

# 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 2004.

## *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 nine meetings during the reporting period, details of which are as follows:

- (1) The thirteenth meeting of the fourth term of the Board was held at the Conference Centre of Yihua Hotel in Yizheng City, Jiangsu Province, the PRC on 26 March 2004. Eleven Directors attended the meeting and three directors attended by proxy. The meeting considered and passed the following issues: 1. A resolution regarding the disposal of the Company's assets; 2. the Financial Budget for 2004; 3. the Company's proposed scheme of profit distribution for 2003; 4. the connected transactions for 2003; 5. the Company's 2003 Financial Statements; 6. the 2003 Annual Report of the Company and the Company's 2003 Annual Results Announcement; 7. A resolution regarding the remuneration of the Directors, Supervisors and the Senior Management for 2003; 8. the resolution regarding the remuneration of the domestic and international auditors of the Company for 2003 and the proposed re-appointment of the Company's domestic and international auditors for 2004; 9. the resolution regarding the total investment plan on the fixed assets of the Company for 2004; and 10. the resolution regarding the total salaries plan for the year 2004.

The related announcement was disclosed in China Securities, Shanghai Securities News, Securities Times, Hong Kong Economic Times and South China Morning Post on 29 March 2004.

- (2) The fourteenth meeting of the fourth term of the Board was held in writing on 29 April 2004. The meeting considered and passed the resolution regarding the approval of the 2004'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 30 April 2004.

- (3) The fifteenth meeting of the fourth term of the Board was held in writing on 13 May 2004. The meeting considered and passed these issues: 1. the circular and the resolution submitting for approval at Annual General Meeting for 2003 (“**2003 AGM**”), regarding the amendment to the Company's Articles of Association and the Rules of Proceedings for Shareholders' General Meetings; 2. the notice of 2003 AGM.

The related announcement was disclosed in China Securities, Shanghai Securities News, Securities Times, Hong Kong Economic Times and South China Morning Post on 14 May 2004.

- (4) The sixteenth meeting of the fourth term of the Board was held in writing on 23 June 2004. The meeting considered and passed the Board Report for 2003 and the relevant resolutions for submitting to the 2003 AGM for approval.



## Report of the Board of Directors

- (5) The seventeenth meeting of the fourth term of the Board was held at the Conference Centre of Yihua Hotel in Yizheng City, Jiangsu Province, the PRC on 1 July 2004. Eight Directors attended the meeting, three Directors attended by proxy. The meeting considered and passed the following: 1. The acceptance of the resignations from the directorship of Mr. Fu Xing-tang, Mr. Yao Han-chong and Mr. Ye Zong-shan; 2. election of Mr. Xu Zheng-ning as Chairman of the Company; 3. appointment of Mr. Xiao Wei-zhen as General Manager of the Company; 4. appointment of Mr. Li Zhen-feng and Mr. Zhang Zhong-an as Deputy General Managers of the Company; 5. appointment of Mr. Xu Zheng-ning, Chairman of the Company, and Mr. Wu Chao-yang, the Company Secretary, as authorized representatives of the Company required by HKSE; 6. appointment of Mr. Xiao Wei-zhen, General Manager of the Company, as the authorized representative of the Company required by Bank of China (Hong Kong); 7. the resolution regarding the nomination of director candidates of the Company; 8. the notice of Extraordinary General Meeting (“**EGM**”).

The related announcement was disclosed in China Securities, Shanghai Securities News, Securities Times, Hong Kong Economic Times and South China Morning Post on 2 July 2004.

- (6) The eighteenth meeting of the fourth term of the Board was held in writing on 7 July 2004. The meeting considered and passed the resolution regarding the reform scheme of relevant projects of the Company.
- (7) The nineteenth 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 27 August 2004. Eleven Directors attended the meeting, three Directors attended by proxy. The meeting considered and passed the following: 1. the resolution regarding the provision for inventories; 2. the resolution regarding that no interim dividend will be paid for 2004; 3. the Interim Report for 2004.

The related announcement was disclosed in China Securities, Shanghai Securities News, Securities Times, Hong Kong Economic Times and South China Morning Post on 30 August 2004.

- (8) The twentieth meeting of the fourth term of the Board was held in writing on 28 October 2004. The meeting considered and passed the following: 1. the 2004's 3rd Quarter Report of the Company; 2. the resolution regarding the provision for impairment losses on fixed assets; 3. the resolution regarding the disposal of fixed assets; 4. the connected transactions between the Company and China Petrochemical International Co., Ltd. (“**Sinopec International**”) and relevant Connected Transaction Agreement and the Connected Transaction Announcement.

The related announcement was disclosed in China Securities, Shanghai Securities News, Securities Times, Hong Kong Economic Times and South China Morning Post on 29 October 2004.

- (9) The twenty-first meeting of the fourth term of the Board was held in writing on 24 December 2004. The meeting considered and passed the resolution regarding the approval of the Handbook of Internal Control of the Company.



# 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 2003 according to the resolution of the 2003 AGM. On 26 July 2004, the Company distributed a cash dividend of Rmb 0.025 per share for the year 2003 (including tax). The details were disclosed in Hong Kong Economic Times and South China Morning Post on 2 July 2004 and China Securities, Shanghai Securities News, Securities Times on 14 July 2004.

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

## ***Principal Activities***

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

Units: 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	-	-	-	-	-	-	-	-
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	-	-	-	-	-	-	-	-
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 was 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	Rmb 2.68 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 2004 is as follow:

Type	Number of shareholders
Legal person share ("A" share)	2
Social public share ("A" share)	85,473
"H" share	1,268
Total	<u>86,743</u>



# Report of the Board of Directors

## 2. The shareholdings of the Company

As at 31 December 2004, 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 86,743

### Details of the top ten major shareholders

Names of shareholders	Increase/ (decrease) during the year <i>(shares)</i>	Number of shares held at the end of the year <i>(shares)</i>	Percent to total share capital <i>(%)</i>	Type of share	Number of pledged or frozen shares*	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***	6,237,900	1,354,051,099	33.85	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	Nil	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
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
HSBC Nominees (HONG KONG) Limited***	128,000	1,130,000	0.028	Circulating	Not applicable	Overseas capital shareholder



## Report of the Board of Directors

Names of shareholders	Increase/ (decrease) during the year <i>(shares)</i>	Number of shares held at the end of the year <i>(shares)</i>	Percent to total share capital <i>(%)</i>	Type of share	Number of pledged or frozen share*	Nature of shareholders
Xing-he Fund	(362,368)	986,113	0.025	Circulating	Not applicable	Domestic legal person shareholder
HSBC Nominees (HONG KONG) Limited A/C BR-10***	Not applicable	600,000	0.015	Circulating	Not applicable	Overseas capital shareholder
HSBC Nominees (HONG KONG) Limited A/C BR-11***	Not applicable	600,000	0.015	Circulating	Not applicable	Overseas capital shareholder
HSBC Nominees (HONG KONG) Limited A/C BR-34***	Not applicable	600,000	0.015	Circulating	Not applicable	Overseas capital shareholder
HSBC Nominees (HONG KONG) Limited A/C BR-37***	Not applicable	600,000	0.015	Circulating	Not applicable	Overseas capital shareholder
HSBC Nominees (HONG KONG) Limited A/C BR-49***	Not applicable	600,000	0.015	Circulating	Not applicable	Overseas capital shareholder
HSBC Nominees (HONG KONG) Limited A/C BR-8***	Not applicable	600,000	0.015	Circulating	Not applicable	Overseas capital shareholder
HSBC Nominees (HONG KONG) Limited A/C BR-9***	Not applicable	600,000	0.015	Circulating	Not applicable	Overseas capital shareholder
Kay Kwong Nam	Not applicable	600,000	0.015	Circulating	Not applicable	Overseas capital shareholder

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

The Company is not aware of any activities in concert or connected relationship among the top ten major shareholders.



# Report of the Board of Directors

## Details of the top ten circulating shareholders

Names of shareholders	Number of circulating shares held at the end of year (shares)	Classification
HKSCC (Nominees) Limited***	1,354,051,099	"H" shares
Ng Hon Lam	2,000,000	"H" shares
HSBC Nominees (HONG KONG) Limited A/C BR-13***	1,800,000	"H" 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
HSBC Nominees (HONG KONG) Limited***	1,130,000	"H" shares
Xing-he Fund	986,113	"A" shares
HSBC Nominees (HONG KONG) Limited A/C BR-10***	600,000	"H" shares
HSBC Nominees (HONG KONG) Limited A/C BR-11***	600,000	"H" shares
HSBC Nominees (HONG KONG) Limited A/C BR-34***	600,000	"H" shares
HSBC Nominees (HONG KONG) Limited A/C BR-37***	600,000	"H" shares
HSBC Nominees (HONG KONG) Limited A/C BR-49***	600,000	"H" shares
HSBC Nominees (HONG KONG) Limited A/C BR-8***	600,000	"H" shares
HSBC Nominees (HONG KONG) Limited A/C BR-9***	600,000	"H" shares
Kay Kwong Nam	600,000	"H" shares

Explanation of connected relationship among the top ten circulating shareholders

The Company is not aware of any 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	: Rmb 86,702,439, 000
Principal activities	: Engaged in exploration, mining, production and trade of crude oil and natural gas; refining of crude oil; production, trade, storage and transport of petrochemicals, chemical fibre and other petrochemical products; transport of crude oil and natural gas by pipeline; research, development and application of relevant technology and information.

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





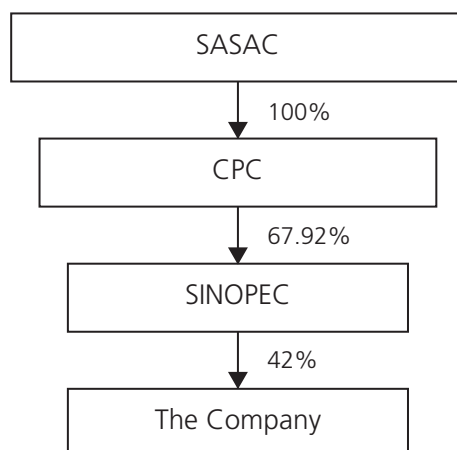
# Report of the Board of Directors

## 4. Controlling company of the controlling shareholder

Name of the controlling company of the controlling shareholder	: China Petrochemical Corporation ("CPC")*
Legal representative	: Chen Tong-hai
Date of establishment	: 24 July 1998
Registered capital	: Rmb 104,912,000 ,000
Principal activities	: Through reorganization in 2000, CPC injected its principal petroleum and petrochemical operations into Sinopec, and retained operations in certain smaller scale petrochemical facilities and refineries, provision of well drilling services, oil testing services, in-well operation services, manufacture and maintenance of production equipment, engineering construction, utility services and social services.

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

\* CPC is an state-authorized investment organization and a state-controlled company, directed by State-owned Assets Supervision and Administration Commission of the State Council ("**SASAC**").



# Report of the Board of Directors

## 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	:	Rmb 3,000,000,000
Principal activities	:	Domestic and overseas investment; economic cooperation; development and promotion of new technology and risk investment; international and domestic financial business, guarantees for foreign capital, running banks or financial companies solely or jointly at home and abroad; issue of bonds or other negotiable securities itself or as a proxy at home and abroad; leasing business at home and abroad; provision for insurance for foreign investors in the PRC, international insurance and re-insurance; trade at home and abroad; contracting and sub-contracting projects internationally, and export of labour services; real estate, and travel services; trust, consultancy and agency services for international and domestic clients.

- (2) The shares held by HKSCC (Nominees) Limited are on behalf of its customers. As at 31 December 2004, the Company was not informed of whether any of its individual "H" shareholder held more than 10 per cent of the total shares of the Company.

## 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 2004, 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 (shares)	Percentage of shareholding in the Company's total issued share capital (%)	Percentage of shareholding in total issued domestic shares (%)	Percentage 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	–
JPMorgan Chase & Co**	159,567,716	3.99	Not applicable	11.40	–
Credit Suisse Group**	93,636,594	2.34	Not applicable	6.69	15,210,000

\* As at 31 December 2004, CPC held 67.92% of the equity interest in Sinopec.

\*\* Such shares were held through relevant Nominees or other ways.



# Report of the Board of Directors

Except as disclosed above and so far as the Directors, Supervisors and Senior Management of the Company are aware, as at 31 December 2004, 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 of 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.

## *Directors, Supervisors and Senior Management*

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

In order to accelerate reform, the resignations from directorship of Mr. Fu Xing-tang, Mr. Yao Han-chong and Mr. Ye Zhong-shan were accepted in the seventeenth meeting of the fourth term of the Board, held on 1 July 2004. The meeting also elected Mr. Xu Zheng-ning as Chairman of the Company, appointed Mr. Xiao Wei-zhen as General Manager of the Company, appointed Mr. Li Zhen-feng and Mr. Zhang Zhong-an as Deputy General Managers of the Company. Mr. Xu Zheng-ning ceased to act as General Manager of the Company and Ms. Ling Ai-bao ceased to act as Deputy General Manager of the Company. The resignation of Supervisor from Mr. Huang Gui-geng was accepted in the sixth meeting of the fourth term of the Supervisory Committee, held on the same day, the meeting also elected Mr. Zhou Wen-fei as Chairman of the Supervisory Committee.

The EGM, held on 26 August 2004, elected Mr. Shen Xi-jun, Mr. Cao-yong and Mr. Li Zhen-feng as Directors of the fourth term of the Board.

On 9 March 2005, Mr. Tao Chun-sheng was elected as Supervisor who represents the staff of the Company.

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

#### **Directors**

1. Mr. Xu Zheng-ning, aged 47, Chairman of the Company, Managing Director of Yihua, and Senior Engineer (at professor level). Mr. Xu receives special subsidies awarded by the State Council of the PRC. 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, and in July 2004, he was elected as Chairman of the Company and was appointed as Managing Director of Yihua. Mr. Xu has extensive experience in production, equipment management, project management, technological improvement and marketing in the 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. He obtained an engineering masters degree in Suzhou University in January 2005, majoring in material engineering.
2. Ms. Sun Zhi-hong, aged 55, Vice Chairwoman of the Company, Deputy Director of the Finance Department of CITIC, and Director of CITIC Offshore Helicopter Co. Ltd., 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 the 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.



## Report of the Board of Directors

3. Mr. Qian Heng-ge, aged 54, Vice Chairman of the Company, Chairman of Yihua, Secretary of Chinese Communist Party Committee (the "CCPC") of the Company and 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 appointed 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. In July 2004, he was appointed as Secretary of CCPC of the Company and Yihua, and Chairman of Yihua. For years, Mr. Qian held leading positions in administration and human resources management and has extensive experience in integrated management in the large-scale enterprise. Mr. Qian graduated from Distance Learning College of the Communist Party Central Academy in 1987, majoring in business administration. He completed an MBA at Nanjing University in 2000.
4. Mr. Xiao Wei-zhen, aged 51, Managing Director of the Company, Director of Yihua, Chairman of Kangqi Company, and Senior Engineer. Mr. Xiao receives special subsidies by the State Council of the PRC. 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 ("**Eastern United**"). 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. In July 2004, he was appointed as Managing Director of the Company and Director of Yihua. Mr. Xiao has extensive experience in production, technological improvement and business administration in the 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 an MBA at Nanjing University in 2003.
5. Ms. Long Xing-ping, aged 53, 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 the large-scale industrial enterprise. Ms. Long graduated from Beijing Chemical Engineering College in 1975, majoring in machinery.
6. Mr. Zhang Hong, aged 46, 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 auditing in the large-scale enterprise. Mr. Zhang graduated from No. 2 Branch, Renmin University of China in 1983, majoring in finance.



## Report of the Board of Directors

7. Mr. Guan Tiao-sheng, aged 42, 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. He was elected as Director of the Company in June 2002, and being 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.
8. Mr. Shen Xi-jun, aged 44, Director and Deputy General Manager of the Company, and Senior Engineer (at professor level). He receives special subsidies awarded by the State Council of the PRC. 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. In August 2004, he was elected as Director of the Company. He has extensive experience in production and project management in the large-scale enterprises. He was granted several titles and awards 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, majoring in macromolecule chemical engineering. He completed an MBA at Nanjing University in 1998.
9. Mr. Cao Yong, aged 46, Director, Chairman of Trade Union, Deputy Secretary of the CCPC of the Company and Yihua, Deputy General Manager of Yihua, Senior Engineer. He joined Yihua in 1981. He served as Deputy Director of Planning and Developing Department, Deputy Director and Director of Polyester Plant No.3. In December 1997, he was transferred to be Deputy Director of Planning and Developing Department in Eastern United and in May 1998 he served as Director of Polyester Plant No.1. In August 2001 he was appointed as Assistant to General Manager of Yihua and in January 2003 he was appointed as Deputy General Manager of Yihua. In March 2003, he was appointed as Director of Yihua. In July 2004 he was appointed as Chairman of Trade Union, Deputy Secretary of the CCPC of the Company and Yihua. In August 2004, he was elected as Director of the Company. Mr. Cao has extensive experience in planning, production and development in the large-scale enterprises. Mr. Cao graduated from Nanjing Chemical Engineering College in 1981, majoring in chemical engineering. He completed the course of MBA in Nanjing University in 2000. In January 2005, he obtained an engineering masters degree in Suzhou University, majoring in material engineering.
10. Mr. Li Zhen-feng, aged 45, Director and Deputy General Manager of the Company and Vice Chairman of Kangqi Company, Senior Economist (at professor level). He joined Yihua in 1982 and served as Deputy Director of Polyester Plant No. 5, Manager of Yizheng-DuPont joint venture project, Director of Planning and Developing Department, General Manager of Yizheng Margreg Global Co. Ltd., Director of Kangqi Company and Director of Marketing Department of the Company. In June 2001, he was appointed as Deputy General Economist and Director of Marketing Department of the Company. He was appointed as Assistant to General Manager of the Company in January 2003 and in July 2004, he was appointed as Deputy General Manager of the Company. In August 2004, he was elected as Director of the Company. Mr. Li has extensive experience in production and marketing in the large-scale enterprises. Mr. Li graduated from Suzhou Silk Technical Institute in 1982, majoring in chemical fibre. He completed an MBA at Nanjing University in 2000.
11. Ms. Li Zhong-he\*, aged 63, Independent Director of the Company and President of Jiangsu Venture Capital Association, Degree in Master. In December 2002, she was elected as Independent 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.



# Report of the Board of Directors

12. Mr. Wang Hua-cheng\*, aged 42, 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 Independent 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 61, Independent Director of the Company and Advisor of of Nanjing Audit University, Research Fellow, Senior Accountant and CPA of the PRC. In December 2002, she was elected as Independent 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 in 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 63, Independent Director of the Company and Senior Economist. In December 2002, she was elected as Independent 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*

## Supervisors

1. Mr. Zhou Wen-fei, aged 46, Chairman of Supervisory Committee of the Company and Yihua, Deputy Secretary of the CCPC of the Company and Yihua, Secretary of the Discipline and Inspection Commission 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 Deputy Director of Supervisory Department of the Company and Yihua in December 1999. In March 2000, he was appointed as Deputy Secretary of the Discipline and Inspection Commission and Director of Supervisory Department of the Company and Yihua. In December 2002, he was re-elected as Supervisor of the Company. In July 2004 he was elected as Chairman of the Supervisory Committee of the Company and was appointed as Deputy Secretary of the CCPC of the Company and Yihua, Secretary of the Discipline and Inspection Commission of the Company and Yihua, Chairman of Supervisory Committee of Yihua. 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 represents the staff of the Company.
2. Mr. Tao Chun-sheng, aged 49, Supervisor of the Company, Deputy Secretary of the Discipline and Inspection Commission and Deputy Director of Supervisory Department of the Company and Yihua, and Senior P&I Engineer. Mr. Tao joined Yihua in 1987, he had been engaged in editing and secretarial affairs in CATV Station, General Manager Office and Office for the Party Committee of the Company successively. In March 1997, he served as Deputy Director of Office for the Party Committee of the Company. In March 2000, he held positions of Deputy Director of General Manager Office and Office for the Party Committee. He became to be Deputy Secretary of the Discipline and Inspection Commission and Deputy Director of Supervisory Department of the Company and Yihua in September 2004. In March 2005, he was elected as Supervisor of the Company. Mr. Tao has extensive experience in large-scale enterprise. Mr. Tao graduated from Distance Learning College of the Communist Party Central Academy in December 1994, majoring in business administration, and became a undergraduate. Mr. Tao represents the staff of the Company.



# Report of the Board of Directors

3. Mr. Chen Jian, aged 42, 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 55, Independent Supervisor of the Company and Director of Bank of China, Shanghai Branch, and Senior Economist. He was elected as Independent 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 of party and governmental affairs.
5. Mr. Chu Su-hua\*\*, aged 48, Independent Supervisor of the Company and Head of Internal Auditing Bureau of Industrial and Commercial Bank of China, Chengdu Branch, and Senior Economist. He was elected as Independent Director of the Company in December 1999. In December 2002, he was elected as Independent 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 financial management.

\*\* *Independent Supervisors*

## Senior Management

1. Mr. Zhang Zhong-an, aged 44, Deputy General Manager, Director of Yihua, and Senior Engineer. He joined Yihua in 1982, and served as Deputy Director of Polyester Plant No. 1, Deputy Director and Director of Production Department. In January 2002, He served as Deputy General Engineer and Director of Technology Development Department. In July 2004, he was appointed as Deputy General Manager of the Company and Director of Yihua. Mr. Zhang has extensive experience in production, R&D and technical management. Mr. Zhang graduated from East China Petrochemical Institute in 1982, majoring in macromolecular chemistry. He completed an MBA at Nanjing University in 2000.
2. Ms. Zhou Xin-hua, aged 58, Chief Financial Officer of the Company, Chairman of Foshan Polyester, and Senior Accountant (at professor level). Ms. Zhou has been engaged in financial management for a long period of time. She had held the position of Deputy Director of Finance Department, Director of Audit Department of Nanjing Chemical Industrial Company, Director of Finance Department of Nanjing Chemical Industrial Group Corporation and the concurrent positions of Deputy Chief Financial Officer and Director of Finance Department successively. She was appointed as Chief Financial Officer of Nanjing Chemical Industrial Group Corporation in September 1996 and as Chief Financial Officer of Nanjing Chemical Industrial Corporation in December 1998. She was appointed as Chief Financial Officer of the Company in December 1999, and re-elected in December 2002. Ms. Zhou has extensive experience in financial management in large-scale chemical enterprise. Ms. Zhou graduated from Central Finance Institute in 1970, majoring in finance.
3. Mr. Tom C. Y. Wu, aged 43, Company Secretary 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 an 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. Procedures 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 a service contract signed between the Company, Directors and Supervisors and with reference to the operating results of the Company in 2004 and the Company's appraisal and assessment system, the Board considered and passed the resolution regarding the Directors', Supervisors' and Senior Management's remuneration in the twenty-second meeting of the fourth term of the Board held on 29 March 2005.

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	
Xu Zheng-ning	Chairman	Jul. 2004-Dec. 2005	2,600	2,600	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
Xiao Wei-zhen	Managing Director	Jul. 2004-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
Guan Tiao-sheng	Director	Dec. 2002-Dec. 2005	0	0	No Change
Shen Xi-jun	Director, Deputy General Manager	Aug. 2004-Dec. 2005	0	0	No Change
Cao Yong	Director	Aug. 2004-Dec. 2005	0	0	No Change
Li Zhen-feng	Director, Deputy General Manager	Aug. 2004-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
Zhou Wen-fei	Chairman of Supervisory Committee	Jul. 2004-Dec. 2005	0	0	No Change
Tao Chun-sheng	Supervisor	Mar. 2005-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	0	0	No Change
Chu Su-hua	Independent Supervisor	Dec. 2002-Dec. 2005	0	0	No Change
Zhang Zhong-an	Deputy General Manager	From Jul. 2004	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	Deputy 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 Supervisory Committee and Senior Management in 2004

Name	Salaries (Rmb)
Xu Zheng-ning	190,000
Sun Zhi-hong	190,000
Qian Heng-ge	190,000
Xiao Wei-zhen	174,000
Long Xing-ping	158,000
Zhang Hong	158,000
Guan Tiao-sheng	–
Shen Xi-jun	158,000
Cao Yong	158,000
Li Zhen-feng	154,000
Li Zhong-he	40,000
Wang Hua-cheng	40,000
Yi Ren-ping	40,000
Qian Zhi-hong	40,000
Zhou Wen-fei	149,000
Tao Chun-sheng	92,000
Chen Jian	149,000
Huang Zhi-wei	30,000
Chu Su-hua	30,000
Zhang Zhong-an	149,000
Zhou Xin-hua	158,000
Tom C. Y. Wu	108,000
Total remuneration for the year	Rmb 2,555,000
Aggregate remuneration of the three highest paid directors	Rmb 570,000
Aggregate remuneration of the three highest paid senior management	Rmb 486,000
Allowances to Independent Directors	Rmb 160,000
Other benefits to Independent Directors	Nil
Name of directors or supervisors who did not receive any remuneration from the Company	Guan Tiao-sheng



# Report of the Board of Directors

Remuneration bands of the directors, supervisors and senior management of the Company	No. of people
Below Rmb 150,000	11
Rmb 150,000 to Rmb 200,000	10

Other than as stated above, no Directors, Supervisors and Senior Management had any interests, either 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 2004.

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

As at 31 December, 2004, none of the Directors, Supervisors and Senior Management of the Company had any interest or short position in 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 ("**Model Code**") as contained in Appendix 10 to the Listing Rules.

At no time during the reporting period was the Company, any of its controlling 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**

Mr. Shen Xi-jun, Mr. Cao Yong and Mr. Li Zhen-feng entered into respective service contract with the Company on 26 August 2004, and each other 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 (each service contract of Mr. Shen Xi-jun, Mr. Cao Yong and Mr. Li Zhen-feng is from 26 August 2004 to 31 December 2005);
2. Each Director (excluding Independent Directors) is entitled to an annual salary of not less than Rmb 50,000. The aggregate annual salaries of all Directors (excluding Independent Directors) is not more than Rmb 2,800,000 within the contract term.

Each Independent Director of the fourth term of the Board 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 allowance payable to all Independent Directors is Rmb 160,000 within the contract term.



# Report of the Board of Directors

Mr. Tao Chun-sheng entered into a service contract with the Company on 9 March 2005, and each other Supervisor (excluding Independent Supervisors) of the fourth term of the Supervisory Committee 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 (the service contract of Mr. Tao Chun-sheng is from 9 March 2005 to 31 December 2005);
2. Each Supervisor (excluding Independent Supervisors) is entitled to an annual salary of not less than Rmb 50,000. The aggregate annual salaries of all Supervisors (excluding Independent Supervisors) is not more than Rmb 800,000 within the contract term.

Each Independent Supervisor of the fourth term of the Supervisory Committee 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 allowance payable to all Independent Supervisors is Rmb 60,000.

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, existed 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 firmly focused on reforms and adjustment, aimed at optimizing process, promoting efficiency, reducing cost and enhancing benefits, carried out reforms on organization system. By doing so, the Group has gradually streamlined administration, flattened management structure and specialized business operation.

As at 31 December 2004, the Group had 13,579 registered employees, of which 12,596 belonged to the Company and 983 belonged to the Foshan Group. Total retired staff amounted to 1,871.

The Group had 38 employees with master or higher degree, 1,175 employees with bachelor or higher degree, 2,597 employees with tertiary or higher education background, 9,185 employees with senior high school or higher educational background.

The Group had 9,610 production staff, 191 sales staff, 1,156 engineers, technicians and research staff of the product technology center, 167 financial personnel and 855 administration staff.

The Group has not carried out any share options or warranty plans.



# Report of the Board of Directors

## ***Major litigation or arbitration***

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

## ***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 2004 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 2004 was Rmb 232,844,000 (the profit attributable to shareholders of the Company for 2004 was Rmb 241,990,000 under IFRS). The total distributable profit, including the undistributed profit of Rmb 638,691,000 brought forward from previous years (deducting the previous year's cash dividend of Rmb 100,000,000 paid in the year 2004), was Rmb 771,535,000.

According to relevant regulations of the PRC and the Articles of Association of the Company, the proposed transfers to the statutory surplus reserve and the statutory public welfare fund were Rmb 23,284,000 and Rmb 23,284,000 respectively, representing 10% of the net profit of Rmb 232,844,000 of the Company.

It is proposed that a final cash dividend of Rmb 0.025 per share (including tax) for 2004 be paid, totaling Rmb 100,000,000.

The above proposed profit distribution scheme shall be submitted for approval in the 2004 AGM.



# Report of the Board of Directors

## *The funding transactions with related parties and the guarantees provided to the 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 auditor 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 2004" on 29 March 2005.

#### **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 2004**

**(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	1,485,821.6	343,398.9	122,282.5
Increase during the year	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	1,385,297.6	-	-
Decrease during the year	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	1,429,468.2	-	-
Balance at the end of year	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	1,441,651.9	343,398.9	122,282.5

\* These two companies were no longer subsidiaries of Yihua in 2004 and accordingly, as at 31 December 2004, they were not the related parties of the Company.

### **(2) The special explanations and independent opinion of 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 the third parties" (Zheng Jian Fa (2003) No. 56) "Document No. 56" from the CSRC and SASAC**

In accordance with Document No. 56, the Independent Directors has reviewed the Company's 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, the Company has not provided guarantees for its controlling shareholders, other related parties the Company holding less than 50 percent shareholding, any non-corporate body or personal indebtedness. The Company guaranteed Foshan Polyester, the wholly-owned subsidiary, for its bank credit facilities. As at 31 December 2004, the guarantees amounted to Rmb 147,968,000, representing 1.6% of the net assets of the Company. The ratio of total assets to total liabilities of Foshan Polyester is higher than 70%. The Company amended relevant contents of the Articles of Association in accordance with the requirements set out in Document No. 56 at 2003 AGM.



# Report of the Board of Directors

## **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 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 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 2004 are set out in note 22 of the financial statements prepared in accordance with IFRS of the Annual Report.

## **Donation**

Pursuant to the relevant policies of the PRC government, the Company transferred some functions of social public services and relevant assets to the local government in 2004. The net value of the transferred assets amounted to Rmb 3,860,000.

## **Subsidiaries**

Particulars of the Company's subsidiaries as at 31 December 2004 are set out in note 15 of the financial statements prepared in accordance with IFRS of the Annual Report.

## **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 IFRS of the Annual Report.

## **Major suppliers and customers**

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

Aggregate purchases from			
the top five largest suppliers	Rmb 7,661,838,000	Per cent of total purchases	72%
Aggregate sales to			
the top five largest customers	Rmb 1,547,444,000	Per cent of total sales	12%

For the year ended 31 December 2004, 27 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.

## **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 2005, is to be proposed at the 2004 AGM.



# Report of the Board of Directors

The signing Certified Public Accountants of the Company's domestic auditors, KPMG Huazhen, were Huqiong and Yu Xiaojun.

## ***Shareholders' General Meeting***

The Company held its 2003 AGM and its EGM at its registered place in Yizheng City, Jiangsu Province on 30 June 2004 and 26 August 2004 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 and the Model Code***

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 Company has adopted the Model Code as contained in Appendix 10 to the Listing Rules. After having specifically inquired from all the Directors, Supervisors and Senior Management, the Company confirms that its Directors, Supervisors and Senior Management have fully complied with the standards as set out in the Model Code.

The Audit Committee under the fourth term of the Board held two meetings and reviewed the Company's 2003 Financial Statements, Interim Report for 2004 and formed its independent opinion during the reporting period.

The Audit Committee under the fourth term of the Board held the fifth meeting on 29 March 2005 and reviewed the 2004 Financial Statements and remuneration of the auditors of the Company for 2004.

By Order of the Board

**Xu Zheng-ning**

*Chairman*

29 March 2005, Nanjing

