

The Board has the pleasure in submitting the Company's annual report together with the audited financial statements for the year ended 31 December 2001.

Operation of the Board

All Directors of the Company (the "**Directors**") have complied with the Company Law of the PRC ("**the Company Law**") and regulations of the Company's Articles of Association, fulfilled their responsibilities as set forth in the Company's Articles of Association, and diligently executed the resolutions of the Company's general meetings of shareholders.

The Board held seven meetings during the report period, details of which are as follows:

1. The twelfth meeting of the third term of the Board was held at the Conference Centre of Yihua Hotel of the Company in Yizheng City, Jiangsu Province, the PRC on 16 January 2001. Nine Directors attended the meeting, the other three Directors appointed proxies. The meeting considered and passed the following issues: 1. the General Manager's report; 2. the resolution regarding the remuneration of the Directors, Supervisors and the Senior Management for the year 2000; 3. Proposed Regulation Concerning the Audit Committee; 4. the resolution regarding the appointment of the Company Secretary of the Company; 5. the resolution regarding the designation of the authorised representative of the Stock Exchange.

The resolution announcement was disclosed in the following newspapers – China Securities, Shanghai Securities News, Securities Times, Hong Kong Economic Times and South China Morning Post on 17 January 2001.

2. The thirteenth meeting of the third term of the Board was held at the Conference Centre of Yihua Hotel of the Company in Yizheng City, Jiangsu Province, the PRC on 13 April 2001. Nine Directors attended the meeting the other three Directors appointed proxies. The meeting considered and passed the following issues: 1. the resolution about writing off the impairment provision for the year 2000; 2. the resolution regarding the disposal of parts of fixed assets for the year 2000; 3. the resolution regarding the disposal of parts of current assets for the year 2000; 4. the Financial Statements for the year 2000; 5. the proposed scheme of profit distribution for the year 2000; 6. the 2000 Annual Report; 7. the 2000 Annual Results Announcement; 8. Notice of the 2000 Annual General Meeting (the "**AGM**"); 9. the resolution regarding the technology renovation and construction projects for the year 2001.

The resolution announcement was disclosed in the following newspapers – China Securities, Shanghai Securities News, Securities Times, Hong Kong Economic Times and South China Morning Post on 16 April 2001.

Report of the Board of Directors

3. The fourteenth meeting of the third term of the Board was held at the Conference Centre of Yihua Hotel of the Company in Yizheng City, Jiangsu Province, the PRC on 4 June 2001. Seven Directors attended the meeting, the other five Directors appointed proxies. The meeting considered and passed the following issues: 1. the report of the Directors for the year 2000; 2. the resolution for submitting to the AGM regarding the re-appointment of KPMG Huazhen and KPMG as respective domestic and international auditors for the year 2001; 3. the special resolution for submitting to the AGM, regarding that Company can place or issue shares, during the relevant period, either separately or concurrently, representing not more than twenty per cent of each of the existing issued domestic capital shares and overseas listed foreign capital shares; 4. the resolution regarding the total wages for the year 2001; 5. the profit distribution policy for the year 2001.

The resolution announcement was disclosed in the following newspapers – China Securities, Shanghai Securities News, Securities Times, Hong Kong Economic Times and South China Morning Post on 6 June 2001.

4. The fifteenth meeting of the third term of the Board was held at the Conference Centre of Yihua Hotel of the Company in Yizheng City, Jiangsu Province, the PRC on 20 June 2001. Eight Directors attended the meeting, the other three Directors appointed proxies. The meeting considered and passed the following issues: 1. the resolution regarding that the Board appointed Mr. Xu Zheng-ning as General Manager of the Company; 2. the resolution regarding that Mr. Ma Yu-ping ceased to act as General Manager of the Company and his resignation of directorship of the Company was accepted; 3. the resolution regarding the designation of the authorised representative of Bank of China (Hong Kong) Trustees Ltd.

The resolution announcement was disclosed in the following newspapers – China Securities, Shanghai Securities News, Securities Times, Hong Kong Economic Times and South China Morning Post on 21 June 2001.

5. The sixteenth meeting of the third term of the Board was held at the Conference Centre of Yihua Hotel of the Company in Yizheng City, Jiangsu Province, the PRC on 24 August 2001. Seven Directors attended the meeting, the other four Directors appointed proxies. The meeting considered and passed the following issues: 1. the resolution regarding that no interim dividend will be paid; 2. the interim report for the year 2001.

The resolution announcement was disclosed in the following newspapers – China Securities, Shanghai Securities News, Securities Times, Hong Kong Economic Times and South China Morning Post on 27 August 2001.

6. The seventeenth meeting of the third term of the Board was held in writing on 5 September 2001. The meeting considered and passed the following items: 1. the resolution regarding that the Company provided Yizheng Chemical Fibre Foshan Polyester Company Limited a guarantee for a line of bank credit; 2. Mr. Fu Xing-tang, Chairman of the Company, was authorised to sign the Guarantee Contract and relevant documents.

The resolution announcement was disclosed in the following newspapers-China Securities, Shanghai Securities News, Securities Times, Hong Kong Economic Times and South China Morning Post on 6 September 2001.

7. The eighteenth meeting of the third term of the Board was held at the Conference Centre of Yihua Hotel of the Company in Yizheng City, Jiangsu Province, the PRC on 21 December 2001. Nine Directors attended the meeting, the other two Directors appointed proxies. The meeting considered and passed the following items: 1. the resolution regarding acquisition of the assets; 2. Agreement of acquiring the assets; 3. the announcement of the connected transaction; 4. the supplemental agreement to the miscellaneous service agreement; 5. the resolution regarding the investment construction of polyester staple fibre with an annual capacity of 90,000 tons.

The resolution announcement was disclosed in the following newspapers – China Securities, Shanghai Securities News, Securities Times, Hong Kong Economic Times and South China Morning Post on 24 December 2001.

The Board will continue to act with integrity and be diligent, and will faithfully work for the best interests of the Group and its shareholders.

Principal Activities

The principal activities of the Group are the production and sale of polyester chips and polyester fibre.

Five Year Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years extracted from the financial statements prepared in accordance with IAS is set out on page 4 of the annual report.

A summary of the results and of the assets and liabilities of the Group for the last five financial years extracted from the financial statements prepared in accordance with the PRC Accounting Rules and Regulations is set out on pages 5 to 6 of the annual report.

Report of the Board of Directors

Changes in Share Capital and Shareholders

Changes in share capital

1. Share capital

During the year under review, there was no change in the total amount of shares and the share structure of the Company.

Share classification	Unit of share : 1,000 Shares; Par value: Rmb1 per share		
	At the beginning of the period	Changes during the period	At the end of the period
1. Non-circulating shares			
(1) Sinopec	1,680,000	0	1,680,000
(2) China International Trust and Investment Corporation ("CITIC")	720,000	0	720,000
Total number of non-circulating shares	2,400,000	0	2,400,000
2. Circulating shares			
(1) Domestic listed Rmb "A" share	200,000	0	200,000
(2) Overseas listed foreign capital "H" share	1,400,000	0	1,400,000
Total number of circulating shares	1,600,000	0	1,600,000
3. Total number of shares	4,000,000	0	4,000,000

2. *Share issues and listings*

The issuance and listings of shares subsequent to the establishment of the Company are as follows:

Classification	"A" Share		"H" Share	
Date of issue/ Period for lodging application	18-26 January 1995	14-17 March 1994	25-26 April 1995	
Issue price	Rmb2.68 per share	HK\$2.38 per share	HK\$2.45 per share	
Number of shares issued	200,000,000 shares	1,000,000,000 shares	400,000,000 shares	
Date of listing	11 April 1995	29 March 1994	26 April 1995	
Place of listing	Shanghai	Hong Kong	Hong Kong	
Number of shares approved for trading	200,000,000 shares	1,000,000,000 shares	400,000,000 shares	

3. *Purchase, sale or redemption of the Company's listed securities*

During the year under review, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

4. *Pre-emptive rights*

According to the Laws of the PRC and the Articles of Association of the Company, no pre-emptive rights exist.

5. *Internal employee shares*

The Company has not issued any internal employee shares.

Report of the Board of Directors

Shareholders

1. Number of shareholders

The number of shareholders of the Company as at 31 December 2001 is as follows:

Classification	Number of shareholders
"A" share : Legal person share	2
: Social public share	105,941
"H" share	1,673
Total	107,616

2. The top ten shareholders

As at 31 December 2001, the top ten major shareholders of the Company are as follows:

Name of shareholders	Classification	Number of shares held ('000 shares)	Percentage to total share capital (%)	Increase/ (decrease) during the report period*
Sinopec	"A" Share	1,680,000	42.00	0
HKSCC Nominees Limited	"H" share	1,341,100	33.53	4,496
CITIC**	"A" Share	720,000	18.00	0
HSBC Nominees (Hong Kong) Limited A/C BR-13	"H" share	2,074	0.052	–
Shanghai International Investment Corporation	"A" Share	1,553	0.039	–
HSBC Nominees (Hong Kong) Limited A/C BR-16	"H" Share	1,516	0.038	–
HSBC Nominees (Hong Kong) Limited A/C BR-12	"H" Share	1,484	0.037	–
Xinghe Fund	"A" Share	1,465	0.037	–
Chai Zhi-fa	"A" Share	1,090	0.027	–
HSBC Nominees (Hong Kong) Limited A/C BR-49	"H" Share	1,088	0.027	–

* Increase/(decrease) in number of shares during the report period represents the increase/(decrease) in number of shares held by shareholders whose shares accounted for more than 5 per cent of the Company's shares.

** Shares held on behalf of the State.

3. *The controlling shareholder*

Name:	Sinopec, which holds 42 per cent of the Company's shares
Legal representative:	Li Yi-zhong
Registered capital:	Rmb86,702,439,000
Date of establishment:	25 February, 2000
Principal activities:	exploring, developing, producing and trading crude oil and natural gas; refining crude oil; producing, trading, storing and transporting petrochemical, chemical fibre and other petrochemical products; transporting crude oil and natural gas by pipeline; researching, developing and applying relevant technology and information.
Main products:	synthetic resin; synthetic fibre monomer and polymer; synthetic fibre; synthetic rubber; nitrogenous fertiliser and some middle-stream petrochemical products.

Equity structure:

Classification	Number of shares held	Percentage
	('000 Shares)	(%)
1. State-owned share:	67,121,951	77.42
held by China Petrochemical Corporation ("CPC")	47,742,561	55.06
2. Overseas circulating "H" share	16,780,488	19.35
3. Domestic circulating "A" share	2,800,000	3.23
Total share capital	86,702,439	100.00

The shares held by Sinopec were not pledged during the report period.

4. *Controlling company of the controlling shareholder*

Name:	CPC
Legal representative:	Li Yi-zhong
Date of establishment:	24 July 1998
Registered capital:	Rmb104,912,000,000
Principal activities:	exploring, developing crude oil and gas; refining crude oil; producing petrochemicals; trading and branched-trading oil and petrochemicals; importing and exporting oil products and relevant businesses.

CPC is an investment organisation authorised by the State and a state holding company.

Report of the Board of Directors

5. Other substantial shareholders

- (1) The shares held by HKSCC (Nominees) Limited are on behalf of its clients. The Company has not been informed of whether any of its individual "H" shareholders holds more than 10 per cent of its total shares of the Company.
- (2) CITIC

CITIC holds 18 per cent of the Company's shares.

Legal representative:	Wang Jun
Registered capital:	Rmb3,000,000,000
Date of establishment:	4 October 1979
Principal activities:	engaging in investments at home and abroad and various economic cooperation; engaging in the development and promotion of new technology and risk investment; carrying out international and domestic financial business, offering guarantees for foreign capital, running banks or financial companies solely or jointly at home and abroad; issuing bonds or other negotiable securities itself or as a proxy at home and abroad; engaging in leasing business at home and abroad; providing insurance for foreign investors in the PRC, undertaking international insurance and re-insurance; engaging in trade at home and abroad; engaging in contracting and sub-contracting projects internationally, and exporting labour services; engaging in the operation for real estate, and traveling services; providing trust, consultancy and acting as agent for international and domestic clients.

The shares held by CITIC were not pledged during the report period.

Directors, Supervisors and Senior Management

Changes in Directors, Supervisors and Senior Management

On 20 June 2001, the fifteen meeting of the third term Board considered and passed the resolution to appoint Mr. Xu Zheng-ning as General Manager. Due to Mr. Ma Yu-ping's personal reason, the Board resolved that Mr. Ma Yu-ping ceased to act as General Manager of the Company and accepted the resignation of Mr. Ma Yu-ping as director of the Company.

Mr. Tom C.Y. Wu was appointed as the Company Secretary of the Company by the third term Board at the twelfth meeting held on 16 January 2001. Mr. David J.Y. Shao ceased to act as the Company Secretary of the Company after having been allocated other responsibilities.

Profiles of Directors, Supervisors and Senior Management

Directors

1. Mr. Fu Xing-tang, aged 58, Chairman and Secretary of Chinese Communist Party Committee (the "CCPC") of the Company and Yihua, and Senior Economist (at professor level). Mr. Fu has been involved in the petrochemical industry for more than 30 years and receives special subsidies awarded by the State Council of PRC. He served as Deputy Director of Planning Department of Daqing General Petrochemical Works in 1983, Director of Planning Department and Deputy General Manager in 1984 and Chief Economist in 1987. He held the position of Deputy General Manager of Baling Petrochemical Corporation in 1992, Deputy General Manager of Yangzi Petrochemical Corporation in 1993. In 1998 Mr. Fu was elected as Director and appointed as Deputy General Manager of Yangzi Petrochemical Company, Ltd. (currently "Sinopec Yangzi Petrochemical Company, Limited ("Yangzi")), and elected as Director of Yangzi Petrochemical Corporation and Chairman of Nanjing Oriental Chemical Industry Company. He became Secretary of the CCPC of the Company and Yihua, and was elected as Chairman of Yihua in October 1999. He was elected as Chairman of the Company in December 1999. Mr. Fu has extensive experience in planning, marketing, production, equipment management, purchasing and business administration in extra-large-scale petrochemical enterprise. Mr. Fu graduated from Beijing Oil Institute in 1968, majoring in refinery.
2. Ms. Sun Zhi-hong, aged 52, Vice Chairwoman of the Company and Deputy Director of the Finance Department of CITIC, Senior Accountant and CPA of PRC. Ms. Sun has been extensively engaged in business administration and financial management for a long period of time. She had held the position of Deputy Division Chief and Division Chief of the Finance Department of CITIC successively. She was elected as Vice Chairwoman of the Company in December 1999. Ms. Sun has extensive experience in financial management in large-scale enterprise. Ms. Sun graduated from China Central Broadcasting and Television University in 1986, majoring in accounting and completed the graduate course of International Business Administration in Beijing Economic College in 1995.
3. Mr. Qian Heng-ge, aged 51, Vice Chairman and Deputy Secretary of the CCPC of the Company, Director and Deputy Secretary of the CCPC of Yihua, and senior P&I Engineer. Mr. Qian joined Yihua in 1984. Since then, he had served as Deputy Head of the General Manager Office of Yihua and Head of the General Manager Office of the Company. In June 1995, he was elected as Chairman of the Supervisory Committee, and appointed as Deputy Secretary of the CCPC and Secretary of the Discipline and Inspection Commission of the Company. He was re-elected as Chairman of the Supervisory Committee and appointed as Secretary of the CCPC of the Company in December 1996. In January 1998, he was elected as Executive Director, appointed as Deputy General Manager of the Company and elected as Director of Yihua. In March 1998, he was appointed as Deputy Secretary of the CCPC of the Company and Yihua. He was elected as Vice Chairman of the Company in December 1999. Mr. Qian has extensive experience in administration and human resources management of extra-large-scale enterprise. Mr. Qian graduated from Distance Learning College of the Communist Party Central Academy in 1987, majoring in business administration. He completed the course of MBA in Nanjing University in 2001.

Report of the Board of Directors

4. Mr. Xu Zheng-ning, aged 44, Managing Director of the Company, and Senior Engineer. Mr. Xu joined Yihua in 1983. Since then, he had served as Deputy Director of the Research Institute of Yihua, Deputy Director and Director of the Polyester Plant No. 4, and Assistant to General Manager of the Company. He was appointed as Deputy General Manager of the Company in April 1995. In December 1996, he was elected as Executive Director and appointed as Deputy General Manager of the Company. He was re-elected as Director and re-appointed as Deputy General manager of the Company in December 1999. He was elected as General Manager of the Company in June 2001. Mr. Xu has extensive experience in production, equipment management, project management, technological improvement and marketing in large-scale enterprise. Mr. Xu graduated from Nanjing Chemical Engineering College in 1981, majoring in chemical engineering. He completed the course of MBA in Nanjing University in 1998.
5. Mr. Xiao Wei-zhen, aged 48, Director and Deputy General Manager of the Company, and Senior Engineer. Mr. Xiao joined Yihua in 1982. Since then, he had served as Deputy Director and Chief Engineer of Polyester Plant No. 2, and then Director of Polyester Plant No. 4 of the Company. In December 1996, he was appointed as Deputy General Manager of the Company. In November 1997, he was transferred to be Head of Production and Marketing Department in China Eastern United Petrochemical (Group) Company Limited. In January 1998, he was elected as Executive Director of the Company. In May 1998, he was appointed as Deputy General Manager of the Company. He was re-elected as Director and re-appointed as Deputy General Manager of the Company in December 1999. Mr. Xiao has extensive experience in production, technological improvement and business administration in large-scale chemical fibre enterprise. Mr. Xiao graduated from the Department of Chemical Engineering of Zhejiang University in 1982, majoring in macromolecular chemistry.
6. Mr. Yao Han-chong, aged 55, Director and Chairman of Trade Union of the Company and Yihua, and Senior P&I Engineer. Mr. Yao joined Yihua in 1985. Since then, he had served as Deputy Director of Propaganda Department, Deputy Director of Education and Training Center. Since 1995, he had held the positions of Deputy Secretary of the CCPC, Secretary of the Discipline and Inspection Commission and Chairman of Trade Union of Yihua. He became Chairman of Trade Union of the Company and Yihua in March 1998. He was elected as Director of the Company in December 1999. Mr. Yao has extensive experience in administration in large-scale enterprise. Mr. Yao graduated from China Textile Political Distance Learning College in 1989, majoring in party and governmental affair management. Mr. Yao was nominated as the staff representative of the Company.
7. Ms. Wang Wen-jie, aged 57, Director of the Company and Deputy General manager of South-China (Group) Company of CITIC, and Senior Accountant. She had held the position of Cost Accountant, Chief of the Financial Division of a petrochemical enterprises and Manager of Financial Department of Chemical Company of CITIC. She was elected as Director of the Company in December 1999. Ms. Wang has extensive experience in production, business administration and investment in chemical enterprise. Ms. Wang graduated from Daqing Oil College in 1965, majoring in industrial accounting.

8. Ms. Long Xing-ping, aged 50, Director of the Company and Assistant to the Head of Overall Planning Department of CITIC, and Senior Engineer. She was elected as Supervisor of the Company in December 1993 and re-elected in December 1996. She was elected as Director of the Company in December 1999. Ms. Long was engaged in the designing of chemical fibre machines and scientific research, and has extensive experience in business administration in large-scale industrial enterprise. Ms. Long graduated from Beijing Chemical Engineering College in 1975, majoring in machinery.
9. Mr. Ye Zong-shan, aged 55, Director of the Company, Director and Deputy General Manager of Yihua, and Senior Engineer (at professor level). Mr. Ye joined Yihua in 1982. Since then, he had served as Deputy Director of Production Department, General Manager of Yizheng Amoco Fabrics Company Ltd. and Director of Operational Planning Department. He became Director and Deputy General Manager of Yihua in 1998. He was elected as Director of the Company in December 1999. Mr. Ye has extensive experience in production and marketing in large-scale chemical fibre enterprise. Mr. Ye graduated from East China Petrochemical Institute in 1969, majoring in organic synthesis.
10. Mr. Zhao Shu-ming, aged 49, Independent Director of the Company, Dean of International Business School of Nanjing University, Tutor of Doctor Degree Candidate, Professor. He is a member of Academy of Management. Mr. Zhao graduated from the Department of Foreign Language of Nanjing University in July 1977 and became Master of Business Administration in June 1983 and Doctor of Business Administration in May 1990 in Claremont Graduate University in California USA. From 1990 to 1992, Mr. Zhao was Post-doctoral Fellow at Florida Atlantic University USA. He was elected as Director of the Company in December 1999. Mr. Zhao has studied international business administration, business administration and human resource management extensively, and has extensive experience in management consulting.
11. Mr. Chu Su-hua, aged 45, Independent Director of the Company and Deputy Director of Industrial and Commercial Bank of China, Jiangsu Provincial Branch, and Senior Economist. He was elected as Director of the Company in December 1999. For a long period of time, Mr. Chu has held the position of senior management in commercial bank and has extensive experience in banking. Mr. Chu graduated from Renmin University of China in 1982, majoring in fiscal and financial management.

Report of the Board of Directors

Supervisors

1. Mr. Huang Gui-geng, aged 56, Chairman of the Supervisory Committee, Deputy Secretary of the CCPC and Secretary of the Discipline and Inspection Commission of the Company and Yihua, and Senior P&I Engineer. Mr. Huang joined Yihua in 1982. Since November 1984, he had served as Deputy Secretary of the CCPC, Secretary of the Discipline and Inspection Commission and Chairman of Trade Union of Yihua, Chairman of Trade Union of the Company. In December 1993, he was elected as Supervisor of the Company. In December 1996, he was re-elected as Supervisor, and appointed as Deputy Secretary of the CCPC and Chairman of Trade Union of the Company. In January 1998, he was elected as Chairman of the Supervisory Committee. In March 1998, he was appointed as Deputy Secretary of the CCPC and Secretary of the Discipline and Inspection Commission of the Company and Yihua. He was re-elected as Chairman of the Supervisory Committee in December 1999. Mr. Huang has extensive experience in administration in large-scale enterprise. Mr. Huang graduated from the Department of Technological Physics of Beijing University in 1969, majoring in radioactive chemicals.
2. Mr. Zhou Wen-fei, aged 43, Supervisor of the Company, Deputy Secretary of the Discipline and Inspection Commission and Director of Supervisory Department of the Company and Yihua, and P&I Engineer. Mr. Zhou joined Yihua in 1980. He had been engaged in operational management, human resources management and labor relationship affairs. He served as Deputy Secretary of the CCPC and Secretary of the Discipline and Inspection Commission of the Polyester Plant No. 5 of the Company in 1996. He was elected as Supervisor and was appointed as Deputy Secretary of the Discipline and Inspection Commission and Deputy Director of Supervisory Department of the Company and Yihua in December 1999. Mr. Zhou graduated from China Textile Political Distance Learning College in 1989, majoring in administration. Mr. Zhou is the Supervisor who represents the staff of the Company.
3. Mr. Chen Jian, aged 39, Supervisor of the Company and Project Manager of Overall Planning Department of CITIC, and Engineer. Mr. Chen had served as technician and engineer in chemical fibre enterprise. He was elected as Supervisor of the Company in December 1999. Mr. Chen has extensive experience in the field of chemical fibre production, international trade of related products and investment project management. Mr. Chen graduated from East China Textile Institute of Science and Technology in 1984, majoring in chemical fibre.
4. Mr. Li Feng-ming, aged 57, Independent Supervisor of the Company and Deputy Director of Nanjing Audit College, Tutor of Master Degree Candidate, Professor. He receives special subsidies awarded by the State Council of the PRC. He was elected as Supervisor of the Company in December 1999. Over a long period of time, Mr. Li has been engaged in teaching of accounting and has made studied accounting extensively. Mr. Li graduated from Anhui Business College in 1967, majoring in accounting.

5. Mr. Huang Zhi-wei, aged 52, Independent Supervisor of the Company and Deputy Director of Bank of China, Jiangsu Provincial Branch, and Senior Economist. He was elected as Supervisor of the Company in December 1999. For a long period of time, Mr. Huang has held the position of senior management in commercial bank and has extensive experience in banking. Mr. Huang graduated from Nanjing University in 1987, majoring in management for party and governmental cadre.

Senior Management

1. Ms. Ling Ai-bao, aged 56, Deputy General Manager of the Company, and Senior Economist (at professor level). Ms. Ling joined Yihua in 1979. Ms. Ling had served as Deputy Director and Director of Yihua's Water Supply and Disposal Plant, and also the Assistant to General Manager of Yihua. In 1988, she became Deputy General Manager of Yihua. In December 1993, She was appointed as Deputy General Manager of the Company, and was re-appointed in December 1999. She has a great deal of experience in administration, raw material purchasing and marketing in large enterprises. Ms. Ling graduated from Tong Ji University in 1967, majoring in water supply and disposal. She completed the course of MBA in Nanjing University in 1998.
2. Mr. Shen Xi-jun, aged 41, Deputy General Manager of the Company, and Senior Engineer. Mr. Shen joined Yihua in 1982. He had served as Deputy Director of Polyester Plant No.3 and the Assistant to General Manager of Yihua. In January 1996, he was appointed as Deputy General Manager of Yihua. In January 1998, he was appointed as Deputy General manager of the Company and was re-appointed in December 1999. He has extensive experience in production and project management in large-scale enterprises. He has won several titles and awards granted by the Central Committee of the Communist Youth League of the PRC, China National Textile Council, Human Resources Department of Jiangsu Provincial Government and Jiangsu Provincial Communist Party Committee. Mr. Shen graduated from the Department of Chemical Engineering of Dalian Institute of Technology in 1982, specialising in macromolecule chemical engineering. He completed the course of MBA in Nanjing University in 1998.
3. Mr. Li Ren-yan, aged 57, Deputy General Manager of the Company, General Manager and secretary of CCPC of Foshan Chemical and Foshan Polyester, and Senior Engineer (at professor level). Mr. Li joined Yihua in 1980, and had served as Deputy Director of Polyester Plant No. 2, Deputy Manager of Raw Material Purchases and Marketing Department, Deputy Director of Polyester Plant No. 1, Deputy Director of Business Administration Department, Manager of Yihua Industrial Filament Project, Director of Polyester Plant No. 3. He was appointed as General Manager and Secretary of the CCPC of Foshan Chemical Fibre Complex in December 1996 and of Foshan Polyester in August 1998. In January 1998, he was appointed as Deputy General Manager of the Company and was re-appointed in December 1999. He has extensive experience in production and marketing management of large scale enterprises. Mr. Li graduated from the Department of macromolecule polymer of Nanjing Chemical Engineering College in 1968, specialising in synthetic technology.

Report of the Board of Directors

4. Ms. Zhou Xin-hua, aged 55, Chief Financial Officer of the Company, and Senior Accountant (at professor level). Ms. Zhou has been engaged in financial management for a long period of time. She had held the position of Deputy Director of Finance Department, Director of Audit Department of Nanjing Chemical Industrial Company, Director of Finance Department of Nanjing Chemical Industrial Group Corporation and the concurrent positions of Deputy Chief Financial Officer and Director of Finance Department successively. She was appointed as Chief Financial Officer of Nanjing Chemical Industrial Group Corporation in September 1996 and as Chief Financial Officer of Nanjing Chemical Industrial Corporation in December 1998. She was appointed as Chief Financial Officer of the Company in December 1999. Ms. Zhou has extensive experience in financial management of large-scale chemical enterprise. Ms. Zhou graduated from Central Finance Institute in 1970, majoring in finance.
5. Mr. Tom C. Y. Wu, aged 40, Company Secretary and Treasurer of the Company, and Senior Engineer. He joined Yihua in 1982. Mr. Wu was engaged in production management, technology management and business administration. He participated in all of the Phase I, Phase II and Phase III Construction Projects of Yihua and is familiar with the Company's overall operation. In 1994, he served as Deputy Director of PET Film Plant of Yihua. Mr. Wu graduated from the Department of Chemical Engineering of Zhejiang University in 1982, majoring in macromolecular chemistry, and obtained MBA degree in Dalian University of Technology in September 2001.

Directors', Supervisors' and Senior Management's interests in shares and their salaries

1. Procedure and basis of Directors', Supervisors' and Senior Management's salary policies

Pursuant to the resolution regarding the salaries of the third term directors and supervisors, approved by the extraordinary general meeting held on 23 December 1999; the resolution regarding the salaries of the senior management, approved by the first meeting of the third term of the Board held on 23 December 1999; the Service Contracts signed by the directors and the supervisors with the Company; and the operating situation for the year 2001, the nineteenth meeting of the third term of the Board held on 29 March 2002 considered and passed the resolution regarding the salaries of directors, supervisors and the senior management of the Company for the year 2001.

2. Details of "A" shares of the Company held by Directors, Supervisors of the third term and Senior Management of the Company as at 31 December 2001, which are subject to the disclosure requirements under the Securities (Disclosure of Interests) Ordinance in Hong Kong (the "SDI Ordinance") and under the relevant PRC laws and regulations concerning information disclosures, together with their fees, salaries and other remuneration and bonus for the year ended 31 December 2001 are as follows:

1. **Directors:**

Name	Number of "A" shares held for personal interests		Fee, salary and other remunerations for the year (Rmb)	Bonus for the year (Rmb)
	At the beginning of the year	At the end of the year		
Fu Xing-tang	0	0	56,640	52,500
Sun Zhi-hong	0	0	56,640	52,500
Qian Heng-ge	2,000	2,000	56,640	52,500
Xu Zheng-ning	2,600	2,600	56,640	52,500
Xiao Wei-zhen	0	0	56,640	52,500
Yao Han-chong	0	0	56,640	52,500
Wang Wen-jie	0	0	56,640	52,500
Long Xing-ping	0	0	56,640	52,500
Ye Zhong-shan	0	0	56,640	52,500
Zhao Shu-ming*	0	0	12,000	0
Chu Su-hua*	0	0	12,000	0

* Independent Director

Report of the Board of Directors

2. Supervisors:

Name	Number of "A" shares held for personal interests		Fee, salary and other remunerations for the year (Rmb)	Bonus for the year (Rmb)
	At the beginning of the year	At the end of the year		
Huang Gui-geng	2,300	2,300	47,200	42,000
Zhou Wen-fei	0	0	47,200	42,000
Chen Jian	0	0	47,200	42,000
Li Feng-ming*	0	0	12,000	0
Huang Zhi-wei*	0	0	12,000	0

* Independent Supervisor

3. Senior Management:

Name	Number of "A" shares held for personal interests		Salary and other remunerations for the year (Rmb)	Bonus for the year (Rmb)
	At the beginning of the year	At the end of the year		
Ling Ai-bao	2,600	2,600	47,200	42,000
Shen Xi-jun	0	0	47,200	42,000
Li Ren-yan	0	0	47,200	42,000
Zhou Xin-hua	0	0	47,200	42,000
Tom C. Y. Wu	0	0	47,200	31,500

There was no change in the number of shares held by the Directors, Supervisors of the third term and Senior Management subsisted at the beginning of the year or at the end of the year or at any time during the year.

Other than as stated above, no Directors, Supervisors and Senior Management had any interests, whether beneficial or non-beneficial, in the issued share capital of the Company, and other associated corporations (within the meaning of the SDI Ordinance) as at 31 December 2001.

Directors' and Supervisors' rights to acquire shares and debentures

The Company issued no convertibles, options, warrants or similar rights during the year under review. There was no conversion or exercise of any rights, options or warrants during the year under review by the Company.

At no time during the year under review was the Company, any of its parent companies, subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors, Supervisors or Senior Management of the Company or any of their spouses or children under eighteen years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Directors' and Supervisors' service contracts

Each Director (excluding Independent Directors) of the third term of the Company entered into a service contract with the Company respectively on 23 December 1999. Particulars of these contracts are in all material respects identical and are set out below:

1. Each service contract is for a term of three years commencing 1 January 2000;
2. The annual aggregate salaries of the first year payable to all Directors (excluding Independent Directors) is Rmb480,000, subject to an increment (after inflation) of not less than 18 per cent but not more than 40 per cent for each subsequent year within the contract term;
3. Each Director (excluding Independent Directors) is entitled to a bonus by reference to the consolidated net profit of the Company (excluding extraordinary items) after taxation as decided by the Board provided that the annual amount of bonus payable to each Director (excluding Independent Directors) may not be less than Rmb15,000 and the annual aggregate amount of bonus payable to all the Directors (excluding Independent Directors) and all the Supervisors (excluding Independent Supervisors) may not exceed 1 per cent of such profit. A Director shall abstain from voting in respect of the resolution regarding the amount payable to him/her.

Each Independent Director of the third term of the Company entered into a service contract with the Company respectively on 23 December 1999. Particulars of these contracts are in all material respects identical and are set out below:

1. Each service contract is for a term of three years commencing 1 January 2000;
2. The aggregate annual fee payable to all Independent Directors is Rmb24,000, within the term of their service.

Report of the Board of Directors

Each Supervisor (excluding Independent Supervisors) of the third term of the Company entered into a service contract with the Company respectively on 23 December 1999. Particulars of these contracts are in all material respects identical and are set out below:

1. Each service contract is for a term of three years commencing 1 January 2000;
2. The annual aggregate salaries of the first year payable to all the Supervisors (excluding Independent Supervisors) is Rmb120,000, subject to an increment (after inflation) of not less than 18 per cent but not more than 40 per cent for each subsequent year within the contract term;
3. Each Supervisor (excluding Independent Supervisors) is entitled to a bonus by reference to the consolidated net profit (excluding extraordinary items) after taxation of the Company as decided by the Board provided that the annual amount of bonus payable to each Supervisor (excluding Independent Supervisors) does not less than Rmb12,000 and the annual aggregate amount of bonus payable to all the Supervisors (excluding Independent Supervisors) and all the Directors (excluding Independent Directors) does not exceed 1 per cent of such profit.

Each Independent Supervisor of the third term of the Company entered into a service contract with the Company respectively on 23 December 1999. Particulars of these contracts are in all material respects identical and are set out below:

1. Each service contract is for a term of three years commencing 1 January 2000;
2. The aggregate annual fee payable to all Independent Supervisors is Rmb24,000, within the term of their service.

No Director or Supervisor has entered into a service contract with the Company which is not determinable by the Company within one year without payment other than statutory compensation.

Directors' and Supervisors' interests in contracts

No contract of significance to which the Company, its parent company or any of their subsidiaries was a party, in which a Director or Supervisor of the Company had a material interest, subsisted at the end of the year or at any time during the year.

Special treatment to Directors, Supervisors and Senior Management

There was no special treatment granted to the Directors, Supervisors or Senior Management during the year under review.

Major litigation or arbitration

The Group was not engaged in any material litigation or arbitration during the year under review.

Major events or discloseable circumstances during the year

Major events or discloseable circumstances during the year under review are shown in "Significant Events" on pages 52 to 57.

Connected transactions

Details of the connected transactions entered into by the Company during the year are set out in item 4 of "Disclosure of Significant Events" on page 52 of this annual report.

Results

The results of the Group for the year ended 31 December 2001 and the state of the Company's and the Group's affairs as at that date are set out in the financial statements prepared in accordance with IAS and PRC Accounting Rules and Regulations on pages 58 to 95 and pages 96 to 144 respectively.

Proposed scheme of profit distribution and the policy for the year 2002

In accordance with the PRC Accounting Rules and Regulations, the net profit of the Company for 2001 was Rmb163,794,000. The total undistributed profit, including the undistributed profit of Rmb356,621,000 brought forward from 2000, was Rmb520,415,000.

According to the relevant regulations of the PRC and the Articles of Association of the Company, proposed transfers to the statutory surplus reserve and the statutory public welfare fund were Rmb21,937,000 and Rmb20,998,000 respectively. Of which, Rmb20,059,000 or 10% of the adjusted net profit of Rmb200,585,000 (excluding share of losses from subsidiaries of Rmb36,791,000) was transferred to the statutory surplus reserve; Rmb20,059,000 or 10% of the adjusted net profit was transferred to the statutory public welfare fund; in addition, Rmb1,878,000 or 10% of the distributable profits of the relevant subsidiaries was transferred to the statutory surplus reserve; Rmb939,000 or 5% of the distributable profits of the relevant subsidiaries was transferred to the statutory public welfare fund.

Distributable profits to shareholders for 2001 was Rmb477,480,000.

It is proposed that a final cash dividend of Rmb0.02 per share for the year 2001 be paid, totalling Rmb80,000,000.

Undistributed profit of Rmb397,480,000 is to be carried forward to the year 2002.

Report of the Board of Directors

The above proposed scheme of profit distribution shall be submitted to the 2001 annual general meeting for approval.

It is expected that a final cash dividend will be paid for 2002, the percentage of the net profit for 2002 for dividend distribution will not below 40 per cent, while the undistributed profits for 2001 will not be used in dividend distribution.

The Board reserves the right to adjust the above profit distribution policy in accordance with the actual situation of the Company.

Reserves

Changes in reserves of the Group during the year under review are set out on pages 88 to 89 and page 134 to 135 of this annual report.

Fixed assets

Movements in fixed assets of the Group, during the year under review, are set out on pages 77 to 79 and pages 125 to 126 of this annual report.

Bank loans and other borrowings

Particulars of bank loans and other borrowings of the Company and the Group as at 31 December 2001 are set out on pages 86 to 87 and pages 131 to 132 of this annual report.

Subsidiaries

Particulars of the Company's subsidiaries as at 31 December 2001 are set out on pages 145 to 146 of this annual report.

Retirement plan

Particulars of the retirement plan operated by the Group are set out on page 90 and pages 143 to 144 of this annual report.

Major suppliers and customers

For the year ended 31 December 2001, 37.3 per cent of purchases (not including the purchase of items which are of capital nature) were attributable to the Group's largest supplier. The largest supplier is a subsidiary of Sinopec. 70.3 per cent of purchases were attributable to the Group's five largest suppliers in aggregate.

The aggregate amount of sales attributable to the Group's five largest customers represented 23.6 per cent of the Group's turnover.

Apart from the foregoing, at no time during the year have the Directors and Supervisors, their associates, or any shareholder of the Company (which to the knowledge of the Directors and Supervisors own more than 5 per cent of the Company's share capital) had any interest in other major suppliers.

Auditors

KPMG Huazhen and KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG Huazhen and KPMG as domestic and international auditors respectively of the Company for the year 2002, is to be proposed at the 2001 annual general meeting.

Shareholders' Meeting

The Company held its 2000 AGM at its registered place in Yizheng City, Jiangsu Province on 5 June 2001 during the report period. Details are set out in "Summary of shareholders' meeting" on page 51.

Compliance with the Code of Best Practice

The Company has complied throughout the report period with the Code of Best Practice as set out by the HKSE in Appendix 14 to the Rules Governing the Listing of Securities on the HKSE ("HKSE Listing Rules").

Under the HKSE Listing Rules and the "Guidelines for the Formation of an Audit Committee" issued by the Hong Kong Society of Accountants, the twelfth meeting of the third term Board of the Company considered and passed the "Proposed Regulation Concerning the Audit Committee".

The Audit Committee held three meetings and considered the Financial Statements for 2000, Interim Report for 2001 and resolutions regarding the disposal of assets.

The Audit Committee held the fourth meeting on 29 March 2002 and considered the Financial Statements for 2001.

By Order of the Board

Fu Xing-tang

Chairman

29 March 2002, Nanjing