1. On 1 January 2004, in light of the new regulatory requirements both locally and overseas, the Company began a trial run of a new internal control system, which covers the Company's production and operational chain and key business sectors, and formally implemented the system on 1 January 2005.

2. As approved at the 2003 AGM held on 30 June 2004, the Company paid a final cash dividend of Rmb 0.025 per share (including tax) for the year ended 31 December 2003 on 26 July 2004. Details of dividend payments to domestic shareholders were disclosed in China Securities, Shanghai Securities News and Securities Times on 14 July 2004, while the details of dividend payments to international shareholders were included in the announcement of the resolutions passed in the 2003 AGM, which were disclosed in China Securities, Shanghai Securities News, Securities Times on 1 July 2004, Hong Kong Economic Times and South China Morning Post on 2 July 2004.

   In accordance with the Articles of Association of the Company, the Board resolved that no interim dividend was payable for the year ended 31 December 2004.

   The Board proposed a final cash dividend of Rmb 0.025 per share to be paid for the year ended 31 December 2004.

3. During the reporting period, the Group (including subsidiaries) did not have any material litigation or arbitration.

4. During the reporting period, the Group (including subsidiaries) did not have any acquisition and disposal of investment assets as well as merger and acquisition activity.

5. Information on connected transactions

   On 28 October 2004, the Company signed an agency agreement with China Petrochemical International Co. Ltd ("Sinopec International") to entrust the import of raw materials such as PTA, PX, MEG needed for production. According to the agreement, the Company entrusts Sinopec International to import these goods from the effective date of the agreement to 31 December 2006, and the agent fee will be paid according to market service rate of CIF prices of the goods. During the period from the effective date of the agreement to 31 December 2006, the aggregate annual amount of agent fee shall not exceed Rmb 30 million.

   The 20th meeting of the fourth term of the Board was held on the same day approved the above mentioned agreement between Sinopec International and 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 29 October 2004.

   The Group's material connected transactions entered into during the year ended 31 December 2004 were as follows:

   (a) The following are the significant connected transactions relating to sales and purchase of goods and provision of services during the reporting period:

Type of transaction	**Transaction parties**	**Amount of transaction** *Rmb'000*	**Proportion of the same type of transaction** *(%)*
Purchase of raw materials	Sinopec Yangzi Petrochemical Company Ltd ("**Yangzi**")	2,768,827	27
	Sinopec Zhenhai Refining & Chemical Company Ltd ("**Zhenhai**")	1,771,026	17
Sales	Yihua and its subsidiaries ("**Yihua Group**")	658,276	6

The Group 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 Group 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 above transactions have no adverse effect on the profit of the Group.

(b) During the reporting period, there were no connected transactions related to the transfer of the asset or equity in the Group.

The Board believes 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 28 of the financial statements prepared in accordance with the PRC Accounting Rules and Regulations.

The Independent Non-executive Directors had reviewed the above continuing connected transactions according to the regulations as stipulated in the waivers granted by HKSE, and made necessary confirmations in a letter submitted to the Board on 29 March 2005.

The Company's auditors had reviewed the above continuing connected transactions and provided a letter to the Board on 29 March 2005.

6. The Company did not have any asset leased or contracted out 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.

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

Unit: Rmb'000

External guarantee issues (Excluding guarantee for controlled subsidiaries)

Name of guaranteed entity	**Beginning date (Date of Agreement)**	**Guarantee amount**	**Type of guarantee**	**Guarantee period**	**Guarantee expired**	**Guarantee for a connected party**
–	–	–	–	–	–	–

Total guaranteed amount	–
Remaining guaranteed amount	–
Guarantee for controlled subsidiaries	
Total guaranteed amount	737,182
Remaining guaranteed amount	147,968
Total guarantee issues (Including guarantee for controlled subsidiaries)	
Total guaranteed amount	147,968
The ratio of guaranteed amount to the net asset of the Group	1.6 %
The guarantee issues that not conforming to the regulations	
The guaranteed amount for controlling shareholders and other related parties which the Company held less than 50 per cent share equity	–
The direct or indirect guaranteed amount for those whose total liability to total asset ratio is over 70 per cent	147,968
Whether the ratio of guaranteed amount to the net asset of the Group is over 50 per cent	No
The guaranteed amount not conforming to the regulations	147,968

According to Document No.56, the total guaranteed amount not conforming to the related regulations amounted to Rmb 147,968,000 as at 31 December 2004. The guarantees all took place before the promulgation of Document No.56. Currently, there is no indication that the Company may undertake the liabilities under a joint liability clause.

8. As at 31 December 2004, the Group did not have any designated deposits with any financial institutions or any difficulties in collecting deposits upon maturity. The Group had no trusted financial matters during the reporting period.

9. The construction of a PTA project with an annual capacity of 1,000,000 tonnes was approved by the 22nd meeting of the Board of the fourth term held on 29 March 2005. The estimated investment of the project is Rmb 3,810 million (including foreign currency USD175 million). The project will start within 2005 and is expected to put in operation in 2007.

10. The changes of the directors, supervisors and senior management during the reporting period are set out in the section on "Directors, Supervisors and Senior Management".

    The related announcement was disclosed in China Securities, Shanghai Securities News, Securities Times, Hong Kong Economic Times and South China Morning Post on 27 August 2004.

11. 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 2004. The Company has not received any notice from the tax authorities regarding changes to this rate.

12. As approved in the 2003 AGM, KPMG Huazhen and KPMG were re-appointed as the Company's domestic and international auditors for 2004, 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 2004 and 2003 are as follows:

	2004	2003
KPMG Huazhen Audit fee	**Rmb 2,075,000 (Unpaid)**	Rmb 2,075,000 (Paid)
KPMG Audit fee	**Rmb 4,565,000 (Rmb 2,490,000 paid)**	Rmb 4,565,000 (paid)

Note: The fees include the business trip allowance.

KPMG Huazhen and KPMG have provided audit services to the Group for 12 years.

13. According to "Protocol on the Accession of the PRC" and the related legal documents, the PRC government must reduce the import tariff rates on polyester products and major polyester raw materials from 1 January 2005 in accordance with the progressive table 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%*	**6.5%***	8.6%	7.6%	6.5%

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

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

14. On 19 December 2003, the European Union ("**EU**") took actions to investigate the allegation of dumping of imported polyester staple fibre from the PRC and other countries. The final conclusion was made on 19 March 2005. Imposed tax rates of imported polyester stable fibre ranged from 4.9 per cent to 49.7 per cent for different PRC companies. Since the exported products to EU from the PRC are mainly regenerated polyester staple fibre and the exported volume is also not large, at 20,000 tonnes a year, the influence of the case on the China market is limited. The Group did not export the products mentioned above to the EU in 2004.

    On 17 June 2004, the EU took actions to investigate the allegation of dumping of imported textile products made from polyester filament (products of the downstream manufacturer of the Company) exported to the EU from the PRC. The preliminary conclusion was made on 17 March 2005. Imposed tax rates of imported textile products ranged from 20 per cent to 74.87 per cent for different PRC companies. According to the EU indictment, the above products exported to the EU from the PRC only accounted for 72,000 tonnes in 2003, and there will be little effect in the PRC' market.

15. 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.

16. Except as disclosed above, the Group did not have any major event, or disclosure matter referred to in 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" or Article 17 of "Disclosure of Information by Public Listed Companies (the Trial Implementation Rules)" during the reporting period.