflecting normal commercial terms and are of the view that the reduced licence fee is fair and reasonable and in the interests of the shareholders of the Company as a whole.

The reduced fee, as before, is payable, in cash, quarterly in arrears, subject to the cap referred to below.

Pending settlement of the agreed new caps, the Company has not paid any technological licence fee to FET since 1st January 2005 to the date of this announcement.

### **The New Cap**

The Company has proposed to FET, and FET has accepted, that the cap should, for each of the three financial years ending 31st December 2007, be reduced to US\$700,000 (approximately HK\$5.5 million). The new cap is calculated by multiplying the reduced licence fee of US\$2.50 per metric tonne of polyester polymer by the forecasted annual production of polyester polymer (i.e. 280,000 tonnes).

The historical annual production volumes of polyester polymer are as follows:

	<b>Annual Production of Polyester Polymers</b>
Year 2002	249,300tonnes
Year 2003	243,800tonnes
Year 2004	248,200tonnes

The Company is in the process of upgrading its production capacity and expects that the annual production volumes of polyester polymer will be increased by approximately 12% to 280,000 tonnes in year 2005.

The new annual cap represents considerably less than 2.5% of the Company's annual sales and less than HK\$10 million. It is only subject to the reporting and announcement requirements as set out in Rules 20.45 to 20.47 of the GEM Listing Rules and is exempt from the independent shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

## **DEFINITIONS**

“Agreement”	The Technological License Agreement dated 11th January 2000 made between FEIH and FEIS
“associate”	Has the meaning ascribed to it under the GEM Listing Rules
“Company”	Far Eastern Polychem Industries Limited, a company incorporated in Bermuda whose securities are listed on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited
“Director(s)”	The director(s) of the Company
“FEIH”	Far Eastern Investment (Holdings) Limited, a company incorporated in Bermuda and a subsidiary of FET
“FEIS”	Far Eastern Industries (Shanghai) Ltd., a wholly foreign owned enterprise by the Company in Shanghai, the PRC and one of the operating subsidiaries of the Company
“FET”	Far Eastern Textile Ltd., a company incorporated in Taiwan the shares of which are listed on the Taiwan Stock Exchange
“GEM Listing Rules”	The rules governing the listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited
“Stock Exchange”	The Growth Enterprise Market of the Stock Exchange of Hong Kong Limited

By order of the Board  
**Far Eastern Polychem Industries Limited**  
**Wai-Man Yim**  
*Company Secretary*

Hong Kong, 15 April 2005

*As at the date of this announcement, Mr. Shi-Tong Hsu, Mr. Jar-Yi Shih, Mr. Champion Lee, Mr. Lih-the Chang and Mr. Chin-Sen Tu are Executive Directors of the Company; Mr. Shaw-Y Wang is a Non-executive Directors and Mr. Tak-Lung Tsim, Mr. Ying-Ho Wong and Mr. Shih-Hung Chan are Independent Non-executive Directors.*

*This announcement, for which the Directors collectively and individually accept full responsibility, includes 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: (1) the information contained in this announcement 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 announcement misleading; and (3) 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 at <http://www.hkgem.com> on the “Latest Company Announcements” page for at least seven days from the day of its posting.*

*\* For identification purpose only*