



Significant Events

1. In 2003, in light of the new regulatory requirements both in the local and overseas environment, the Company designed a detailed internal control system, which covers the Company's production and operational chain and key business sector, began a trial run at the beginning of 2004.
2. As approved by 2002 AGM held on 26 June 2003, the Company paid a final cash dividend of Rmb0.015 per share (include tax) for the year ended 31 December 2002 on 28 July 2003. Details of dividend payments to domestic shareholders were disclosed in China Securities, Shanghai Securities News and Securities Times on 16 July 2003, while the details of dividend payments to international shareholders were included in the announcement of the resolutions passed in the 2002 AGM, which were disclosed in China Securities, Shanghai Securities News, Securities Times, Hong Kong Economic Times and South China Morning Post on 27 June 2003.

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 2003.

The Board proposed a final cash dividend of Rmb0.025 to be paid for the year ended 31 December 2003.

3. During the reporting period, the Company did not have any material litigation or arbitration.
4. During the reporting period, the Company did not have any acquisition and disposal of assets as well as merger and acquisition.
5. Information on connected transactions
 - (a) The Group's material connected transactions entered into during the year ended 31 December 2003 were as follows:

The Company entered into an agreement with Zhenhai on 16 October 2003 to purchase 37,000 tonnes of PX on or before 31 October 2003. 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.

According to the PX purchase and sales agreement as approved by the EGM held on 27 December 2003, the Company would purchase 30,000 tonnes of PX from Zhenhai between 1 November 2003 and 31 December 2003, not more than 250,000 tonnes and not more than 300,000 tonnes of PX in 2004 and 2005 from Zhenhai respectively. The HKSE has granted a conditional waiver for the three years ending 31 December 2005 from strict compliance with the disclosure and shareholders' approval requirements in respect of the ongoing connected transactions under the Listing Rules. The related announcements were disclosed in China Securities, Shanghai Securities News and Securities Times, Hong Kong Economic Times and South China Morning Post on 11 November 2003, Hong Kong Economic Times and South China Morning Post on 29 December 2003 and China Securities, Shanghai Securities News and Securities Times on 30 December 2003 respectively.



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

Type of transactions	Transaction parties	Transaction	Proportion
		amount <i>Rmb'000</i>	of the same type of transaction (%)
Purchase of raw materials	Yangzi	1,923,625	24.8
	Zhenhai	293,474	3.8
	Sinopec and its subsidiaries ("Sinopec Group") (excluding Yangzi and Zhenhai)	150,504	1.9
	Yihua and its subsidiaries ("Yihua Group")	140,340	1.8
	CPC and its subsidiaries ("CPC Group") (excluding Yihua Group, Sinopec and its subsidiaries)	22,264	0.3
Sales	Yihua Group	1,109,627	10.7
Miscellaneous service charges	Yihua Group	123,447	100
Trademark licence fee	Yihua	10,000	100
Miscellaneous service fee income	Yihua Group	30,313	100
Construction service fee	Yihua Group	91,648	100
Construction expenses	CPC Group	37,542	46.4

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 Group maintains certain sales channels and a certain level of turnover. Therefore, these connected transactions are beneficial to the Group. These transactions were negotiated at market price and settled mainly on cash on delivery basis. The miscellaneous service charges and the trademark licence fee paid to Yihua Group, the miscellaneous service fee income from Yihua Group and the payments to Yihua Group for construction work followed strictly the terms as set out in the agreements dated 8 February 1994, 21 December 2001 and 27 November 2002 signed between the Company and Yihua. The payment to CPC Group for construction expenses was strictly in compliance with related agreements. 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 Group.
- (c) Amounts due from/(to) related parties: As at 31 December 2003, the amounts due from Yihua Group amounted to Rmb48,176,000, mainly representing bills and trade receivables; the amounts due to Yihua Group amounted to Rmb51,180,000, mainly representing the retention money of the construction projects. The amounts due from Sinopec and its subsidiaries amounted to Rmb31,666,000, and Rmb481,736,000 respectively, mainly representing the trade and bills payables to Yangzi. These connected transactions have no adverse effect on the Company.



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Advances between related parties

Related parties	Advances to related party		Advances from related party to the listed company	
	Amounts arising during the year <i>Rmb'000</i>	Ending balance <i>Rmb'000</i>	Amounts arising during the year <i>Rmb'000</i>	Ending balance <i>Rmb'000</i>
Yihua Group	–	466	198,752	36,549
Sinopec and its subsidiaries (excluding Yangzi)	–	–	35,966	20,012
CPC Group (excluding Yihua Group and Sinopec Group)	930	930	13,707	13,707
Total	930	1,396	248,425	70,268

- (d) Other significant connected transactions: The interest income earned from the Company's deposits placed with Sinopec Finance Company Limited ("Sinopec Finance") at market interest rates during the year ended 31 December 2003.

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 Listing Rules for a three-year period till the end of 2002. After the Company's application, the HKSE had 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 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 into by the Company during the reporting period, please refer to note 27 of the financial statements prepared in accordance with the PRC Accounting Rules and Regulations.

6. 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.



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7. 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 follow:

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 2003	Rmb350,000,000	Joint liability	30 June 2003 – 30 June 2005	No	Yes
Foshan Polyester	26 July 2003	US\$4,500,000	Joint liability	26 July 2003 – 26 July 2005	No	Yes
Total guaranteed amount						Rmb471,539,000
Remaining guaranteed amount						Rmb181,311,000
Of which: total balance of connected guarantees						Rmb181,311,000

In 2003, the total guaranteed amount provided by the Company to its subsidiaries amounted to Rmb471,539,000. Currently, there is no indication that the Company may undertake the liability under joint liability clause.

According to the Document 56 by CSRC and Supplementary Notice of "Normalising the fund exchange between the Listed Company and its connected parties and the guarantee provided by the Listed Company" issued by the JSRB, the Company had performed a thorough check on these issues and provided a report to the JSRB in December 2003. As at 31 December 2003, total guaranteed amount not conforming to the related regulations amounted to Rmb181,311,000, which is about 2.0 per cent of the net assets of the Company.

8. As at 31 December 2003, the Group did not have any designated deposits with any financial institutions or have any difficulties in collecting deposits upon maturity. The Group had no trusted financial matters during the reporting period.
9. Construction of a CP project for bottle grade polyester chip with an annual capacity of 200,000 tonnes and SSP project production equipment were approved 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 commenced in September 2003 and this project is expected to be in operation in November 2004.
10. Construction of a project for specialized polyester chip with an annual capacity of 160,000 tonnes and a project for staple fibre with an annual capacity of 100,000 tonnes were approved for investment in the twelfth meeting of the fourth term of the Board held on 24 December 2003. The estimated investment of these two projects amounted to Rmb144,340,000 and Rmb335,820,000 respectively. Construction of both projects are expected to commence in the third quarter of 2004, and these two projects are expected to be in operation in the third quarter of 2005.



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11. In accordance with the related rules and regulations on the basic medical insurance for employees in cities issued by the 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 place new burdens to the Company. There is no impact on the consolidated income statement and impact on the consolidated balance sheet of the Company is immaterial.
12. 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 2003. The Company has not received any notice from the tax authorities regarding changes to this rate.
13. As approved in the 2002 AGM, KPMG Huazhen and KPMG were re-appointed as the Company's domestic and international auditors for 2003, and the Board was authorised to approve their remunerations.

The remunerations paid to the domestic and international auditors for the two years ended 31 December 2003 are as follows:

	2003	2002
KPMG Huazhen Audit fee	Rmb2,075,000 (unpaid)	Rmb1,000,000 (paid)
KPMG Audit fee	Rmb4,565,000 (Rmb2,490,000 paid)	Rmb5,640,000 (paid)

Note: The fees include the business trip allowance.

KPMG Huazhen and KPMG have provided audit services to the Company for 11 years.

14. The JSRB carried out a regular inspection on the Company in October 2003. The Company will take this chance to further enhance its corporate governance, information disclosure and financial management in the interest of the Company and all its shareholders.
15. 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 progressive table. The related progressive table is listed below:

Type	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%	8%*	7%*	9.7%	8.6%	7.6%	6.5%

* Temporary most-favoured-nation tariff rate, effective in the relevant year.

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



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16. The PRC government made final conclusions on the investigation of the anti-dumping of imported polyester chips and polyester staple fibre from South Korea 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.

On 22 May 2003, European Union ("EU") took actions to investigate the anti-dumping of imported bottle-grade polyester chips from the PRC and two other countries. The preliminary conclusion was made on 19 February 2004, which required the Company to pay proposed anti-dumping duty of EUR 180/tonne (equal to anti-dumping duty rate of 23.2 per cent) for the export products mentioned above. The final conclusion will be made before 22 August 2004. The related legal procedure is still in progress. The export volume of the Group to EU in 2003 represented 2.1 per cent of the total sales volume of polyester products.

On 19 December 2003, EU took actions to investigate the anti-dumping of imported polyester staple fibre from the PRC and other Countries. The Group did not export the products mentioned above to EU in 2003. The Company has submitted an explanatory document, and will follow the progress of the case closely.

17. The Company and its shareholders who hold more than 5 per cent of the Company's shares did not have any undertaking, which required disclosures.
18. Save as those disclosed above, the Group did not have any major event, or disclosure matter referred to in the Article 62 of the Security Law of the PRC, Article 60 of the "Provisional Regulations of Administration of the Issuing and Trading of Shares of the PRC" and the Article 17 of "Disclosure of Information by Public Listing Companies (the Trial Implementation Rule)" during the reporting period.