

The Chairman's Report

Financial figures, where applicable, contained herein have been extracted from the financial statements prepared in accordance with IFRS.

To all shareholders:

It is my pleasure to present to you the Group's audited annual results for the year ended 31 December 2005. The Group's consolidated turnover increased by 18.4 per cent to Rmb 15,798,665,000 (2004: Rmb 13,348,471,000). The Group recorded a fixed assets impairment provision of Rmb 783,621,000 due to the establishment of a joint venture with UNIFI Asia Holding SRL (**UNIFI Asia**) by injecting the assets of the southern area of filament business department (formerly Polyester Plant No. 5); furthermore, the Group completed the equity transfer of Foshan Tianma Chemical Fibre Company Limited ("**Tianma Chemical Fibre**", formerly Yizheng Chemical Fibre Foshan Polyester Company Limited), and endured the intensifying operational circumstances of the polyester industry. Therewith, the loss attributable to equity shareholders of the Company for the year of 2005 was Rmb 967,508,000, while the profit attributable to equity shareholders of the Company was Rmb 240,383,000 in 2004. Basic loss per share for the year of 2005 was Rmb 0.242, while basic earnings per share were Rmb 0.060 in 2004.

Due to the net loss for the year of 2005, the Board proposed that no final cash dividend would be paid for the year ended 31 December 2005 (2004: Rmb 0.025 cash dividend per share).

In 2005, the domestic polyester operating environment was very challenging due to the combined influence of continuing high global oil prices, volatile polyester raw materials prices, and more severe constraints on the PRC's textile export. In the first half of 2005, the prices of domestic polyester raw materials and products fluctuated dramatically, and plant utilisation rates in the polyester industry continually decreased, so the operational risks to the polyester industry became increasingly severe. In the second half of 2005, the prices of polyester raw materials and products gradually returned to rationality, which may lessen the imbalance between the prices of raw materials and the prices of products. However, because the domestic polyester production capacity rapidly increased and the excess of supply over demand became more intense, the competition of polyester industry was still tough.

In 2005, faced with this difficult operating environment, the Group accelerated reform adjustments and tried to expand its operations. By strengthening internal management and reducing costs and expenses, the Group achieved positive developments in various fields.

In 2005, under the circumstances of low operation rate of domestic polyester industry, the Group maintained safe and stable operations of polyester facilities, basically realised full-load production, and achieved a balance between production and sales. New progress was achieved in product structure adjustment and product development. The polyester specialised rate and fibre differential rate continually increased. Meanwhile, targeting the key points that influenced profits, the Group actively pursued and obtained a great breakthrough in asset structure adjustment. In August 2005, the joint venture Yihua UNIFI Fibre Industry Company Limited ("**Yihua UNIFI**") was established by transferring the assets of the former Polyester Plant No.5 to UNIFI Asia, and this business proceeded smoothly. The Company entered into an agreement on the equity transfer of Tianma Chemical Fibre with the buyer on 24 March 2006. The establishment of Yihua UNIFI and transfer of Tianma Chemical Fibre will further optimise asset structure of the Group and make the Group more competitive and profitable in the future.

In 2005, the Group continued to advance internal reforms and executed the strategy "Compete for Appointment" among the operational management employees. Additionally, the Group evaluated and classified all positions and fine-tuned the remuneration system reform according to market value so as to improve employee morale.

In 2006, the Company expects both the global economy and that of the PRC to continue relatively rapid growth, and therewith expects that foreign and domestic demand for textiles will continue to expand. Moreover, China's signing of bilateral trade memoranda with the US and the European Union reduced factors of uncertainty in the PRC's textile export environment, which prospectively favors stable growth in those exports. Hence, the consumption demand for polyester products was sustainably raised. But the excessive supply of domestic polyester production capacity over demand will continue, and keen competition will persist in the polyester industry. Meanwhile, the high price of international crude oil and appreciation of the renminbi will intensify operational risks to the domestic polyester industry.

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In 2006, the Group will stand by the market-oriented reform adjustments, strengthen internal management and accelerate technology innovation so as to further increase competitive capacity. The principal measures to be taken are as follows: (1) maintain market orientation, expand sales by building product development and service teams and strengthen raw material purchases so as to expand profit margin. (2) strengthen production management and meticulously maintain safe and stable operation of production facilities. (3) thoroughly mine potential to improve efficiency and to comprehensively reduce costs and expenses. (4) strictly manage internal affairs and constantly improve management level. (5) strengthen product development and technology innovation, and try to raise product value with the aim of improving the core business. (6) accelerate internal market operations reforms by taking advantage of opportunities and making greater efforts.

Looking ahead, the domestic polyester industry will remain in a period of adjustment and the recent surplus of supply over demand for polyester production capacity will not change in the near term. However, this surplus capacity will gradually decrease, and investment will return to rationality. With new domestic polyester raw material facilities now operational, it is expected that the mismatch of supply and demand for domestic polyester raw materials will be resolved and that the structure imbalance of polyester raw materials and products will change for the better. Meanwhile, the relatively rapid growth of the PRC's economy and the unremitting rise in domestic consumption are favorable for continuing expansion in the textile industry and should make sufficient room for adjustments by and development of the domestic polyester industry. The Group will pay great attention to the main factors influencing efficiency and profits, steadily advance reform adjustment and optimise the employee structure, mine for as-yet undiscovered resources, reduce costs and expenses to improve efficiency, continually advance product development and technology innovation, accelerate adjustments to product structure to further raise product value and try to realise the goal of "maximising value with the lowest necessary headcount and costs".

Last but not least, I would like to take this opportunity to express my deepest gratitude to the entire staff for their diligent work in the past year, and to all the shareholders for their kind support to the Group.

Xu Zheng-ning

Chairman

31 March 2006, Nanjing