

Disclosure of Significant Events

1. For the report period, the Company was not engaged in any material litigation or arbitration.
2. No punishment was given to the Company or any of its Directors, Supervisors or Senior Management by the supervisory body during the report period.
3. As approved by the 2000 AGM held on 5 June 2001, the Company paid on 30 July 2001 a final cash dividend of Rmb0.09 per share for the year ended 31 December 2000. Details of dividend payments to domestic shareholders were disclosed in China Securities, Shanghai Securities News and Securities Times on 16 July 2001; while the details of dividend payments to international shareholders were included in the announcement of the resolutions passed at the 2000 AGM, which were disclosed in China Securities, Shanghai Securities News, Securities Times, Hong Kong Economic Times and South China Morning Post on 6 June 2001.

In accordance with the Articles of Association of the Company, the Board resolved not to pay any interim dividend for the year ended 31 December 2001.

The Board proposed to pay a final cash dividend of Rmb0.02 per share for the year ended 31 December 2001.

4. Significant connected transactions between the Group and the related parties for the year ended 31 December 2001 were as follows:
 - A. The followings are the significant connected transactions relating to sales and purchase of goods and provision of services: For the year ended 31 December 2001, raw materials purchased by the Company from CPC and its subsidiaries ("**CPC Group**") amounted to Rmb24,161,000 and accounted for 0.5 per cent of the total of this type; raw materials purchased by the Company from Sinopec and its subsidiaries (excluding Yangzi) amounted to Rmb111,884,000 and accounted for 2.3 per cent of the total of this type; raw materials purchased from Yangzi amounted to Rmb2,028,719,000 and accounted for 40.9 per cent of the total of this type; goods purchased from Yihua and its subsidiaries ("**Yihua Group**") amounted to Rmb103,945,000 and accounted for 2.1 per cent of the total of this type; goods sold to Yihua Group amounted to Rmb1,070,203,000, and accounted for 13.7 per cent of the total of this type; and miscellaneous service charges paid to Yihua by the Company amounted to Rmb118,360,000 and accounted for 100 per cent of the total of this type; payments to the engineering company of Yihua relating to construction, repair and maintenance work by the Company amounted to Rmb79,199,000 and accounted for 100 per cent of the total of this type. There were no other significant connected transactions of the same kind during the report period. The Company is of the opinion that purchasing of goods from the related parties above ensures the Group a steady and secured supply of raw materials, and that selling goods to the Yihua Group ensures the Company certain sales channels and turnover. Therefore, these connected transactions are beneficial to the Group. These transactions were negotiated on a market price basis and settled on a cash on delivery basis. The miscellaneous service charges paid to Yihua and the payments to the engineering company of Yihua relating to construction and repair and maintenance works are settled strictly in compliance with the contracts dated 8 February 1994 between the Company and Yihua. The above transactions have no adverse effect upon the profit of the Group.

- B. The followings are the significant connected transactions relating to acquisition of assets: The Company entered into an agreement with Yihua to acquire such assets as pipeline network, roads, buildings and the land thereon within the Company's plant area ("**the Assets**") ("**the Transaction**") on 21 December 2001. The cash consideration paid by the Company under the agreement was Rmb216,000,000. The Board and the Independent Directors of the Company considered that the Transaction was open, fair and equitable and would not jeopardise the shareholders' interests. Details of which was disclosed by means of press announcement in China Securities, Shanghai Securities News, Securities Times, Hong Kong Economic Times and the South China Morning Post on 24 December 2001.
- C. The followings are the significant connected transactions relating to amounts due from/(to) related parties: At 31 December 2001, the amounts due from Yihua Group amounted to Rmb43,104,000, and mainly represented trade receivables and bills receivable; amounts due to other related parties amounted to Rmb75,485,000, and mainly represented the trade payables to Yangzi. These connected transactions have no material impact on the Company.
- D. Other significant connected transactions: At 31 December 2001, the Company's deposits placed with Sinopec Finance Company Limited ("**Sinopec Finance**") at market interest rates, amounted to Rmb715,728,000.

The Board believed that the above transactions were entered into in the ordinary course of business and on normal commercial terms or in accordance with the terms of the agreements governing these transactions and fully complied with the waivers granted by the HKSE to the Company.

The Independent Directors had reviewed the above transactions according to the regulations as stipulated in the waivers granted by the HKSE, and wrote a confirmation letter to the Board about the above connected transactions as required by waivers from the HKSE.

The Company's auditors had reviewed the above connected transactions and submitted a letter to the Board on 29 March 2002.

Details of the Company's connected transactions during the report period are set out on pages 90 to 92 and pages 137 to 142 of this annual report.

Disclosure of Significant Events

5. The eighteenth meeting of the third term of the Board held on 21 December 2001 resolved to invest and construct the staple fibre project with an annual capacity of 90,000 tonnes, which is part of the Phase IV projects approved by the Planning and Development Commission of the State in 1998. The total investment of this project will be amounted to Rmb368,180,000. Construction of the project will be started in June 2002 and completed in August 2003. The Company signed technology and equipment import contracts for the project with Zimmer, a German company, on 30 January 2002.
6. The fifteenth meeting of the third term of the Board held on 20 June 2001 resolved the personal change of General Manager of the Company. Details of which was disclosed through press announcement in China Securities, Shanghai Securities News, Securities Times, Hong Kong Economic Times and the South China Morning Post on 21 June 2001.
7. The twelfth meeting of the third term of the Board held on 16 January 2001 resolved the personal change of the Company Secretary. Details of which was disclosed through press announcement in China Securities, Shanghai Securities News, Securities Times, Hong Kong Economic Times and South China Morning Post on 17 January 2001.
8. The seventeenth meeting of the third term of the Board held on 5 September 2001 resolved that the Company provided a guarantee in favour of Bank of China for Foshan Polyester. Details of which was disclosed through press announcement in China Securities, Shanghai Securities News, Securities Times, Hong Kong Economic Times and the South China Morning Post on 5 September 2001.
9. The change of the Company's Chinese and English names was approved by the relevant PRC authorities on 27 February 2001. Details of which was disclosed by means of press announcement in China Securities, Shanghai Securities News, Securities Times, Hong Kong Economic Times and the South China Morning Post dated 13 March 2001.

There was no change in the stock name of the shares of the Company during the report period.

10. At 31 December 2001, the Company did not have any designated deposits with any financial institutions or had any difficulties in collecting deposits upon maturity. The Company had no trusted management matters during the report period.
11. The Company did not rent or contract any asset from or with any company. Furthermore, no company rented or contracted any asset from or with the Company during the report period.
12. The Company signed a general commercial agreement with MB Barter & Trading SA of Switzerland on 18 January 2002. MB Barter & Trading SA is the first international agent of the Group for the exportation of its bottle-grade polyester chips.

13. The Company and its shareholders who hold more than 5 per cent of the Company's shares did not undertake anything in any newspaper or internet website designated by CSRC which needed to be disclosed.
14. KPMG Huazhen and KPMG were re-appointed as domestic and international auditors respectively of the Company for the year 2001, as approved at the 2000 AGM, and the Board was authorised to fix their remuneration.

The remuneration paid to the auditors in 2001 and 2000 are as follows:

	2001	2000
KPMG Huazhen		
Audit fee	Rmb661,680 (unpaid)	Rmb661,680 (paid)
KPMG		
Audit fee	Rmb4,338,320 (Rmb1,861,520 unpaid)	Rmb4,338,320 (paid)
Accounting services fees	Rmb1,616,800 (unpaid)	Rmb1,616,800 (paid)

Note: the fees includes the business trip allowance.

15. According to the agreements dated 8 February 1994 between the Company and Yihua, Yihua is responsible for the provision of housing services to the staff and employees of the Company. As the PRC government promotes its housing plan to encourage home buyers, Yihua has disposed of staff quarters to its staff and to the staff of the Company. As a result, there was a loss of Rmb160 million as at 31 December 1997. Based on the number of beneficiaries of Yihua and the Company, the Company was liable for Rmb110 million. Other than the above, the Company has not been liable for any other loss incurred thereafter since 31 December 1997.

Pursuant to the documents "Cai Qi [2000] No.295" and "Cai Kui [2001] No.5" issued by the Ministry of Finance (the "MOF") on 6 September 2000 and 7 January 2001, the debit balance remained in the "Housing Revolving Fund" account in the financial statements prepared in accordance with the PRC Accounting Rules and Regulations should be offset against the "Undistributed profits at the beginning of the year" in 2001. Accordingly, the Company has changed its accounting policy regarding "Housing Revolving Fund" in 2001, and the Group's and the Company's net assets decreased by Rmb110 million. Details of which are set out on page 116 of this annual report.

Save as disclosed above, the Group currently has no other employees housing plan.

Disclosure of Significant Events

16. For the year ended 31 December 2001, the Group implemented a "fewer employees, higher efficiency" programme. As at 31 December 2001, the Group agreed and suspended labor contracts with approximately 1,170 employees and paid Rmb87.8 million to them. The Group has reflected this expense in the income statement for the year.
17. According to a document (Guo Shui Han Fa [1994] No. 61) issued by the State Administration of Taxation of the PRC on 23 February 1994, the preferential income tax rate applicable to the Company is 15 per cent. The Company has not received any notice from the tax authorities to change this rate.
18. Impact of PRC's entry into WTO

The PRC was officially admitted into WTO on 12 December 2001. According to "Protocol on the Accession of the People's Republic of China" and the related legal documents pertaining to the PRC's entry into WTO, the import tariff rate for the Group's major products and major raw materials will be gradually reduced in 2002. The table below shows the process of import tariff reduction.

	2001	2002	2003	2004	2005	2006	2007	2008
Polyester chips	16%	12.8%	11.8%	10.7%	9.7%	8.6%	7.6%	6.5%
Polyester staple fibre	17%	10.6%	7.8%	5%	5%	5%	5%	5%
Polyester filament	21%	14%	11%	8%	5%	5%	5%	5%
PX	8%	5%	4%	3%	2%	2%	2%	2%
MEG	12%	8.8%	7%	5.5%	5.5%	5.5%	5.5%	5.5%
PTA	14%	12.8%	11.8%	10.7%	9.7%	8.6%	7.6%	6.5%

Upon PRC's formal entry, import quotas for polyester and polyester fibre products will be completely removed.

Due to the reduction in import tariff and market access, overseas polyester, textile and garment manufacturers will shift their production and increase their exports to the PRC market. The PRC will be further developed into a global manufacturing and consuming centre in polyester industry. At the same time, new pattern of competition in the domestic polyester market will arise, the competition between domestic polyester manufacturers in the fields of quality, product types, cost and service will become more intense.

Meanwhile, PRC's entry into WTO is also helpful to improving domestic market environment. Firstly, WTO membership will bring about a legal framework that is internationally viable for domestic manufacturers to ensure a more regulated and orderly market competition. The PRC government will continue to improve its laws related to anti-dumping, countervailing and safeguards according to WTO rules, and formulate and revise market standards for quality, sanitation, epidemic prevention and environmental protection. Secondly, entry into WTO will benefit the development of PRC's textile industry. The PRC's textile industry will expand its market share in the world and therefore contribute to a sustained growth of the domestic polyester industry. Thirdly, purchasing costs will be reduced as import tariffs for raw materials and equipment decreases. Lastly, through PRC's entry into WTO, manufacturers will have access to the international market and more exposures to international competitions. The Company and other domestic manufacturers have already gained experience through competitions, after the opening of the domestic petrochemical and chemical fibre industries. The domestic market prices of polyester products are already in line with that in international market.

With its strong competitive advantages, the Group will be benefited from PRC's entry into WTO. As the fifth largest polyester manufacturer and the largest one-site polyester manufacturer in the world, the Group is highly competitive in terms of economy of scale. The strength of the Group is demonstrated by its ability to coordinate raw materials sourcing, comprehensive utilities, low manufacturing costs, rational product structure, high product differentiation capability and strong profitability. The Groups' extensive sales network, well-recognised brand name and a positive corporate image are also advantageous to the Groups competitiveness. Finally, the Group has a strong asset structure. In response to the opportunities and challenges arising from PRC's entry into WTO, the Group will seek to capitalise on opportunities, avoid risks and embrace challenges. The Group's strategies are set out on pages 13 to 15 in this annual report.

19. Save as those disclosed above, the Group did not have any major event, or disclosure matter referred to in Article 62 of Security Law of the PRC, Article 60 of the "Provisional Regulations of Administration of the Issuing and Trading of Shares of the PRC" and Article 17 of "Disclosure of Information by Public Listing Companies (the Trial Implementation Rule)" during the report period.