

## 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 2005.*

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

- (1) The twenty-second meeting of the fourth term of the Board was held on 29 March 2005. The related announcement was disclosed in China Securities, Shanghai Securities News, Securities Times, Hong Kong Economic Times and the South China Morning Post on 30 March 2005.
- (2) The twenty-third meeting of the fourth term of the Board was held on 28 April 2005. The related announcement was disclosed in China Securities, Shanghai Securities News, Securities Times, Hong Kong Economic Times and the South China Morning Post on 29 April 2005.
- (3) The twenty-fourth meeting of the fourth term of the Board was held 12 May 2005. The related announcement was disclosed in China Securities, Shanghai Securities News, Securities Times, Hong Kong Economic Times and the South China Morning Post on 13 May 2005.
- (4) The twenty-fifth meeting of the fourth term of the Board was held 10 June 2005. The related announcement was disclosed in China Securities, Shanghai Securities News, Securities Times, Hong Kong Economic Times and the South China Morning Post on 13 June 2005.
- (5) The twenty-sixth meeting of the fourth term of the Board was held on 26 August 2005. The related announcement was disclosed in China Securities, Shanghai Securities News, Securities Times, Hong Kong Economic Times and the South China Morning Post on 29 August 2005.
- (6) The twenty-seventh meeting of the fourth term of the Board was held on 28 October 2005. The related announcement was disclosed in China Securities, Shanghai Securities News, Securities Times, Hong Kong Economic Times and the South China Morning Post on 31 October 2005.
- (7) The twenty-eighth meeting of the fourth term of the Board was held on 15 December 2005. The related resolution submitted for approval at Extraordinary General Meeting ("**EGM**"). The related announcement was disclosed in China Securities, Shanghai Securities News, Securities Times on 26 December 2005, Hong Kong Economic Times and the South China Morning Post on 28 December 2005.
- (8) The first meeting of the fifth term of the Board was held on 23 December 2005. The related announcement was disclosed in China Securities, Shanghai Securities News, Securities Times on 26 December 2005, Hong Kong Economic Times and the South China Morning Post on 28 December 2005.

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

During the reporting period, the Board executed the profit distribution scheme for 2004 according to the resolution of the Annual General Meeting for 2004 Annual General Meeting ("**2004 AGM**"). On 25 July 2005, the Company distributed a cash dividend of Rmb 0.025 per share for the year 2004 (including tax). The details were disclosed in the Hong Kong Economic Times and the South China Morning Post on 29 June 2005 and in China Securities, Shanghai Securities News, and Securities Times on 13 July 2005.

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.

#### **1.1 Principal Activities**

The principal activities of the Group are the production and sale of polyester chips and polyester fibre, and production of principle polyester raw material, PTA.

# Report of the Board of Directors

## 1.2 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 forth 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 forth in the section on “Financial Summary” of the Annual Report.

## 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		Increase/(decrease)					After change	
	Number	Percent	New issue	Bonus share	Shares transferred from reserve fund	Others	Sub-total	Number	Percent
I. Non-circulating shares:									
1. Promoter shares									
Including:									
Owned on behalf of the State	-	-	-	-	-	-	-	-	-
Domestic legal persons shares	2,400,000	60%	-	-	-	-	-	2,400,000	60%
Overseas legal persons shares	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-
2. Social fund raising legal persons shares	-	-	-	-	-	-	-	-	-
3. Internal employees shares	-	-	-	-	-	-	-	-	-
4. Pre-emptive rights shares	-	-	-	-	-	-	-	-	-
Total number of non-circulating shares	2,400,000	60%	-	-	-	-	-	2,400,000	60%
II. Circulating shares									
1. Rmb ordinary shares	200,000	5%	-	-	-	-	-	200,000	5%
2. Domestic listed foreign capital shares	-	-	-	-	-	-	-	-	-
3. Overseas listed foreign capital shares	1,400,000	35%	-	-	-	-	-	1,400,000	35%
4. Others	-	-	-	-	-	-	-	-	-
Total number of circulating shares	1,600,000	40%	-	-	-	-	-	1,600,000	40%
III. Total number of shares	4,000,000	100%	-	-	-	-	-	4,000,000	100%

During the reporting period, there was no change in the total amount of shares and the capital structure of the Company.

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### 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 2005 is as follows:

Type	Number of shareholders
Legal person share ("A" share)	2
Social public share ("A" share)	75,216
"H" share	1,200
Total	<u>76,418</u>

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### 2. The shareholdings of the top ten major and circulating shareholders of the Company

As at 31 December 2005, 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 76,418

#### Details of the top ten major shareholders

Names of shareholders	Nature of shareholders	Number of shares held at the end of the year (shares)	Percent to total share capital (%)	Number of non-circulating shares (shares)	Number of pledged or frozen share*
Sinopec	Domestic legal person shareholder	1,680,000,000	42.00	1,680,000,000	Nil
Hong Kong Securities Clearing Company ("HKSCC") (Nominees) Limited**	Overseas capital shareholder	1,356,999,099	33.92	Circulating shares	Nil
CITIC Group Corporation ("CITIC")***	Domestic legal person shareholder	720,000,000	18.00	720,000,000	Nil
Aoyier Investment Management Company	Domestic circulating shares	6,749,007	0.17	Circulating shares	Not applicable
Petrochina Assets Management Company	Domestic circulating shares	2,554,128	0.06	Circulating shares	Not applicable
HSBC Nominees (HONG KONG) Limited A/C BR-13**	Overseas capital shareholder	1,800,000	0.045	Circulating shares	Not applicable
Sanya Yingwan Company	Domestic circulating shares	1,308,000	0.033	Circulating shares	Not applicable
HSBC Nominees (HONG KONG) Limited**	Overseas capital shareholder	1,218,000	0.03	Circulating shares	Not applicable
HSBC Nominees (HONG KONG) Limited A/C BR-12**	Overseas capital shareholder	1,200,000	0.03	Circulating shares	Not applicable
HSBC Nominees (HONG KONG) Limited A/C BR-16**	Overseas capital shareholder	1,200,000	0.03	Circulating shares	Not applicable
Zhuang Qing-lan	Domestic Circulating shares	1,028,900	0.026	Circulating shares	Not applicable

# 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**	1,356,999,099	"H" shares
Aoyier Investment Management Company	6,749,007	Circulating "A" shares
Petrochina Assets Management Company	2,554,128	Circulating "A" shares
HSBC Nominees (HONG KONG) Limited A/C BR-13**	1,800,000	"H" shares
Sanya Yingwan Company	1,308,000	Circulating "A" shares
HSBC Nominees (HONG KONG) Limited**	1,218,000	"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
Zhuang Qing-lan	1,028,900	Circulating "A" shares
Xing-he Fund	986,113	Circulating "A" shares
Wang Jun-hua	976,500	Circulating "A" shares

Explanation of connected relationship or activities in concert among the above shareholders      The Company is not aware of that there is any connected relationship or activities in concert among the above shareholders.

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

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

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

### 3. The controlling shareholder

Name of the controlling shareholder	: Sinopec, holding 42 percent 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 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.

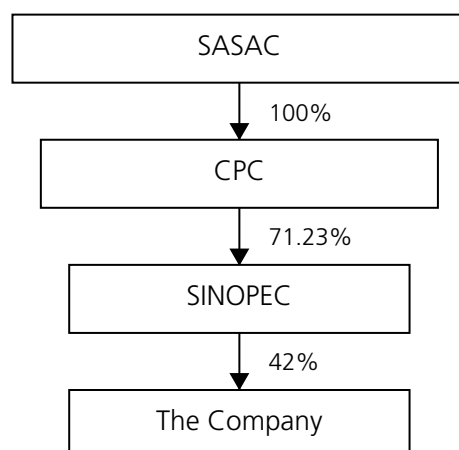
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### 4. Controlling company of the controlling shareholder

Name of the controlling company of the controlling shareholder	:	China Petrochemical Corporation ("CPC")*
Legal representative	:	Chen Tong-hai
Date of establishment	:	24 July 1998
Registered capital	:	Rmb 104,912,000,000
Principal activities	:	Through reorganisation 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 organisation and a state-controlled company, directed by State-owned Assets Supervision and Administration Commission of the State Council ("SASAC").



### 5. Other substantial shareholders

#### (1) CITIC

CITIC holds 18 percent of the Company's shares.

Legal representative	:	Wang Jun
Registered capital	:	Rmb 30,000,000,000
Date of establishment	:	4 October 1979
Principal activities	:	provide services in bank, security, insurance, trust, future, rent, and engage in industries of information, material, engineer, import and export, etc..

(2) The shares held by HKSCC (Nominees) Limited are on behalf of its customers. As at 31 December 2005, the Company was not informed of whether any of its individual "H" shareholder held more than 10 percent 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 2005, 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)	Percent of shareholding in the Company's total issued share capital (%)	Percent of shareholding in the Company's total issued domestic shares (%)	Percent 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	–
Northern Trust**	118,600,100	2.97	Not applicable	8.47	–

\* As at 31 December 2005, CPC holds 71.23% of the equity interest in Sinopec.

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

Save as disclosed above and so far as the Directors, Supervisors and Senior Management of the Company are aware of, as at 31 December 2005, 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

Mr. Xu Zheng-ning, Ms. Sun Zhi-hong, Mr. Qian Heng-ge, Mr. Xiao Wei-zhen, Ms. Long Xing-ping, Mr. Zhang-hong, Mr. Guan Diao-sheng, Mr. Shen Xi-jun, Mr. Cao Yong, Mr. Li Zhen-feng, Ms. Li Zhong-he, Mr. Wang Hua-cheng, Ms. Yi Ren-ping and Ms. Qian Zhi-hong were elected as the Directors of the Company at the EGM held on 23 December 2005, among which Ms. Li Zhong-he, Mr. Wang Hua-cheng, Ms. Yi Ren-ping and Ms. Qian Zhi-hong were Independent Directors of the Company. The EGM elected Mr. Chen Jian, Mr. Shi Gang and Mr. Wang Bing as the Supervisors of the Company, among which Mr. Shi Gang and Mr. Wang Bing were Independent Supervisors of the Company. Mr. Zhou Wen-fei and Mr. Tao Chun-sheng were elected as the Supervisors of the Company by the staff representatives of the Company.

Mr. Huang Zhi-wei and Mr. Chu Su-hua ceased to be Independent Supervisors of the Company. The Company expressed great thanks to them for their years of hard work.

Due to being over age, Ms. Zhou Xin-hua ceased to act as CFO of the Company.

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## Profiles of Present Directors, Supervisors and Senior Management

### Directors

1. Mr. Xu Zheng-ning, aged 48, Chairman of the Company, Managing Director of Yihua, Chairman of Yihua Unify Fibre Company Ltd., and Senior Engineer (at the professional 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 as the Company' Assistant to the General Manager. He was appointed as Deputy General Manager of the Company in April 1995. In December 1996, he was elected 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 Managing Director of Yihua. He was re-elected as Chairman of the Company in December 2005. Mr. Xu has extensive experience in production, equipment management, project management, technological improvement and marketing in extra-large-scale enterprise. Mr. Xu graduated from Nanjing Chemical Engineering College in 1981, majoring in chemical engineering. He completed the MBA program at Nanjing University in 1998. In January 2005, he obtained an engineering master's degree at Suzhou University, majoring in materials engineering.
2. Ms. Sun Zhi-hong, aged 56, Company Vice Chairwoman, Deputy Director of CITIC's Finance Department, and Director of CITIC Offshore Helicopter Co. Ltd., Senior Accountant and CPA of the PRC. She has 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 2005. Ms. Sun has extensive experience in financial management in large-scale enterprises. Ms. Sun graduated from China Central Broadcasting and Television University in 1986, majoring in accounting, and completed the International Business Administration graduate program at Beijing Economic College in 1995.
3. Mr. Qian Heng-ge, aged 55, 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 has served as Yihua's Deputy Head of the General Manager's Office and as the Company's Head of the General Manager's Office. 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 for 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 July 2004, he was appointed as Secretary of CCPC of the Company and Yihua, and Chairman of Yihua. In December 2005, he was re-elected as Vice Chairman of the Company. For a long period of time, Mr. Qian has held leading positions in administration and human resources management and has extensive experience in overall management of extra-large-scale enterprises. Mr. Qian graduated from the Communist Party Central Academy's Distance Learning College in 1987, majoring in business administration. He completed the MBA program at Nanjing University in 2000.
4. Mr. Xiao Wei-zhen, aged 52, Managing Director of the Company, Director of Yihua, Chairman of Kangqi Company, and Senior Engineer (at the professional level). Mr. Xiao receives special subsidies from 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 the Company's Director of Polyester Plant No. 4. In December 1996, he was appointed as Deputy General Manager of the Company. In November 1997, he was transferred to the position of Head of the Production and Marketing Department at China Eastern United Petrochemical (Group) Company Limited ("Eastern United"). In January 1998, he was elected as the Company's Executive Director. In May 1998, he was appointed as the Company's Deputy General Manager. In July 2004, he was appointed as Managing Director of the Company and Director of Yihua. He was re-elected as Director and re-appointed as General Manager of the Company in December 2005. Mr. Xiao has extensive experience in production, technological improvement and business administration in extra-large-scale chemical fibre enterprises. Mr. Xiao graduated from the Department of Chemical Engineering of Zhejiang University in 1982, majoring in macromolecular chemistry. He completed the MBA program at Nanjing University in 2003.



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5. Ms. Long Xing-ping, aged 54, 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 2005, she was re-elected as Director of the Company. Ms. Long was engaged in the design of chemical fibre machines and scientific research, and has extensive experience in business administration at large-scale industrial enterprises. Ms. Long graduated from Beijing Chemical Engineering College in 1975, majoring in machinery.
6. Mr. Zhang Hong, aged 47, Director of the Company and Head of the No. 2 Division of CITIC's Audit Department, Senior Accountant and CPA of the PRC. He has held the position of Head of No. 2 Division of CITIC's Audit Department since December 2002. In December 2002, he was elected as Director of the Company. In December 2005, he was re-elected as Director of the Company. Mr. Zhang has been engaged in financial management and internal auditing for years, and has extensive experience in internal management systems, financial analysis and auditing in large-scale enterprises. Mr. Zhang graduated from No. 2 Branch, Renmin University of China in 1983, majoring in finance.
7. Mr. Guan Diao-sheng, aged 43, Director of the Company, Deputy Director of Chemicals Segment of Sinopec, Master of Engineering, Senior Engineer. Mr. Guan joined the petrochemical industry in 1985. He served as Deputy Director of Liaoyang Oil & Chemical Fibre Company's Technology Department in 1987, Deputy Director of the Technology Section of CPC's Production Department in 1995, Director of Chemical Fibre Section of CPC's Refining and Petrochemical Department in 1998, and Deputy Director of Sinopec's Chemicals Segment in December 2001. In June 2002, he was elected as Director of the Company, and re-elected in December 2005. 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 45, Director and Deputy General Manager of the Company, and Senior Engineer (at the professional 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 as the Assistant to Yihua's General Manager. 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. In December 2005, he was re-elected as Director of the Company. 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 MBA program at Nanjing University in 1998.
9. Mr. Cao Yong, aged 47, 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 the Planning and Developing Department, and Deputy Director and Director of Polyester Plant No. 3. In December 1997, he was transferred to the position of Deputy Director of the Planning and Developing Department at Eastern United, and in May 1998 he served as Director of Polyester Plant No. 1. In August 2001 he was appointed as Yihua's Assistant to the General Manager and in January 2003 he was appointed as Yihua's Deputy General Manager. 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. In December 2005, he was re-elected as Director of the Company. Mr. Cao has extensive experience in planning, production and development in large-scale enterprises. Mr. Cao graduated from Nanjing Chemical Engineering College in 1981, majoring in chemical engineering. He completed the MBA program at Nanjing University in 2000. In January 2005, he obtained an engineering master's degree in Suzhou University, majoring in materials engineering.
10. Mr. Li Zhen-feng, aged 46, Director and Deputy General Manager of the Company, Vice Chairman of Kangqi Company and Deputy General Manager of Shanghai Branch, Chemical Sales Company of Sinopec, Senior Economist (at the professional level). He joined Yihua in 1982 and served as Deputy Director of Polyester Plant No. 5, Manager of the Yizheng-DuPont joint venture project, deputy Director of the Planning and Developing Department, General Manager of Yizheng Margreg Global Co. Ltd., Director of Kangqi Company and Director of the Company's Marketing

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Department. In June 2001, he was appointed as Deputy General Economist and Director of Marketing Department. He was appointed as the Company's Assistant to General Manager in January 2003; and in July 2004, he was appointed as the Company's Deputy General Manager. In August 2004, he was elected as Director of the Company. In December 2005, he was re-elected as Director of the Company. Mr. Li has extensive experience in production and marketing at large-scale enterprises. Mr. Li graduated from Suzhou Silk Technical Institute in 1982, majoring in chemical fibre. He completed the MBA program at Nanjing University in 2000.

11. Ms. Li Zhong-he\*, aged 64, Independent Director of the Company and President of Jiangsu Venture Capital Association, Master. In December 2002, she was elected as Independent Director of the Company and re-elected in December 2005. 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 numerically controlled machine tools.
12. Mr. Wang Hua-cheng\*, aged 43, Independent Director of the Company and Deputy Director of Renmin University of China Business School, Professor, Doctoral Degree Candidate Tutor. In December 2002, he was re-elected as Independent Director of the Company and re-elected in December 2005. For a long period of time, Mr. Wang has been engaging in teaching and researching 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 62, Independent Director of the Company and Advisor 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 and re-elected in December 2005. For a long period of time, Ms. Yi has been engaged in teaching and researching accounting, auditing, and management. 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 64, Independent Director of the Company and Senior Economist. In December 2002, she was elected as Independent Director of the Company and re-elected in December 2005. For a long period of time, Ms. Qian has held senior management positions in commercial banks 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 47, 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 Company's Discipline and Inspection Commission of Polyester Plant No. 5 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 Company's Supervisory Committee 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. In December 2005, he was re-elected as Chairman of Company's Supervisory Committee. 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 pursued postgraduate studies. Mr. Zhou is the Supervisor who represents the staff of the Company.

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2. Mr. Tao Chun-sheng, aged 50, Supervisor of the Company, Deputy Secretary of the Discipline and Inspection Commission and Director of Supervisory Department of the Company and Yihua, and Senior P&I Engineer. When Mr. Tao joined Yihua in 1987, he had been engaged in editing and secretarial affairs successively at CATV Station, General Manager Office and Office for the Party Committee of the Company. In March 1997, he served as Deputy Director of Office for the Party Committee of the Company. In March 2000, he held the positions of Deputy Director of General Manager Office and Office for the Party Committee. He became 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. In December 2005, he was re-elected as Supervisor of the Company. In January 2006, he was appointed as Director of Supervisory Department of the Company. Mr. Tao has extensive experience in large-scale enterprises. Mr. Tao graduated from the Communist Party Central Academy's Distance Learning College in December 1994, majoring in business administration. Mr. Tao is the Supervisor who represents the staff of the Company
3. Mr. Chen Jian, aged 43, 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 2005. Mr. Chen has extensive experience in the fields 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. Shi Gang\*\*, aged 45, Independent Supervisor of the Company, Director of Industrial and Commercial Bank of China, and Senior Economist. For a long period of time, Mr. Shi has held the positions of senior management in commercial banks and has extensive experience in banking. Mr. Shi graduated from the Communist Party Central Academy's Distance Learning College in 1995, majoring in economic administration.
5. Mr. Wang Bing\*\*, aged 34, Independent Supervisor of the Company, General Manager of Company Financing Department of Jiangsu Branch, Bank of China, Economist and Master. For a long period of time, Mr. Wang has held the positions of senior management in commercial banks and has extensive experience in banking. Mr. Wang graduated from Suzhou University in 1996, majoring in English Language.

\*\* *Independent Supervisors*

### Senior Management

1. Mr. Zhang Zhong-an, aged 45, 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. Beginning in January 2002, he served as Deputy General Engineer and Director of the 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 the MBA program at Nanjing University in 2000.
2. Mr. Tom C. Y. Wu, aged 44, Company Secretary of the Company, and Senior Economist, 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 the Company's Secretary. Mr. Wu graduated from the Zhejiang University's Department of Chemical Engineering in 1982, majoring in macromolecular chemistry, and obtained an MBA degree from the 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 Manager'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 contract signed between the Company, Directors and Supervisors and with reference to the operating results of the Company in 2005 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 fourth meeting of the fifth term of the Board held on 31 March 2006.

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	Dec. 2005-Dec.2008	2,600	2,600	No Change
Sun Zhi-hong	Vice Chairwoman	Dec. 2005-Dec.2008	0	0	No Change
Qian Heng-ge	Vice Chairman	Dec. 2005-Dec.2008	2,000	2,000	No Change
Xiao Wei-zhen	Managing Director	Dec. 2005-Dec.2008	0	0	No Change
Long Xing-ping	Director	Dec. 2005-Dec.2008	0	0	No Change
Zhang Hong	Director	Dec. 2005-Dec.2008	0	0	No Change
Guan Diao-sheng	Director	Dec. 2005-Dec.2008	0	0	No Change
Shen Xi-jun	Director, Deputy General Manager	Dec. 2005-Dec.2008	0	0	No Change
Cao Yong	Director	Dec. 2005-Dec.2008	0	0	No Change
Li Zhen-feng	Director, Deputy General Manager	Dec. 2005-Dec.2008	0	0	No Change
Li Zhong-he	Independent Director	Dec. 2005-Dec.2008	0	0	No Change
Wang Hua-cheng	Independent Director	Dec. 2005-Dec.2008	0	0	No Change
Yi Ren-ping	Independent Director	Dec. 2005-Dec.2008	0	0	No Change
Qian Zhi-hong	Independent Director	Dec. 2005-Dec.2008	0	0	No Change
Zhou Wen-fei	Chairman of Supervisory Committee	Dec. 2005-Dec.2008	0	0	No Change
Tao Chun-sheng	Supervisor	Dec. 2005-Dec.2008	0	0	No Change
Chen Jian	Supervisor	Dec. 2005-Dec.2008	0	0	No Change
Shi Gang	Independent Supervisor	Dec. 2005-Dec.2008	0	0	No Change
Wang Bing	Independent Supervisor	Dec. 2005-Dec.2008	0	0	No Change
Zhang Zhong-an	Deputy General Manager	From Jul. 2004	0	0	No Change
Tom C. Y. Wu	Company Secretary	From Jan. 2001	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 Diao-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 2005

Name	Salaries (Rmb)
Xu Zheng-ning	199,000
Sun Zhi-hong	199,000
Qian Heng-ge	199,000
Xiao Wei-zhen	193,000
Long Xing-ping	166,000
Zhang Hong	166,000
Guan Diao-sheng	–
Shen Xi-jun	166,000
Cao Yong	166,000
Li Zhen-feng	166,000
Li Zhong-he	40,000
Wang Hua-cheng	40,000
Yi Ren-ping	40,000
Qian Zhi-hong	40,000
Zhou Wen-fei	166,000
Tao Chun-sheng	109,000
Chen Jian	166,000
Huang Zhi-wei	30,000
Chu Su-hua	30,000
Zhang Zhong-an	166,000
Zhou Xin-hua	166,000
Tom C. Y. Wu	116,000
Total remuneration for the year	Rmb2,729,000
Allowances to Independent Directors	Rmb160,000
Other benefits to Independent Directors (total)	Nil
Name of directors or supervisors who did not receive any remuneration from the Company	Guan Diao-sheng

## Report of the Board of Directors

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 2005.

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

As at 31 December, 2005, none of the Directors, Supervisors or Senior Managers 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**

Each Director (excluding Independent Directors) of the fifth term of the Board of the Company entered into a service contract with the Company on 23 December 2005. Particulars of these contracts are in all material respects identical and are set forth below:

1. Each service contract is for a term of three years commencing 1 January 2006;
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 fifth term of the Board entered into a service contract with the Company on 23 December 2005. Particulars of these contracts are in all material respects identical and are set forth below:

1. Each service contract is for a term of three years commencing 1 January 2006;
2. The aggregate annual allowance payable to all Independent Directors is Rmb 160,000 within the contract term.

Each other Supervisor (excluding Independent Supervisors) of the fifth term of the Supervisory Committee entered into a service contract with the Company on 23 December 2005. Particulars of these contracts are in all material respects identical and are set forth below:

1. Each service contract is for a term of three years commencing 1 January 2006;
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.

## Report of the Board of Directors

Each Independent Supervisor of the fifth term of the Supervisory Committee entered into a service contract with the Company on 23 December 2005. Particulars of these contracts are in all material respects identical and are set forth below:

1. Each service contract is for a term of three years commencing 1 January 2006;
2. The aggregate annual allowance payable to all Independent Supervisors is Rmb 60,000 within the contract.

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 Company is continuing to carry out reforms on mechanic and structural systems, and to specialise business operations, to take effective measures in flattening management structure, reducing the staff and competing for appointments. By doing so, the Company further optimise administrative structures and promote work quality and efficiency.

As at 31 December 2005, the Company had 11,906 registered employees, a decrease of 690 employees year-over-year. Total retired staff amounted to 1,567.

The Company had 32 employees with master or higher degree, 1,159 employees with bachelor or higher degree, 2,605 employees with tertiary or higher education background, and 8,997 employees with senior high school or higher educational background.

The Company had 8,762 production staff, 165 sales staff, 833 engineers, technicians and research staff of the product technology center, 132 financial personnel and 640 administrative staff.

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.

### **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 forth in item 6 of "Significant Events" of the Annual Report.

# Report of the Board of Directors

## Results

The results of the Group for the year ended 31 December 2005 and the state of the Company's and the Group's affairs as at that date are set forth 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 loss of the Company for 2005 was Rmb 956,898,000 (the loss attributable to equity shareholders of the Company for 2005 was Rmb 904,611,000 under IFRS). The accumulated losses, after adding the undistributed profit of Rmb 724,967,000 brought forward from the previous year and deducting the previous year paid cash dividend of Rmb 100,000,000 in the year 2005, were Rmb 331,931,000 at the end of 2005.

According to the relevant regulations of the PRC and the Articles of Association of the Company, no proposed transfers to the statutory surplus reserve or the statutory public welfare fund.

It is proposed that no final cash dividend for 2005 be paid.

The above proposed profit distribution scheme shall be submitted for approval in the 2005 AGM.

## Reserves

Changes in reserves of the Group during the reporting period are set forth in note 28 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 forth in note 15 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 2005 are set forth in note 26 of the financial statements prepared in accordance with the IFRS of the Annual Report.

## Subsidiaries and a jointly controlled entity

Particulars of the Company's subsidiaries and a jointly controlled entity as at 31 December 2005 are set forth in note 18 and 19 of the financial statements prepared in accordance with the IFRS of the Annual Report.

## Retirement plan

Particulars of the retirement plan operated by the Group are set forth in note 30 of the financial statements prepared in accordance with the IFRS of the Annual Report.



# Report of the Board of Directors

## Major suppliers and customers

For the year ended 31 December 2005, 23.84 percent 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	Rmb 10,053,468,000	Percent of total purchases	72.12%
Aggregate sales amounts to the top five largest customers	Rmb 2,711,671,000	Percent of total sales	17.16%

## 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 2006, is to be proposed at the 2005 AGM.

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

## Shareholders' General Meeting

During the reporting period, the Company held its 2004 AGM and its Extraordinary General Meetings at its registered location in Yizheng City, Jiangsu Province on 28 June 2005, 28 July 2005 and 23 December 2005, respectively. Details are set forth in the section entitled "Summary of the Shareholders' General Meeting".

## Compliance with the Code of Corporate Governance Practices and the Model Code

The Company has complied with the Code of Corporate Governance Practices during the reporting period as set forth in the Appendix 14 to the Listing Rules. The Corporate Governance Report is set forth from page 45 to 48.

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 forth in the Model Code.

By Order of the Board

**Xu Zheng-ning**

Chairman

31 March 2006, Nanjing