

# 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 2006.*

## DAILY OPERATION OF THE BOARD

All Directors of the Company (the "**Directors**") have complied with the Company Law and rules of the Company's Articles of Association, have fulfilled their responsibilities as set forth in the Company's Articles of Association, and diligently executed the resolutions of the Company's general meetings of shareholders.

The Board held ten meetings during the reporting period, details of which are as follows:

- (1) The second meeting of the fifth term of the Board was held on 20 March 2006. The related announcement was disclosed in China Securities, Shanghai Securities News, Securities Times, Hong Kong Economic Times and South China Morning Post on 21 March 2006.
- (2) The third meeting of the fifth term of the Board was held on 24 March 2006. The related announcement was disclosed in China Securities, Shanghai Securities News, Securities Times, Hong Kong Economic Times and South China Morning Post on 27 April 2006.
- (3) The fourth meeting of the fifth term of the Board was held on 31 March 2006. The related announcement was disclosed in China Securities, Shanghai Securities News, Securities Times, Hong Kong Economic Times and South China Morning Post on 3 April 2006.
- (4) The fifth meeting of the fifth term of the Board was held on 27 April 2006. The related announcement was disclosed in China Securities, Shanghai Securities News, Securities Times, Hong Kong Economic Times and South China Morning Post on 28 April 2006.
- (5) The sixth meeting of the fifth term of the Board was held on 14 August 2006. The related announcement was disclosed in China Securities, Shanghai Securities News, Securities Times, Hong Kong Economic Times and South China Morning Post on 16 August 2006.
- (6) The seventh meeting of the fifth term of the Board was held on 25 August 2006. The related announcement was disclosed in China Securities, Shanghai Securities News, Securities Times, Hong Kong Economic Times and South China Morning Post on 28 August 2006.
- (7) The eighth meeting of the fifth term of the Board was held on 13 October 2006. The related announcement was disclosed in China Securities, Shanghai Securities News, Securities Times, Hong Kong Economic Times and South China Morning Post on 16 October 2006.
- (8) The ninth meeting of the fifth term of the Board was held on 27 October 2006. The related announcement was disclosed in China Securities, Shanghai Securities News, Securities Times, Hong Kong Economic Times and South China Morning Post on 31 October 2006.
- (9) The tenth meeting of the fifth term of the Board was held on 4 December 2006. The related announcement was disclosed in China Securities, Shanghai Securities News, Securities Times, Hong Kong Economic Times and South China Morning Post on 5 December 2006.
- (10) The eleventh meeting of the fifth term of the Board was held on 5 December 2006. The meeting considered the reform and adjustment 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 resolutions of the Annual General Meeting (“**AGM**”) for 2005 and Extraordinary General Meeting (“**EGM**”).

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 the principal polyester raw material, PTA.

## FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years (extracted from the financial statements prepared in accordance with the IFRSs) 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.

# Report of the Board of Directors

## CHANGES IN SHARE CAPITAL AND CAPITAL

### Changes in share capital

#### 1. Share capital structure

Details of the share structure are as follows:

Unit of share: 1,000 Shares

	Before change		Increase/(decrease)					After change	
	Number	Per cent	New issue	Bonus share	Shares transferred from reserve fund	Others	Sub-total	Number	Per cent
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 employee 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.

The Company acknowledged that, based on information available to the Company immediately before publishing the 2006 Annual Report, and understood by its Directors as well, the number of its shares held by the public met the requirements in the Rules Governing the Listing of Securities on the HKSE (the "Listing Rule")

# 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 2006 is as follows:

Type	Number of shareholders
Legal person share ("A" share)	2
Social public share ("A" share)	62,281
"H" share	973
Total	<u>63,256</u>

## Report of the Board of Directors

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

As at 31 December 2006, 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 63,256

#### 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 shares capital (%)	Number of non-circulating share (shares)	Number of pledged or frozen shares*
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	1,360,147,305	34.00	Circulating shares	Nil
CITIC Group Corporation ("CITIC") ***	Domestic legal person shareholder	720,000,000	18.00	720,000,000	Nil
HSBC Nominees (HONG KONG) Limited**	Overseas capital shareholder	2,182,000	0.05	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
CITIC Trust and Investment Company Limited ("CITIC Trust")-02	Domestic Circulating shares	1,300,000	0.033	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
Xue Jian-qing	Domestic Circulating shares	1,169,500	0.029	Circulating shares	Not applicable
HING SHING FAR EAST DEVELOPMENT LTD	Overseas capital shareholder	1,000,000	0.025	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**	1,360,147,305	"H" shares
HSBC Nominees (HONG KONG) Limited**	2,182,000	"H" shares
HSBC Nominees (HONG KONG) Limited A/C BR-13**	1,800,000	"H" shares
CITIC Trust-02	1,300,000	Circulating "A" shares
HSBC Nominees (HONG KONG) Limited A/C BR-12**	1,200,000	"H" shares
HSBC Nominees (HONG KONG) Limited A/C BR-16***	1,200,000	"H" shares
Xue Jian-qing	1,169,500	Circulating "A" shares
HING SHING FAR EAST DEVELOPMENT LTD	1,000,000	"H" shares
Changjiang Securities Company Limited	837,939	Circulating "A" shares
Lu Wen-jun	751,200	Circulating "A" shares

Explanation of connected relationship or activities in concert among the above shareholders : CITIC is the controlling shareholder of the CITIC Trust. In all other respects, the Company is not aware of any connected relationship or activities in concert among the shareholders above.

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 different customers.

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

### 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 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.

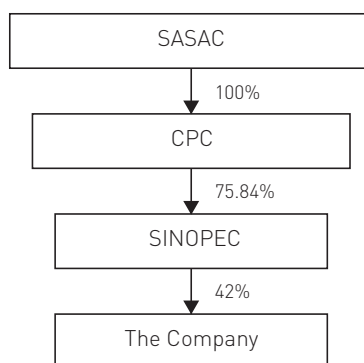
# Report of the Board of Directors

## 4. Controlling company of the controlling shareholder

Name of the controlling company of the controlling shareholder	:	China Petrochemical Corporation (" <b>CPC</b> ")*
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 a state-authorized investment organization 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 per cent of the Company's shares.

Legal representative	:	Kong Dan
Date of establishment	:	4 October 1979
Registered capital	:	Rmb 30,000,000,000
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 2006, 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.

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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 2006, 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	-
The Northern Trust Company (ALA)**	98,966,000	2.47	Not applicable	7.07	-
Brandes Investment Partners.L.P.**	185,476,000	4.64	Not applicable	13.25	-

\* As at 31 December 2006, CPC holds 75.84% 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 2006, 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 Listing Rules) of the Company.

## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

### Changes in Directors, Supervisors and Senior Management

Due to required changes in their working positions, Mr. Xu Zheng-ning and Mr. Cao Yong tendered their resignations as Directors. The 12th meeting of the 5th term of the Board held on 9 February, 2007 considered and accepted the resignations of Mr. Xu Zheng-ning and Mr. Cao Yong as Directors. The Board resolved that Mr. Xu Zheng-ning shall cease to act as Chairman of the Board.

The Board unanimously agreed that Mr. Qian Heng-ge shall be the Chairman of the Board, and that Mr. Xiao Wei-zhen shall be the Vice Chairman of the Board. Mr. Qian Heng-ge shall cease to act as Vice Chairman of the Board.

The Board would like to express their whole-hearted gratitude to Mr. Xu Zheng-ning for his contributions to the Company.

Due to a required change in his working positions, Mr. Li Zhen-feng tendered his resignation as Directors. The 10th meeting of the 5th term of the Board held on 4 December, 2006 approved that Mr. Li Zhen-feng shall cease to act as Deputy General Manager of the Company and accepted his resignation as Director. Mr. Li Jian-ping was appointed as Chief Financial Officer of the Company.

The Board would like to express their whole-hearted thanks to Mr. Li Zhen-feng for his contributions to the Company.

Due to a required change in his working position, Mr. Zhou Wen-fei tendered his resignation as Supervisor. The 4th meeting of the 5th term of the Supervisory Committee held on 9 February, 2007 resolved that Mr. Zhou Wen-fei's resignation be accepted and that Mr. Zhou Wen-fei shall cease to act as Chairman of the Supervisory Committee.



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The Supervisory Committee unanimously agreed that Mr. Cao Yong shall be the Chairman of the Supervisory Committee. On 9 February 2007, the Staff Representatives' Meeting of the Company elected Mr. Cao Yong as Supervisor appointed by the staff representatives to the 5th term Supervisory Committee of the Company.

The Supervisory Committee would like to express their whole-hearted gratitude to Mr. Zhou Wen-fei for his contributions to the Company.

## Profiles of Present Directors, Supervisors and Senior Management

### Directors

1. Mr. Qian Heng-ge, aged 56, Chairman of the Company, Secretary of Chinese Communist Party Committee (the "CCPC") of the Company, 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 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. In February 2007, he was elected as 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 in extra-large-scale enterprise. Mr. Qian graduated from Distance Learning College of the Communist Party Central Academy in 1987, majoring in business administration. He completed the course of MBA in Nanjing University in 2000.
2. Ms. Sun Zhi-hong, aged 57, 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 2005. Ms. Sun has extensive experience in financial management in large-scale enterprise. Ms. Sun graduated from China Central Broadcasting and Television University in 1986, majoring in accounting and completed the graduate course of International Business Administration in Beijing Economic College in 1995.
3. Mr. Xiao Wei-zhen, aged 53, Vice Chairman and General Manager of the Company, Chairman of Kangqi Company, Chairman of Yihua UNIFI Company, and Senior Engineer(at professor level). 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. In July 2004, he was appointed as Managing Director of the Company and Director of Yihua. He was re-elected as Managing Director of the Company in December 2005. In February 2007, he was elected as Vice Chairman of the Company. Mr. Xiao has extensive experience in production, technological improvement and business administration in extra-large-scale chemical fibre enterprise. Mr. Xiao graduated from the Department of Chemical Engineering of Zhejiang University in 1982, majoring in macromolecular chemistry. He completed the course of MBA in Nanjing University in 2003.
4. Ms. Long Xing-ping, aged 55, 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 designing of chemical fibre machines and scientific research, and has extensive experience in business administration in large-scale industrial enterprise. Ms. Long graduated from Beijing Chemical Engineering College in 1975, majoring in machinery.

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5. Mr. Zhang Hong, aged 48, 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. In December 2005, he was re-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 large-scale enterprise. Mr. Zhang graduated from No. 2 Branch, Renmin University of China in 1983, majoring in finance.
6. Mr. Guan Diao-sheng, aged 44, Director of the Company, Deputy Director of Chemicals Segment of Sinopec, Master of Engineering, Senior Engineer. Mr. Guan has joined petrochemical industry since 1985, he served as Deputy Director of Technology Department of Liaoyang Oil & Chemical Fibre Company in 1987, Deputy Director of Technology Section of Production Department of CPC in 1995, Director of Chemical Fibre Section of Refining and Petrochemical Department of CPC in 1998, and Deputy Director of Chemicals Segment of Sinopec in December 2001, in June 2002, he was elected as Director of the Company, and re-elected in December 2005. Mr. Guan has extensive experience in chemical fibre industry management. Mr. Guan graduated from China Textile University in 1985, majoring in chemical fibre.
7. Mr. Shen Xi-jun, aged 46, 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. 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 course of MBA in Nanjing University in 1998.
8. Ms. Li Zhong-he\*, aged 65, 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. In December 2005, she was re-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.
9. Mr. Wang Hua-cheng\*, aged 44, Independent Director of the Company and Professor of Renmin University of China, Tutor of Doctor Degree Candidate. In December 2002, he was elected as Independent Director of the Company. In December 2005, he was re-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 Renmin University of China in 1998, majoring in accounting and became Doctor of Economics (Accounting).
10. Ms. Yi Ren-ping\*, aged 63, Independent Director of the Company and Advisor of Nanjing Audit University, Deputy Director and Secretary General of China Institute of Internal Audit, Research Fellow, Senior Accountant and CPA of the PRC. In December 2002, she was elected as Independent Director of the Company. In December 2005, she was re-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.
11. Ms. Qian Zhi-hong\*, aged 65, Independent Director of the Company and Senior Economist. In December 2002, she was elected as Independent Director of the Company. In December 2005, she was re-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*

# Report of the Board of Directors

## Supervisors

1. Mr. Cao Yong, aged 48, Chairman of Supervisory Committee of the Company, Chairman of Trade Union of the Company, Deputy Secretary of the CCPC of the Company, 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. In December 2005, he was re-elected as Director of the Company. In February 2007, he was elected Chairman of Supervisory Committee 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 course of MBA in Nanjing University in 2000. In January 2005, he obtained an engineering master degree in Suzhou University, majoring material engineering.
2. Mr. Tao Chun-sheng, aged 51, Supervisor of the Company, Deputy Secretary of the Discipline and Inspection Commission and Director of Supervisory Department of the Company, 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. 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 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 is the Supervisor who represents the staff of the Company
3. Mr. Chen Jian, aged 44, 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 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. Shi Gang\*\*, aged 46, Independent Supervisor of the Company, Director of Industrial and Commercial Bank of China, and Senior Economist. He was elected as Independent Supervisor of the Company in December 2005. 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 Distance Learning College of the Communist Party Central Academy in 1995, majoring in economic administration.
5. Mr. Wang Bing\*\*, aged 35, Independent Supervisor of the Company, General Manager of Company Financing Department of Jiangsu Branch, Bank of China, Economist and Master. He was elected as Independent Supervisor of the Company in December 2005. 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*

# Report of the Board of Directors

## Senior Management

1. Mr. Zhang Zhong-an, aged 46, Deputy General Manager, 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 the course of MBA in Nanjing University in 2000.
2. Mr. Li Jian-ping, aged 44, Chief Financial Officer of the Company, and Senior Accountant. Mr. Li has been engaged in audit and financial management of large-scale chemical enterprise for a long period of time. He had held the position of Deputy Director of Audit Department, Director of Finance Department of Jinling Petrochemical Company. He was appointed as Deputy Chief Financial Officer of Sinopec Jinling Petrochemical Corporation Limited ("**Jinling Petrochemical**") in 2000. He was also appointed as Chief Financial Officer of China Petroleum & Chemical Corporation Jinling Branch and Director of Jinling Petrochemical in 2000. He was appointed as Chief Financial Officer of the Company in December 2006. Mr. Li has extensive experience in financial management of large-scale chemical enterprise. Mr. Li graduated from Shanghai University Finance & Economics in 1986, majoring in accountant, and obtained Master of Economics degree in Shanghai University Finance & Economics in 1989.
3. Mr. Tom C. Y. Wu, aged 45, 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 MBA degree in Dalian University of Technology in September 2001.

# Report of the Board of Directors

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

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

Pursuant to the resolution regarding the salaries of the fifth term Directors and Supervisors, approved by the EGM held on 23 December 2005, the resolution regarding the salaries of the Senior Management, approved by the first meeting of the fifth 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 2006 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 thirteenth meeting of the fifth term of the Board held on 30 March 2007.

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	
Qian Heng-ge	Chairman	Dec. 2005-Dec.2008	2,000	2,000	No Change
Sun Zhi-hong	Vice Chairwoman	Dec. 2005-Dec.2008	0	0	No Change
Xiao Wei-zhen	Vice Chairman and General Manager	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
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
Cao Yong	Chairman of Supervisory Committee	Feb. 2007-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
Li Jian-ping	Chief Financial Officer	From Dec. 2006	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 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 fifth term of the Board and Supervisory Committee and Senior Management in 2006

Name	Salaries (Rmb ten thousand)
<b>On Position</b>	
Qian Heng-ge	23.8
Sun Zhi-hong	23.8
Xiao Wei-zhen	23.8
Long Xing-ping	19.9
Zhang Hong	19.9
Guan Diao-sheng	-
Shen Xi-jun	19.9
Li Zhong-he	4.0
Wang Hua-cheng	4.0
Yi Ren-ping	4.0
Qian Zhi-hong	4.0
Cao Yong	19.9
Tao Chun-sheng	12.7
Chen Jian	19.9
Shi Gang	3.0
Wang Bing	3.0
Zhang Zhong-an	19.9
Li Jian-ping	1.7
Tom C. Y. Wu	13.0
<b>Off Position</b>	
Xu Zheng-ning	23.8
Li Zhen-feng	19.9
Zhou Wen-fei	19.9
Total remuneration for the year	303.4
Allowances to Independent Directors	Rmb 16.0 in total
Other benefits to Independent Directors	Nil
Name of directors or supervisors who did not receive any remuneration from the Company	Guan Diao-sheng

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 2006.

# Report of the Board of Directors

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

As at 31 December, 2006, 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**

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 out 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 out 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 out below:

1. Each service contract is for a term of three years commencing 1 January 2006 (the service contract of Mr. Cao Yong is from 9 February 2007 to 31 December 2008);
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**

During the reporting period, all reform adjustments advanced smoothly. Restructuring based on department specialisation was further extended, and management process and operation division were optimised. The employment and remuneration system reform were continually advanced. "Compete for Appointment" was carried out for operations and service positions. The position performance evaluation was deepened so as to improve employee morale.

As at 31 December 2006, the Company had 9,345 registered employees, a decrease of 2,561 employees year-over-year. Total retired staff amounted to 1,809.

The Company had 32 employees with master or higher degree, 969 employees with bachelor or higher degree, 2,250 employees with tertiary or higher education background, 7,474 employees with senior high school or higher educational background.

The Company had 6,543 production staff, 115 sales staff, 729 engineers, technicians and research staff of the product technology center, 113 financial personnel and 561 administration 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 out 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 2006 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 IFRSs 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 2006 was Rmb 31,705,000 (the profit attributable to equity shareholders of the Company for 2006 was Rmb 62,877,000 under IFRSs). The accumulated losses, including the accumulated losses of Rmb 331,931,000 brought forward from the previous year, was Rmb 300,226,000 at the end of 2006.

According to the relevant regulations of the PRC and the Articles of Association of the Company, no proposed transfers to the statutory surplus reserve. Moreover, According to items 167 of the Company Law that was effective from 1 January 2006, no proposed transfers to the statutory public welfare fund.

It is proposed that no final cash dividend for 2006 be paid.

The above proposed profit distribution scheme shall be submitted for approval in the 2006 AGM.

## RESERVES

Changes in reserves of the Group during the reporting period are set forth in note 27 of the financial statements prepared in accordance with the IFRSs of the Annual Report.

## FIXED ASSETS

Movements in fixed assets of the Group, during the reporting period, are set forth in note 14 of the financial statements prepared in accordance with the IFRSs 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 2006 are set forth in note 25 of the financial statements prepared in accordance with the IFRSs of the Annual Report.

## SUBSIDIARIES AND JOINT-VENTURE

Particulars of the Company's subsidiaries as at 31 December 2006 are set forth in note 17 and 18 of the financial statements prepared in accordance with the IFRSs of the Annual Report.

## RETIREMENT PLAN

Particulars of the retirement plan operated by the Group are set forth in note 29 of the financial statements prepared in accordance with the IFRSs of the Annual Report.

# Report of the Board of Directors

## MAJOR SUPPLIERS AND CUSTOMERS

For the year ended 31 December 2006, 22.67 per cent of the total purchases (not including the purchase of items which are of capital nature) were attributable to the Group's largest supplier. The largest supplier is a subsidiary of Sinopec.

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

For the year ended 31 December 2006, aggregate purchase amounts from the top five largest suppliers were Rmb 10,542,053,000, representing 69.75 per cent of total purchases amounts. The top two suppliers of these were the controlling shareholder of the Company -Sinopec and its connected persons, and were no connected relationship with all directors of the Company.

For the year ended 31 December 2006, aggregate sales amounts to the top five largest customers were Rmb 1,419,000,000, representing 8.33 per cent of total sales.

## 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 2007, is to be proposed at 2006 AGM.

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

## SHAREHOLDERS' GENERAL MEETING

During the reporting period, at its registered place in Yizheng City, Jiangsu Province on 16 June 2006 and 8 November 2006, the Company held its 2005 AGM and the A share market Shareholders' Meeting, respectively, concerning the share reform scheme. Details are set forth in the section entitled "Summary of Shareholders' Meetings."

## COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE PRACTICES AND THE MODEL CODE

During the reporting period, the Company has complied with the Code of Corporate Governance Practices as set forth in Appendix 14 to the Listing Rules. The Code of Corporate Governance Practices of the Company is set forth from page 45 to the page 49 in the Annual Report.

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

**Qian Heng-ge**

*Chairman*

30 March 2007, Nanjing