



1. As approved in the 2001 AGM held on 28 June 2002, the Company paid a final cash dividend of Rmb0.02 per share for the year ended 31 December 2001 on 29 July 2002. Details of dividend payments to domestic shareholders were disclosed in China Securities, Shanghai Securities News and Securities Times on 17 July 2002; while the details of dividend payments to international shareholders were included in the announcement of the resolutions passed in the 2001 AGM, which were disclosed in China Securities, Shanghai Securities News, Securities Times, Hong Kong Economic Times and South China Morning Post on 1 July 2002.

In accordance with the Articles of Association of the Company, the Board resolved that no interim dividend was paid for the year ended 31 December 2002.

The Board proposed a final cash dividend of Rmb0.015 to be paid for the year ended 31 December 2002.

2. During the reporting period, the Company did not have any material litigation or arbitration.
3. During the reporting period, the Company did not have any acquisition and disposal of assets as well as merger and acquisition.
4. Information on connected transactions
 - (a) The Group's material connected transactions entered into during the year ended 31 December 2002 are as follows:

Six connected transactions relating to the construction, design and the construction of auxiliary facilities in relations to a PTA project with an annual capacity of 450,000 tonnes with five companies, which are either directly or indirectly wholly-owned subsidiaries of CPC, the ultimate controlling company of the Company, were confirmed and approved in the twenty-third meeting of the third term of the Board held on 9 August 2002. The aggregate total consideration of these contracts amounted to Rmb199,340,000. The related announcement was disclosed in China Securities, Shanghai Securities News, Securities Times, Hong Kong Economic Times and South China Morning Post on 12 August 2002. During the year ended 31 December 2002, payments to these connected parties, by the Company amounted to Rmb127,726,000, which accounted for 100 per cent of the same type of transactions.

Agreements on connected transactions relating to security and catering services with Yihua was approved by the twenty-seventh meeting of the third term of the Board held on 27 November 2002 and signed. The estimated catering services expense and the security expense payable to Yihua for the year 2003 will be Rmb8,624,000 and Rmb13,200,000 respectively. The related announcement was disclosed in China Securities, Shanghai Securities News, Securities Times, Hong Kong Economic Times and South China Morning Post on 28 November 2002.



The followings are the significant connected transactions relating to sales and purchase of goods and provision of services:

Type of transactions	Transaction parties	Transaction amount <i>Rmb'000</i>	Share of the of same type of transactions (%)
Purchase of raw materials	Yangzi	2,082,970	36.0
	Sinopec and its subsidiaries (excluding Yangzi)	168,127	2.9
	Yihua and its subsidiaries ("Yihua Group")	109,218	1.9
	CPC and its subsidiaries ("CPC Group") (excluding Yihua Group, Sinopec and its subsidiaries)	41,890	0.7
Sales	Yihua Group	921,641	11.6
Miscellaneous service charges (including the aforementioned security and catering services)	Yihua Group	132,487	100
Miscellaneous service fee income	Yihua Group	28,947	100
Construction expenses	Yihua Group	102,501	100

The Company is of the opinion that purchasing of goods from the above related parties ensures a steady and secured supply of raw materials, and that sales to Yihua ensures the Company maintains certain sales channels and a certain level of turnover. Therefore, these connected transactions are beneficial to the Group. The transactions were negotiated at market prices and settled mainly on cash on delivery basis. The miscellaneous service charges paid to Yihua, the miscellaneous service fee income from Yihua and the payments to Yihua for construction work followed strictly the terms set out in the contracts dated 8 February 1994, 21 December 2001 and 27 November 2002 signed between the Company and Yihua. The above transactions have no adverse effect on the profit of the Group.

- (b) During the reporting period, there were no connected transactions relating to the transfer of the asset or equity in the Company.
- (c) Amounts due from/(to) related parties: As at 31 December 2002, the amounts due from Yihua Group amounted to Rmb49,192,000, mainly representing bills and trade receivables; the amounts due to Yihua Group amounted to Rmb27,891,000, mainly representing the retention money of the construction projects. The amounts due from and due to other related parties amounted to Rmb10,082,000 and Rmb737,129,000 respectively, mainly representing the trade and bills payables to Yangzi. These connected transactions have no adverse effect on the Company.



Advances between related parties:

Related Party	Advances to related party		Advances from related party to the listed company	
	Amounts arising during the year <i>Rmb'000</i>	Remaining Balance <i>Rmb'000</i>	Amounts arising during the year <i>Rmb'000</i>	Remaining Balance <i>Rmb'000</i>
Sinopec Finance Company Limited (" Sinopec Finance ")	56,711	772,439	–	–
CITIC Industry Bank	9,195	60,971	–	–
Total	<u>65,906</u>	<u>833,410</u>	<u>–</u>	<u>–</u>

- (d) Other significant connected transactions: The interest income earned from the Company's deposits placed with Sinopec Finance at market interest rates amounted to Rmb11,362,000 for the year ended 31 December 2002.

At 31 December 1999, the Company placed certain deposits with Sinopec Finance. The HKSE granted a conditional waiver to the Company from the ongoing disclosure requirement and shareholders' approval under the Rules Governing the Listing of Securities on the HKSE ("**Listing Rules**") for a three-year period till the end of 2002. After the Company's application, the HKSE has sent a written confirmation to the Company on 4 February 2003 advising that the above connected deposit would be exempted from any disclosure/shareholder approval requirements of the Listing Rules.

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

For details of the connected transactions entered by the Company during the reporting period, please refer to note 26 on the financial statements prepared in accordance with the PRC Accounting Rules and Regulations.

5. The Company did not have any asset rented or contracted to or held on trust for other companies. Furthermore, the company did not rent or contract any asset from other companies and did not have assets held by other companies.



6. As approved by the Board, the Company provided guarantee in respect of Foshan Polyester for loans granted by the banks. Except for the above, the Company did not make any material guarantee or pledge during the reporting period. Details of which are set out as follows:

Name of guaranteed entity	Beginning date (Date of agreement)	Guarantee amount	Type of guarantee	Guarantee period	Guarantee expired	Guarantee for a connected party
Foshan Polyester	30 June 2001	Rmb350,000,000	Joint liability	30 June 2001 - 30 June 2003	No	Yes
Total guaranteed amount						Rmb313,549,000
Remaining guaranteed amount						Rmb74,776,000
Of which: total balance of connected guarantees						Rmb74,776,000

7. As at 31 December 2002, the Company did not have any designated deposits with any financial institutions or have any difficulties in collecting deposits upon maturity. The Company had no trusted financial matters during the reporting period.
8. According to the relevant tax rules and regulations in the PRC, the income tax rate applicable to the Company is 15 per cent. The preferential income tax rate is still applicable for the year ended 31 December 2002. The Company has not received any notice from the tax authorities regarding change to this rate.
9. The twenty-fourth meeting of the third term of the Board held on 19 August 2002 resolved to invest and construct a differential polyester chip project with a daily capacity of 450 tonnes, which will be mainly used for film-grade chip and superb bright chip production. The total investment of this project amounted to Rmb165,050,000. Construction of the project had commenced in September 2002, and this project is expected to be in operation in September 2003.
10. Construction of a CP project for bottle grade polyester chip with an annual capacity of 200,000 tonnes and SSP production equipment were approved for investment in the fourth meeting of the fourth term of the Board held on 4 April 2003, which were mainly used for the production of high-quality bottle-grade chip. The estimated investment of this project amounted to Rmb382,770,000. Construction is planned to commence in the third quarter of 2003 and is expected to commence operation in the third quarter of 2004.



11. As approved in the 2001 AGM, KPMG Huazhen and KPMG were re-appointed as the Company's domestic and international auditors for 2002 and the Board was authorised to approve their remuneration.

The remunerations paid to the domestic and international auditors for the two years are as follows:

	2002	2001
KPMG Huazhen	Rmb1,000,000 (unpaid)	Rmb661,680 (paid)
KPMG	Rmb5,616,800 (Rmb3,278,320 unpaid)	Rmb5,955,120 (paid)

Note: the fees includes the business trip allowance.

KPMG Huazhen and KPMG have provided audit services to the Company for 10 years.

12. The 2001 AGM held on 28 June 2002 resolved the change in the directors of the Company. The related announcement was disclosed in China Securities, Shanghai Securities News, Securities Times, Hong Kong Economic Times and South China Morning Post on 1 July 2002.
13. The change in accounting policy regarding housing revolving fund of the Company was approved and confirmed in the 2001 AGM. The related announcement was disclosed in China Securities, Shanghai Securities News, Securities Times, Hong Kong Economic Times and South China Morning Post on 1 July 2002.
14. The third term of the Board and the Supervisory Committee retired on 23 December 2002. The EGM was held on 20 December 2002 and the Directors and Supervisors of the fourth term, representatives of the shareholders were elected. Details are set out in the section on "Changes in directors, supervisors and senior management".
15. The Company signed an agreement with MB Barter & Trading SA of Switzerland, acting as the first international export agent of the Group of its bottle-grade polyester chips on 28 January 2002.
16. In accordance with the related rules and regulations on the basic medical insurance for employees in cities issued by State Council of the PRC and Yizheng Municipal Government, under which the Company is governed, the Company resolved to pay basic medical insurance expenses for its staff at 7 per cent of the total staff salaries, and will be charged to the staff welfare expenses effective from 1 February 2003. In the past, the Company had provided for staff welfare expenses which were included in the cost of sales based on 14 per cent of the total staff salaries. The basic medical insurance expenses was covered in the above cost. The implementation of new regulations only results in better structure, and will not form new burden to the Company. It has no impact on consolidated income statement and immaterial impact on consolidated balance sheet of the Company.



17. According to "Protocol on the Accession of the PRC" and the related legal documents the PRC government has to reduce the import tariff rates for the polyester products and major polyester raw materials from 1 January 2003 in accordance with the progress table. The related progress table is listed below:

	2001	2002	2003	2004	2005	2006	2007	2008
Type								
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%	8%*	10.7%	9.7%	8.6%	7.6%	6.5%

* Temporary most-favoured-nation tariff rate, effective from 1 January 2003 to 31 December 2003.

Upon formal entry into WTO, import quotas for polyester and polyester fibre products were completely removed.

18. The PRC government had taken action to investigate the anti-dumping of imported polyester chips and polyester staple fibre from South Korea on 3 August 2001. Following the preliminary conclusion made in October 2002, a final conclusion was made on 3 February 2003, and the PRC government decided to impose the anti-dumping taxes on imported polyester chips and polyester staple fibre from South Korea from 3 February 2003 for a five-year period. The tax rates of imported polyester chips and polyester staple fibre vary from 5 per cent to 52 per cent and from 2 per cent to 48 per cent respectively for different companies.
19. The Company and its shareholders who hold more than 5 per cent of the Company's shares did not have any undertakings, which required disclosures.
20. Save as those disclosed above, the Group did not have any major event, or disclosable 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 reporting period.