



## Report of the Board of Directors

The Board has the pleasure in submitting the Company's Annual Report together with the audited financial statements for the year ended 31 December 2003.

### *Daily operation of the Board*

All Directors of the Company (the "**Directors**") have complied with the Company Law of the PRC ("the **Company Law**") and rules of the Company's Articles of Association, have 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 ten meetings during the reporting period, details of which are as follows:

- (1) The third meeting of the fourth term of the Board was held in writing on 30 January 2003. The meeting considered and passed the resolution regarding that Mr. Li Ren-yan ceased to act as Deputy General Manager of the Company.
- (2) The fourth meeting of the fourth 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 April 2003. Thirteen Directors attended the meeting and a Director appointed proxy. The meeting considered and passed the following issues: 1. the Company's proposed scheme of profit distribution for 2002; 2. the connected transactions for 2002; 3. the Company's 2002 Financial Statements; 4. the 2002 Annual Report of the Company; 5. the Company's 2002 Annual Results Announcement; 6. the resolution regarding the remuneration of the Directors, Supervisors and Senior Management for 2002; 7. the resolution regarding the remuneration of the domestic and international auditors of the Company for 2002 and the proposal to re-appoint the Company's domestic and international auditors for 2003.

The related announcement was disclosed in China Securities, Shanghai Securities News, Securities Times, Hong Kong Economic Times and South China Morning Post on 7 April 2003.

- (3) The fifth meeting of the fourth term of the Board was held in writing on 25 April 2003. The meeting considered and passed the resolution regarding the approval of the 2003's 1st Quarter Report 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 28 April 2003.

- (4) The sixth meeting of the fourth term of the Board was held in writing on 12 May 2003. The meeting considered and passed the notice of Annual General Meeting for 2002 ("**2002 AGM**").

The related announcement was disclosed in China Securities, Shanghai Securities News, Securities Times, Hong Kong Economic Times and South China Morning Post on 13 May 2003.



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- (5) The seventh meeting of the fourth term of the Board was held in writing on 17 June 2003. The meeting considered and passed the Board Report for 2002 and the relevant resolutions for submitting to the 2002 AGM for approval.
- (6) The eighth meeting of the fourth term of the Board was held at the Conference Centre of Yihua Hotel of the Company in Yizheng City, Jiangsu Province, the PRC on 15 August 2003. Ten Directors attended the meeting, the other four Directors appointed proxies. The meeting considered and passed the followings: 1. the General Manager's Report; 2. the resolution regarding that no dividend will be paid for the half-year of 2003; 3. the Interim Report for 2003; 4. the resolution regarding that the Company provided a guarantee to Foshan Polyester for its bank credit facilities; 5. the resolution regarding the bonus for investment savings drawn from the PTA Project with an annual capacity of 450,000 tonnes.

The related announcement was disclosed in China Securities, Shanghai Securities News, Securities Times, Hong Kong Economic Times and South China Morning Post on 18 August 2003.

- (7) The ninth meeting of the fourth term of the Board was held in writing on 16 October 2003. The meeting considered and passed the connected transaction that the Company purchased PX from Sinopec Zhenhai Refining & Chemical Company Limited. ("**Zhenhai**"), the agreements and the relevant announcement thereon.

The related announcement was disclosed in China Securities, Shanghai Securities News, Securities Times, Hong Kong Economic Times and South China Morning Post on 17 October 2003.

- (8) The tenth meeting of the fourth term of the Board was held in writing on 24 October 2003. The meeting considered and passed the 2003's 3rd Quarter Report of the Company and the Rules of Proceedings for the board.

The related announcement was disclosed in China Securities, Shanghai Securities News, Securities Times, Hong Kong Economic Times and South China Morning Post on 27 October 2003.

- (9) The eleventh meeting of the fourth term of the Board was held in writing on 6 November 2003. The meeting considered and passed the followings: 1. the ongoing connected transactions that the Company purchased PX from Zhenhai, the agreements and the related announcement thereon; 2. the notice of Extraordinary General Meeting (the "**EGM**") of the Company; 3. the resolution regarding the self-inspection report on provision of guarantee and funding with the connected parties.

The related announcement was disclosed in China Securities, Shanghai Securities News, Securities Times, Hong Kong Economic Times and South China Morning Post on 7 November 2003.

- (10) The twelfth meeting of the fourth 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 December 2003. Ten Directors attended the meeting, the other four Directors appointed proxies. The meeting considered and passed the followings: 1. the General Manager's Report; 2. the rectifying report about the regular inspection of the Company by the Jiangsu Securities Regulatory Bureau of CSRC; 3. the resolution regarding the differentiation polyester chips project with an annual capacity of 160,000 tonnes; 4. the resolution regarding the differentiation staple fibre project with an annual capacity of 100,000 tonnes.



## Report of the Board of Directors

### *Details of the Board executing the resolutions of shareholders general meetings*

During the reporting period, the Board executed the profit distribution scheme for 2002 according to the resolution of the 2002 AGM. On 28 July 2003, the Company distributed a cash dividend of Rmb 0.015 per share for the year 2002 (including tax). The details were disclosed in Hong Kong Economic Times and South China Morning Post on 27 June 2003 and China Securities, Shanghai Securities News, Securities Times on 16 July 2003.

The Board will continue to act with integrity and be diligent, and will work faithfully 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, and production of the principal polyester raw material, PTA.

### *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 the IFRS) is set out in the section on "Financial Summary" of the Annual Report.

A summary of the results and of the assets and liabilities of the Group for the last three financial years (extracted from the financial statements prepared in accordance with the PRC Accounting Rules and Regulations) is set out in the section on "Financial Summary" of the Annual Report.



## Report of the Board of Directors

### Changes in Share Capital and Shareholders

#### Changes in share capital

##### 1. Share capital structure

Details of share structure are as follows:

Unit of share: 1,000 Shares

	Before change	Allocated share	Bonus share	Increase/(decrease)			Sub-total	After change
				Shares transferred from reserve fund	Increase	Others		
I. Non-circulating shares:								
1. Promoter shares								
Including:								
Owned on behalf of the State	-	-	-	-	-	-	-	-
Domestic legal persons shares	2,400,000	-	-	-	-	-	-	2,400,000
Overseas legal persons shares	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-
2. Social fund raising legal persons shares	-	-	-	-	-	-	-	-
3. Internal employee shares	-	-	-	-	-	-	-	-
4. Pre-emptive rights shares	-	-	-	-	-	-	-	-
	<u>2,400,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,400,000</u>
Total number of non-circulating shares	<u>2,400,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,400,000</u>
II. Circulating shares								
1. Rmb ordinary shares	200,000	-	-	-	-	-	-	200,000
2. Domestic listed foreign capital shares	-	-	-	-	-	-	-	-
3. Overseas listed foreign capital shares	1,400,000	-	-	-	-	-	-	1,400,000
4. Others	-	-	-	-	-	-	-	-
	<u>1,600,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,600,000</u>
Total number of circulating shares	<u>1,600,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,600,000</u>
III. Total number of shares	<u>4,000,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,000,000</u>

During the reporting period, there has been no change in the total amount of shares and the share structure of the Company.



## Report of the Board of Directors

### 2. Share issue and listings

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

Type of Share	"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 reporting period, 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, the Company does not have any pre-emptive rights.

### 5. Internal employee shares

The Company has not issued any internal employee shares.

## Shareholders

### 1. Number of shareholders

The number of shareholders of the Company as at 31 December 2003 is as follows:

Type	Number of shareholders
Legal person share ("A" share)	2
Social public share ("A" share)	89,728
"H" share	1,485
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Total	91,215
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## Report of the Board of Directors

### 2. The shareholdings of the top ten shareholders of the Company

As at 31 December 2003, the shareholdings of the top ten major shareholders and circulating shareholders of the Company are as follows:

Number of shareholders at the end of the year: 91,215

#### Details of the top ten major shareholders

Names of shareholders	Increase (decrease) during the year (share)	Number of shares held at the end of the year (share)	Per cent to total share capital (%)	Type of share	Number of pledged or frozen share*	Nature of shareholders
Sinopec	Nil	1,680,000,000	42.00	Non-circulating	Nil	Domestic legal person shareholder
Hong Kong Securities Clearing Company ("HKSCC") (Nominees) Limited	+2,786,401	1,347,813,199	3.70	Circulating	Nil	Overseas capital shareholder
CITIC Group Corporation ("CITIC")	Nil	720,000,000	18.00	Non-circulating	Nil	Domestic legal person shareholder**
Ng Hon Lam	Not applicable	2,000,000	0.05	Circulating	Not applicable	Overseas capital shareholder
HSBC Nominees (HONG KONG) Limited A/C BR-13***	Nil	1,800,000	0.045	Circulating	Not applicable	Overseas capital shareholder
Xing-he Fund	Nil	1,348,481	0.034	Circulating	Not applicable	Domestic legal person shareholder
HSBC Nominees (HONG KONG) Limited A/C BR-12***	Nil	1,200,000	0.03	Circulating	Not applicable	Overseas capital shareholder
HSBC Nominees (HONG KONG) Limited A/C BR-16***	Nil	1,200,000	0.03	Circulating	Not applicable	Overseas capital shareholder
Lei Shan-fu	Not applicable	1,038,400	0.026	Circulating	Not applicable	Domestic natural person shareholder
HSBC Nominees (HONG KONG) Limited***	Not applicable	1,002,000	0.025	Circulating	Not applicable	Overseas capital shareholder



## Report of the Board of Directors

Explanation of connected relationship or activities in concert among the top ten major shareholders

So far as the Company is aware of, there are no activities in concert or connected relationship among the top ten shareholders.

### Details of the top ten circulating shareholders

Names of shareholders	Number of circulating shares held at the end of year	Classification
HKSCC (Nominees) Limited	1,347,813,199	"H" shares
Ng Hon Lam	2,000,000	"H" shares
HSBC Nominees (HONG KONG) Limited A/C BR-13***	1,800,000	"H" shares
Xing-he Fund	1,348,481	"A" shares
HSBC Nominees (HONG KONG) Limited A/C BR-12***	1,200,000	"H" shares
HSBC Nominees (HONG KONG) Limited A/C BR-16***	1,200,000	"H" shares
Lei Shan-fu	1,038,400	"A" shares
HSBC Nominees (HONG KONG) Limited***	1,002,000	"H" shares
Chen Bu-an	939,310	"A" shares
Cui Zhong-min	750,000	"A" shares

Explanation of connected relationship among the top ten circulating shareholders: So far as the Company is aware of, there is no connected relationship among the top ten circulating shareholders.

Notes: \* It represents the number of pledged or frozen shares held by shareholders who hold more than 5 per cent of the Company's shares during the reporting period.

\*\* Shares held on behalf of the State.

\*\*\* Shares held on behalf of different customers.

### 3. The controlling shareholder

Name of the controlling shareholder	: Sinopec, holding 42 per cent of the Company's shares
Legal representative	: Chen Tong-hai
Date of establishment	: 25 February 2000
Registered capital	: Rmb86,702,439,000
Principal activities	: Engaged in exploring, mining, 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.

During the reporting period, there has been no change in the controlling shareholder of the Company.



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### 4. Controlling company of the controlling shareholder

Name of the controlling company of the controlling shareholder	:	China Petrochemical Corporation (" <b>CPC</b> ")*
Legal representative	:	Chen Tong-hai
Date of establishment	:	24 July 1998
Registered capital	:	Rmb104,912,000,000
Principal activities	:	Engaged in exploring crude oil and gas; mining and refining crude oil; producing petrochemicals; trading and branch-trading oil and petrochemical products; importing and exporting oil products and relevant businesses.

\* *CPC is an investment organisation authorised by the State and is a state-controlled company.*

During the reporting period, there has been no change in the controlling company of the controlling shareholder of the Company.

### 5. Other substantial shareholders

#### (1) CITIC

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

Legal representative : Wang Jun

Date of establishment : 4 October 1979

Registered capital : Rmb3,000,000,000

Principal activities : Engaging in investments in the PRC 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 in the PRC and abroad; issuing bonds or other negotiable securities itself or as a proxy in the PRC and abroad; engaging in leasing business in the PRC and abroad; providing insurance for foreign investors in the PRC; undertook international insurance and re-insurance; engaging in trade in the PRC and abroad; engaging in contracting and sub-contracting projects internationally, and exporting labour services; engaging in the operation for real estate and travel services; providing trust, consultancy services and acting as agent for international and domestic clients.

(2) The shares held by HKSCC (Nominees) Limited are on behalf of its customers. As at 31 December 2003, the Company has not been informed of whether any of its individual "H" shareholder holds more than 10 per cent of the total shares of the Company.





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6. *The interest or short position held by the substantial shareholders and other persons in the Company's shares or underlying shares*

As at 31 December 2003, so far as the Directors, Supervisors and Senior Management of the Company are aware of, each of the following persons, not being a Director, Supervisor or Senior Management of the Company, had an interest in the Company's shares which is required to be disclosed to the Company and the HKSE under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance ("SFO"):

Name of shareholder	Number of share held (share)	Per cent of shareholding in the Company's total issued share (%)	Per cent of shareholding in the Company's total issued domestic shares (%)	Per cent of shareholding in the Company's total issued H shares (%)	Short position
Sinopec*	1,680,000,000	42.00	64.62	Not applicable	–
CITIC	720,000,000	18.00	27.69	Not applicable	–
J.P. Morgan Chase & Co.	153,046,000	3.83	Not applicable	10.93	–
HSBC Asset Management (Hong Kong) Limited	99,488,000	2.49	Not applicable	7.11	–

\* As at 31 December 2003, CPC holds 55.06% of the equity interest in Sinopec.

Save as disclosed above and so far as the Directors, Supervisors and Senior Management of the Company are aware of, as at 31 December 2003, no other person had an interest or short position in the Company's shares or underlying shares (as the case may be) which are required to be disclosed to the Company and the HKSE under the provisions of Divisions 2 and 3 Part XV of the SFO, or was otherwise a substantial shareholder (as such term is defined in the Rules Governing the Listing of Securities on the HKSE (the "Listing Rules")) of the Company.



## Report of the Board of Directors

### *Directors, Supervisors and Senior Management*

#### **Changes in Directors, Supervisors and Senior Management**

According to the resolution of the third meeting of the fourth term of the Board held on 30 January 2003, Mr. Li Ren-yan ceased to act as Deputy General Manager. The Board would like to express their whole hearted thanks for his hard work and commitment over these years.

#### **Profiles of Present Directors, Supervisors and Senior Management**

##### **Directors**

1. Mr. Fu Xing-tang, aged 60, Chairman and Secretary of Committee of Communist Party of China (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 the 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 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. In December 2002, he was reelected as Chairman of the Company. 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 54, Vice Chairwoman of the Company and Deputy Director of the Finance Department of CITIC, Senior Accountant and CPA of the PRC. She held the position of Deputy Director of the Finance Department of CITIC since January 1999. She was elected as Vice Chairwoman of the Company in December 1999, and was re-elected in December 2002. 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 53, Vice Chairman of the Company, Managing Director 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. In April 2002, he was appointed as General Manager of Yihua. In December 2002, he was re-elected as Vice Chairman of the Company. 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 2000.



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4. Mr. Xu Zheng-ning, aged 46, Managing Director of the Company, Director of Yihua, and Senior Engineer (at professor level). 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 appointed as General Manager of the Company in June 2001. In December 2002, he was re-elected as Director and re-appointed as General Manager of the Company. In March 2003, he was appointed as Director of Yihua. 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 50, 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 2002. 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. He completed the course of MBA in Nanjing University in 2003.
6. Mr. Yao Han-chong, aged 57, 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. He was rewarded "May First Labour Medal" of the PRC in April 2002. In December 2002, he was re-elected as Director of the Company. 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. Long Xing-ping, aged 52, Director of the Company and Deputy Director of Overall Planning Department of CITIC, and Senior Engineer. She was elected as Director of the Company in December 1999. She was appointed as Deputy Director of Overall Planning Department of CITIC since April 2002. In December 2002, she was re-elected as Director of the Company. 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.
8. Mr. Zhang Hong, aged 45, Director of the Company and Head of No. 2 Division of Audit Department of CITIC, Senior Accountant and CPA of the PRC. He held the position of Head of No. 2 Division of Audit Department of CITIC since December 2002. In December 2002, he was elected as Director of the Company. Mr. Zhang was engaged in financial management and internal audit for years, and has extensive experience in internal management systems, financial analysis and audit in large-scale enterprise. Mr. Zhang graduated from No. 2 Branch, Renmin University of China in 1983, majoring in finance.



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9. Mr. Ye Zong-shan, aged 57, 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 and re-elected in December 2002. 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. He completed the course of MBA in Nanjing University in 2003.
10. Mr. Guan Tiao-sheng, aged 41, Director of the Company, Deputy Director of Chemicals Segment of Sinopec, Master of Engineering, Senior Engineer. Mr. Guan has joined petrochemical industry since 1985, he served as Deputy Director of Technology Department of Liaoyang Oil & Chemical Fibre Company in 1987, Deputy Director of Technology Section of Production Department of CPC in 1995, Director of Chemical Fibre Section of Refining and Petrochemical Department of CPC in 1998, and Deputy Director of Chemicals Segment of Sinopec in December 2001, in June 2002, he was elected as Director of the Company, and re-elected in December 2002. Mr. Guan has extensive experience in chemical fibre industry management. Mr. Guan graduated from China Textile University in 1985, majoring in chemical fibre.
11. Ms. Li Zhong-he\*, aged 62, Independent Director of the Company and President of Jiangsu Venture Capital Association, and of Master Degree. In December 2002, she was elected as Director of the Company. For a long period of time, Ms. Li had held various high positions in government departments and has extensive experience in industry management. Ms. Li graduated from Tsinghua University in 1968, majoring in numerical controlled machine tool.
12. Mr. Wang Hua-cheng\*, aged 41, Independent Director of the Company and Deputy Director of Business School Renmin University of China, Professor, Tutor of Doctor Degree Candidate. In December 2002, he was elected as Director of the Company. For a long period of time, Mr. Wang has been engaging in teaching and researching of financial management and accounting. He has studied the relevant fields extensively. Mr. Wang graduated from Remin University of China in 1998, majoring in accounting and became Doctor of Economics (Accounting).
13. Ms. Yi Ren-ping\*, aged 60, Independent Director of the Company and Director and Secretary of CCPC of Nanjing Audit University, Research Fellow, Senior Accountant and CPA of the PRC. In December 2002, she was elected as Director of the Company. For a long period of time, Ms. Yi has been engaging in teaching and researching of accounting and auditing, and in management of relevant authorities. She has studied auditing and accounting extensively. Ms. Yi receives special subsidies awarded by the State Council of the PRC and is a member of Chinese People's Political Consultative Conference of Jiangsu Province. Ms. Yi graduated from Central Finance Institute in 1966, majoring in accounting.
14. Ms. Qian Zhi-hong\*, aged 62, Independent Director of the Company and Senior Economist. In December 2002, she was elected as Director of the Company. For a long period of time, Ms. Qian had held the positions of senior management in commercial bank and has extensive experience in financial management. Ms. Qian graduated from Suzhou Financial College in 1959.

\* *Independent Directors*



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### Supervisors

1. Mr. Huang Gui-geng, aged 57, 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 (at Professor level). 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 2002. 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 45, 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. In December 2002, he was re-elected as Supervisor of the Company. Mr. Zhou graduated from China Textile Political Distance Learning College in 1989, majoring in administration. In 2003, Mr. Zhou graduated from the Communist Party Jiangsu Academy, majoring in economic management, and became a postgraduate. Mr. Zhou is the Supervisor who represents the staff of the Company.
3. Mr. Chen Jian, aged 41, 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 and re-elected in December 2002. 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. Huang Zhi-wei\*\*, aged 54, Independent Supervisor of the Company and Director of Bank of China, Shanghai Branch, and Senior Economist. He was elected as Supervisor of the Company in December 1999 and re-elected in December 2002. 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.
5. Mr. Chu Su-hua\*\*, aged 47, Independent Supervisor of the Company and Deputy Director of Industrial and Commercial Bank of China, Jiangsu Provincial Branch, and Senior Economist. He was elected as Independent Director of the Company in December 1999. In December 2002, he was elected as Supervisor of the Company. For a long period of time, Mr. Chu has held the positions of senior management in commercial bank and has extensive experience in financial management. Mr. Chu graduated from Renmin University of China in 1982, majoring in fiscal and financial management.

\*\* *Independent Supervisors*



## Report of the Board of Directors

### Senior Management

1. Ms. Ling Ai-bao, aged 58, 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 2002. 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 43, Deputy General Manager of the Company, and Senior Engineer (at professor level). 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 2002. 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. Ms. Zhou Xin-hua, aged 57, 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 positions 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, and re-elected in December 2002. 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.
4. Mr. Tom C. Y. Wu, aged 41, Company Secretary and Treasurer of the Company, and Senior Economist. 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. He was elected as Company Secretary and appointed as treasurer of the Company in January 2001. In December 2002, he was re-elected as Company Secretary of the Company. 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.



## Report of the Board of Directors

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

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

Pursuant to the resolution regarding the salaries of the fourth term Directors and Supervisors, approved by the EGM held on 20 December 2002, the resolution regarding the salaries of the Senior Management, approved by the first meeting of the fourth term of the Board held on the same day, and in accordance with service contracts signed between the Company, Directors and Supervisors and with reference to the operating results of the Company in 2003 and the Company's appraisal and assessment system, the Board considered and passed the resolution regarding the Company's Directors', Supervisors' and Senior Management's remuneration in the thirteenth meeting of the fourth term of the Board held on 26 March 2004.

2. According 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, in connection with Directors, Supervisors and Senior Management are as follows:

#### (1) Information on Directors, Supervisors and Senior Management

Name	Position	Term of office	Number of "A" shares held for personal interests		Reason for change
			At the beginning of the year	At the end of the year	
Fu Xing-tang	Chairman	Dec. 2002-Dec. 2005	0	0	No Change
Sun Zhi-hong	Vice Chairwoman	Dec. 2002-Dec. 2005	0	0	No Change
Qian Heng-ge	Vice Chairman	Dec. 2002-Dec. 2005	2,000	2,000	No Change
Xu Zheng-ning	Managing Director	Dec. 2002-Dec. 2005	2,600	2,600	No Change
Xiao Wei-zhen	Director, Deputy General manager	Dec. 2002-Dec. 2005	0	0	No Change
Yao Han-chong	Director	Dec. 2002-Dec. 2005	0	0	No Change
Long Xing-ping	Director	Dec. 2002-Dec. 2005	0	0	No Change
Zhang Hong	Director	Dec. 2002-Dec. 2005	0	0	No Change
Ye Zhong-shan	Director	Dec. 2002-Dec. 2005	0	0	No Change
Guan Tiao-sheng	Director	Dec. 2002-Dec. 2005	0	0	No Change
Li Zhong-he	Independent Director	Dec. 2002-Dec. 2005	0	0	No Change
Wang Hua-cheng	Independent Director	Dec. 2002-Dec. 2005	0	0	No Change
Yi Ren-ping	Independent Director	Dec. 2002-Dec. 2005	0	0	No Change
Qian Zhi-hong	Independent Director	Dec. 2002-Dec. 2005	0	0	No Change
Huang Gui-geng	Chairman of the Supervisory Committee	Dec. 2002-Dec. 2005	0	0	No Change
Zhou Wen-fei	Supervisor	Dec. 2002-Dec. 2005	0	0	No Change
Chen Jian	Supervisor	Dec. 2002-Dec. 2005	0	0	No Change
Huang Zhi-wei	Independent Supervisor	Dec. 2002-Dec. 2005	2,300	2,300	No Change
Chu Su-hua	Independent Supervisor	Dec. 2002-Dec. 2005	0	0	No Change
Ling Ai-bao	Deputy General Manager	From Dec. 2002	2,600	2,600	No Change
Shen Xi-jun	Deputy General Manager	From Dec. 2002	0	0	No Change
Zhou Xin-hua	Chief Financial Officer	From Dec. 2002	0	0	No Change
Tom C. Y. Wu	Company Secretary	From Dec. 2002	0	0	No Change



## Report of the Board of Directors

### (2) Information on Directors and Supervisors holding positions in corporate shareholders

Name	Name of corporate shareholders	Position held in corporate shareholders	Term of office	Remuneration and allowance received from the corporate shareholders
Sun Zhi-hong	CITIC	Deputy Director of Financial Department	From January 1999	Yes
Long Xing-ping	CITIC	Director of Overall Planning Department	From April 2002	Yes
Zhang Hong	CITIC	Head of No. 2 Division of Audit Department	From December 2000	Yes
Guan Tiao-sheng	Sinopec	Deputy Director of Chemical Segment	From December 2001	Yes
Chen Jian	CITIC	Project Manager of Overall Planning Department	From December 1999	Yes

### (3) Information on the remuneration of the Company's Directors and Supervisors of the fourth term of the Board and Senior Management in 2003

Total remuneration for the year	Rmb2,190,000
Aggregate remuneration of the three highest paid Directors	Rmb450,000
Aggregate remuneration of the three highest paid Senior Management	Rmb390,000
Allowances to Independent Directors	Rmb160,000
Other benefits to Independent Directors	Nil
Name of Directors and Supervisors who did not receive any remuneration from the Company	Guan Tiao-sheng
Remuneration bands of the Directors, Supervisors and Senior Management of the Company	No. of people
Below Rmb100,000	8
Rmb100,000 to Rmb200,000	14

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 2003.





## Report of the Board of Directors

### **Directors', Supervisors' and Senior Management's rights to acquire shares and debentures and short position**

As at 31 December, 2003, none of the Directors, Supervisors and Senior Management of the Company had any interest or short position in the shares, underlying shares and/or debentures (as the case may be) of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which was required to be notified to the Company and the HKSE pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest and short position which any such Director, Supervisor or Senior Management is taken or deemed to have under such provisions of the SFO) or which was required to be entered in the register kept by the Company pursuant to section 352 of the SFO or which was required to be notified to the Company and the HKSE pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as contained in Appendix 10 to the Listing Rules.

At no time during the reporting period 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 fourth term of the Board of the Company entered into a service contract with the Company on 20 December 2002. 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 2003;
2. Each Director (excluding Independent Directors) is entitled to an annual salary of not less than Rmb50,000. The aggregate annual salaries of all Directors (excluding Independent Directors) is not more than Rmb2,800,000 within the contract term.

Each Independent Director of the fourth term of the Company entered into a service contract with the Company on 20 December 2002. 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 2003;
2. The aggregate annual fees payable to all Independent Directors is Rmb160,000 within the contract term.

Each Supervisor (excluding Independent Supervisors) of the fourth term of the Company entered into a service contract with the Company on 20 December 2002. 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 2003;
2. Each Supervisor (excluding Independent Supervisors) is entitled to an annual salary of not less than Rmb50,000. The aggregate annual salaries of all Supervisors (excluding Independent Supervisors) is not more than Rmb800,000 within the contract term.



## Report of the Board of Directors

Each Independent Supervisor of the fourth term of the Company entered into a service contract with the Company on 20 December 2002. 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 2003;
2. The aggregate annual fee payable to all Independent Supervisors is Rmb60,000 within the contract term.

No Director or Supervisor has entered into a service contract with the Company which is not terminated 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 companies 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 has been no special treatment granted to the Directors, Supervisors or Senior Management during the reporting period.

### **Staff**

The Group actively carried out reforms on labour, personnel and remuneration system. During the reporting period, the Group has been engaging in flattening the management structure, gradually restructuring the management organization and competing to job at the management level. By doing so, the work quality and efficiency has been improved. The reform for remuneration system, based on the job performance, has been carried out steadily.

As at 31 December 2003, the Group had 14,491 registered employees, of which 13,454 belonged to the Company and 1,037 belonged to the Foshan Group. Total retired staff amounted to 1,679.

The Group had 42 employees with master or higher degree, 1,214 employees with bachelor or higher degree, 2,635 employees with tertiary or higher education background, 9,724 employees with senior high school or higher educational background.

The Group had 9,953 production staff, 189 sales staff, 1,382 engineers, technicians and research staff of the product research center, 169 financial personnel and 1,107 administration staff.

The Group has always worked out an annual training plan, which includes the particular training projects and a priority list and such plan is under constant adjustment. The Group will be drawing up a long-term human resources plan, paying closer attention to training and developing senior management, senior technicians and senior skilled workers.

The Group has not carried out any share option or warrant plan yet.

### **Major litigation or arbitration**

The Group was not engaged in any material litigation or arbitration during the reporting period.



## Report of the Board of Directors

### *Major events or discloseable circumstances during the year*

Major events or discloseable circumstances during the reporting period are shown in "Significant Events" of the Annual Report.

### *Connected transactions*

Details of the connected transactions entered into by the Company during the reporting period are set out in item 5 of "Significant Events" of the Annual Report.

### *Results*

The results of the Group for the year ended 31 December 2003 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 the IFRS and the PRC Accounting Rules and Regulations.

### *Proposed scheme of profit distribution*

In accordance with the PRC Accounting Rules and Regulations, the net profit of the Company for 2003 was Rmb237,541,000 (the profit attributable to shareholders of the Company for 2003 was Rmb256,468,000 under the IFRS). The total distributable profit, including the undistributed profit of Rmb509,773,000 brought forward from the previous year (deducting the final cash dividend of Rmb60,000,000 paid for the year 2002), was Rmb687,314,000.

The proposed transfers to the statutory surplus reserve and the statutory public welfare fund were Rmb24,649,000 and Rmb23,974,000 respectively. Of which, according to the relevant regulations of the PRC and the Articles of Association of the Company, Rmb23,299,000, representing 10% of the adjusted net profit of Rmb232,985,000 (excluding share of profits from subsidiaries of Rmb4,556,000), was transferred to the statutory surplus reserve and the statutory public welfare fund respectively. In addition, Rmb1,350,000, representing 10% of the distributable profits of the relevant subsidiaries, was transferred to the statutory surplus reserve; Rmb675,000, representing 5% of the distributable profits of the relevant subsidiaries, was transferred to the statutory public welfare fund.

Distributable profits to shareholders amounted to Rmb638,691,000.

It is proposed that a final cash dividend of Rmb0.025 per share (including tax) for 2003 be paid, totaling Rmb100,000,000.

The above proposed profit distribution scheme shall be submitted for approval in the 2003 AGM.

### *The funding transactions with related parties and the guarantees provided to third parties*

#### **(1) The Company's domestic auditors' report on the use of funds by controlling shareholders or other related parties**

The Company's domestic auditors issued an opinion on the "Summary on the use of funds of the listed company by its controlling shareholders and other related parties for the year" on 26 March 2004.



## Report of the Board of Directors

### Sinopec Yizheng Chemical Fibre Company Limited Summary on the use of funds of the listed company by its controlling shareholders and other related parties for the year 2003 (Unit: Rmb)

Nature of the use of funds	Borrowings	Entrusted loans	Entrusted investments	Issue of	Settlement	Others (Such as trade and other receivables aged over one year)		
				commercial bills without genuine business transactions	of liabilities on behalf of related parties			
Name of related parties	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Yihua	Yizheng Chemical Fibre Shenzheng Southern Trading Company Limited	Yizheng Chemical Fibre Northern Industry Company Limited
Relationship	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Common ultimate holding company	Common ultimate holding company	Common ultimate holding company
Account name	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Trade receivables	Other receivables	Other receivables
Balance at the beginning of year	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Rmb1,485,821.6	Rmb343,398.9	Rmb122,282.5
Increase during the year	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	-	-	-
Decrease during the year	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	-	-	-
Balance at the end of year	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Rmb1,485,821.6	Rmb343,398.9	Rmb122,282.5

#### (2) The special explanations and independent opinion from the Independent Directors of the Company on the Company's compliance with the "Notice on listed companies' issues relating to regulating the funding transactions with related parties and the guarantees provided to third parties" (Zheng Jian Fa (2003) No. 56) ("No. 56 Document") from the CSRC

In accordance with No. 56 Document, the Independent Directors has reviewed the Company's use of funds and guarantees and believed that all these were necessary in the course of normal business and had followed the required approval and declaration procedures. During the reporting period, before the implementation of No. 56 Document, the Company guaranteed Foshan Polyester for its bank credit facilities. As at 31 December 2003, the guarantees amounted to Rmb181,311,000. The ratio of total assets to total liabilities of Foshan Polyester is higher than 70 per cent. The Company will amend the relevant contents of the Articles of Association according to the requirements set out in No. 56 Document.

#### Reserves

Changes in reserves of the Group during the reporting period are set out in note 24 of the financial statements prepared in accordance with the IFRS of the Annual Report.

#### Fixed assets

Movements in fixed assets of the Group, during the reporting period, are set out in note 12 and 13 of the financial statements prepared in accordance with the IFRS of the Annual Report.

#### Bank loans and other borrowings

Particulars of bank loans and other borrowings of the Company and the Group as at 31 December 2003 are set out in note 22 of the financial statements prepared in accordance with the IFRS of the Annual Report.

#### Subsidiaries

Particulars of the Company's principal subsidiaries as at 31 December 2003 are set out in note 15 of the financial statements prepared in accordance with the IFRS of the Annual Report.



## Report of the Board of Directors

### **Retirement plan**

Particulars of the retirement plan operated by the Group are set out in note 26 of the financial statements prepared in accordance with the IFRS of the Annual Report.

### **Major suppliers and customers**

For the year ended 31 December 2003, 25.8 per cent of the total 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.

#### **Details of the Group's five largest suppliers and customers:**

Aggregate purchase amounts			
from the top five largest suppliers	Rmb4,762,586,000	Per cent of total purchases	63%
Aggregate sales amounts to the			
top five largest customers	Rmb1,845,000,000	Per cent of total sales	18%

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 2004, is to be proposed at the AGM for 2003.

According to the "Regulation on regular rotation of signing Certified Public Accountants in Securities and Futures audit engagements" issued jointly by the Ministry of Finance and the CSRC, the signing Certified Public Accountants of the Company's domestic auditors, KPMG Huazhen, were changed to Jin Naiwen and Song Chenyang.

### **Shareholders' General Meeting**

The Company held its 2002 AGM and its EGM at its registered place in Yizheng City, Jiangsu Province on 26 June 2003 and 27 December 2003 respectively during the reporting period. Details are set out in the section on "Summary of shareholders' general meeting".

### **Compliance with the Code of Best Practice**

The Company has complied with the Code of Best Practice as set out by the Appendix 14 to the Listing Rules during the reporting period.

The Audit Committee under the fourth term of the Board held two meetings and reviewed the Company's 2002 Financial Statements, Interim Report for 2003 and formed its independent opinion during the reporting period.

The Audit Committee held the third meeting on 26 March 2004 and reviewed the 2003 financial statements and the relevant Handbook of Internal-Control of the Company.

By Order of the Board  
**Fu Xing-tang**  
Chairman

26 March 2004, Nanjing