

Significant Events

1. On 1 January 2005, the Company formally implemented internal control system, which covers the Company's production and operational chain and key business sectors. In light of the regulatory requirements both locally and overseas, the system was examined by the 4th meeting of the Board of the fifth term held on 31 March 2006.
2. Sinopec, the controlling shareholder of the Company, is studying the split share structure reform of listed subsidiaries (including the Company) according to relevant regulations. But there is no concrete plan at present.
3. As approved at the 2004 AGM held on 28 June 2005, the Company paid a final cash dividend of Rmb 0.025 per share (including taxes) for the year ended 31 December 2004 on 25 July 2005. Details of dividend payments to domestic shareholders were disclosed in China Securities, Shanghai Securities News and Securities Times on 13 July 2005, while the details of dividend payments to international shareholders were included in the announcement of the resolutions passed in the 2004 AGM, which were disclosed in China Securities, Shanghai Securities News, Securities Times, Hong Kong Economic Times and South China Morning Post on 29 June 2005.

In accordance with the Articles of Association of the Company, the Board resolved that no interim dividend was paid for the year ended 31 December 2005.

The Board proposed no final dividend to be paid for the year ended 31 December 2005.

4. During the reporting period, the Group did not have any material litigation or arbitration.
5. During the reporting period, the Company did not have any acquisition of assets as well as merger and acquisition.

The Company signed Joint Venture Contract ("JV Contract") with UNIFI Asia on 10 June 2005 and a joint venture called Yihua UNIFI was established in Yizheng City Jiangsu Province majoring in producing polyester filament, by injecting into Yihua UNIFI with the assets of the southern area of filament business department (former Polyester Plant No.5). The registered capital of Yihua UNIFI is USD 30 million. The Company and UNIFI Asia each owned 50 per cent equity interest of Yihua UNIFI according to the JV Contract. The Company contributed USD 15 million in the form of assets, while the other USD 15 million was contributed by UNIFI Asia in the form of cash in US Dollars. The Company sold to Yihua UNIFI the assets with a value after assessment of Rmb 367,469,836 at a consideration of Rmb 367,469,836 upon establishment of Yihua UNIFI. Besides, the non-cash outflow assets impairment losses related to the investment is Rmb 430,711,000 owing to assets revaluation (excluding the provision for impairment of fixed assets recorded previously and the accumulated depreciation from revaluation day to 30 June 2005, the Group recorded Rmb 391,860,000 for fixed assets impairment in the current year).

Details of disposal of assets during the reporting period are as follows:

Transaction parties and sold assets	Selling date	Selling price	Net profit contributions to the Company of the assets from the beginning of the year to the selling date	Whether it is connected transactions	Whether the ownership transfer of property has been done
Parties: Yihua UNIFI Sold assets: part of the machinery and transportation facilities of Southern area of Filament Department (former Polyester Plant No.5) and the revalued price is Rmb 367,469,836	28 August 2005	Rmb 367,469,836	Not applicable	No	Yes

The above item of sold assets has no adverse effect on the consistency of the Company's business and the stability of management.

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The related announcement was disclosed in China Securities, Shanghai Securities News, Securities Times, Hong Kong Economic Times and South China Morning Post on 13 June 2005.

In order to speed up the reform adjustment of Tianma Chemical Fibre, a wholly-owned subsidiary of the Company, the 27th meeting of the Board of fourth term held on 28 October 2005 approved the placing on the Shanghai United Assets and Equity Exchange ("SUAEE") by equity transfer. According to the revaluation result issued by Beijing China Enterprise Appraisal Co. Ltd appointed by the Company, the book value of the asset is Rmb 720 million and the revalued value is Rmb 482 million, the net revaluation deficit is Rmb 238 million. The resolution of the Board confirmed the above-mentioned result. According to the revaluation report, the provision for assets impairment is Rmb 301 million by excluding the increment part of the revalued assets in the financial statements for the period ended 30 September 2005 (of this, provision for impairment of fixed assets is Rmb 286 million, provision for diminution in value of inventories is Rmb 15 million). Added by Rmb 105 million of the provision for impairment of fixed assets made at the end of 2005 based on the estimated net selling price mentioned below, the total provision for impairment of fixed assets is Rmb 391 million. In addition, the Group recorded Rmb 67 million of employee reduction expenses for the voluntary resignation of Tianma Chemical Fibre employees.

According to the listing rules of SSE, the EGM held on 23 December 2005 approved the resolution of assets impairment of Tianma Chemical Fibre and authorised the Board to implement relevant assets transfer.

Through the public tender on the SUAEE, on 24 March 2006, the Company entered into the Sale and Purchase Agreement with Shenzhen Bangduo Company Limited and Ease Birch (Hong Kong) Limited, pursuant to which the Company agreed to sell 100% equity interest in Tianma Chemical Fibre together with the shareholder's loan for an aggregate consideration of Rmb 230 million, which will be reduced by Tianma Chemical Fibre's operating loss during the period between 31 July 2005 and 31 March 2006. As the result of the assets disposal, the Group has recorded a loss of Rmb 458 million in 2005.

The related announcement was disclosed in China Securities, Shanghai Securities News, Securities Times on 31 October 2005, 26 December 2005 and 27 March 2006, Hong Kong Economic Times and the South China Morning Post on 31 October 2005, 28 December 2005 and 27 March 2006.

The Board is of the view that the reorganisation and disposal of Tianma Chemical Fibre are advantageous to improve its profitability and competitiveness of the core business.

6. Information on connected transactions

The Company signed frame agreements with Sinopec, CPC and CITIC Bank regarding several continuing connected transactions on 28 October 2005. The validation period is from 1 January 2006 to 31 December 2008. The 27th meeting of the fourth term of the Board held on the same day approved the transactions and agreements. 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 2005. The Company held EGM on 23 December 2005. Independent shareholders approved the terms of the non-exempt continuing connected transaction and the annual caps on the respective non-exempt continuing connected transaction for the three years ending 31 December 2008. Relevant circular has been sent to the shareholders of H share on 21 November 2005. The related announcement was disclosed in China Securities, Shanghai Securities News, Securities Times on 26 December 2005, Hong Kong Economic Times and South China Morning Post on 28 December 2005.

The Group's material connected transactions entered into during the year ended 31 December 2005 were as follows:

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

Type of transaction	Transaction parties	Amount of transaction <i>Rmb'000</i>	Proportion of the same type of transaction (%)
Purchase of raw materials	Sinopec	6,519,226	52.7
	of which: Sinopec Yangzi Petrochemical Company Ltd.	3,364,716	27.2
	Sinopec Zhenhai Refining & Chemical Company Ltd.	2,637,487	21.3

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The Group is of the opinion that the above-mentioned connected transactions and related connected parties were necessary and continuous, and that the agreements governing these transactions were fit with the requirements of business operation and market situation. Meanwhile, the Group is of the opinion that purchasing of goods from the above related parties ensures a steady and secured supply of raw materials. Therefore, these connected transactions are beneficial to the Group. These transactions were mainly negotiated at market price. The above transactions have no adverse effect on the profit of the Group and independency of the Company.

- (b) During the reporting period, there were no significant connected transactions related to the transfer of the asset or equity in the Group.
- (c) During the reporting period, the non-operating funds supplied by the Company to controlling shareholders and its subsidiaries is Rmb 1,313,000 and balance is Rmb 2,754,000. Main cause: Account receivable more than one year caused by public engineering service to the subsidiary of the ultimate controlling shareholders has not been received. Cause of new increase during the period: The increase of account duration makes account receivable increase.

The scheme of cleaning up the occupied capital (Unit: Rmb):

Planned repayment time	Mode of repayment	Amount of repayment	Remark
The end of February 2006	Cash	42,471	–
The end of December 2006	Cash	2,711,726.35	–
Total	–	<u>2,754,197.35</u>	–

The Board believed that the above transactions were entered into in the ordinary course of business and in normal commercial terms or in accordance with the terms of the agreements governing these transactions. The above applicable connected transactions are fully complied with the related regulations issued by the HKSE and the SSE. For details of the connected transactions entered into by the Company during the reporting period, please refer to note 30 of the financial statements prepared in accordance with the PRC Accounting Rules and Regulations. Independent directors have reviewed the above continuing connected transactions according to the regulations as stipulated in the waivers granted by HKSE, and made necessary confirmations in a letter submitted to the Board on 31 March 2006. Auditors of the Company have reviewed the above continuing connected transactions and provided a letter to the Board on 31 March 2006.

7. The Company did not have any asset leased or contracted out or held on trust for other companies. Furthermore, the Company did not rent or contract any asset from other companies and did not have assets held by other companies.
8. The Company did not make any guarantee or pledge during the reporting period.
9. As at 31 December 2005, the Group did not have any designated deposits with any financial institutions or any difficulties in collecting deposits upon maturity. The Group had no trusted financial matters during the reporting period.
10. Construction of a PTA project with an annual capacity of 1,000,000 tonnes was approved by the 22nd meeting of the Board of the fourth term held on 29 March 2005. The estimated investment of this project amounted to Rmb 3.81 billion (including foreign currency USD 175 million). Presently, the Company is optimising the construction scheme.
11. The changes of the Directors, Supervisors and Senior Management during the reporting period are set forth in the section on "Directors, Supervisors and Senior Management".

The related announcement was disclosed in China Securities, Shanghai Securities News, Securities Times on 26 December 2005 and Hong Kong Economic Times and South China Morning Post on 28 December 2005.

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12. According to the relevant tax rules and regulations in the PRC, the income tax rate applicable to the Company is 15 percent. The preferential income tax rate is still applicable for the year ended 31 December 2005. The Company has not received any notice from the tax authorities regarding changes to this rate.
13. As approved in the 2004 AGM, KPMG Huazhen and KPMG were re-appointed as the Company's domestic and international auditors for 2005, and the Board was authorised to approve their remunerations.

The remunerations paid to the domestic and international auditors for the two years ended 31 December 2005 are as follows:

	2005	2004
KPMG Huazhen Audit fee	Rmb 2,027,500 (Rmb 1,390,600 paid)	Rmb 2,075,000 (paid)
KPMG Audit fee	Rmb 4,460,500 (Rmb 3,059,500 paid)	Rmb 4,565,000 (paid)

Note: The fees include the business trip allowance.

KPMG Huazhen and KPMG have provided audit services to the Company for 13 years.

14. According to "Protocol on the Accession of the PRC" and the related legal documents, the PRC government must reduce the import tariff rates on polyester products and major polyester raw materials from 1 January 2006 in accordance with the progressive table below:

Type	2001	2002	2003	2004	2005	2006	2007	2008
Polyester chips	16%	12.8%	11.8%	10.7%	9.7%	8.6%	7.6%	6.5%
Polyester staple fibre	17%	10.6%	7.8%	5%	5%	5%	5%	5%
Polyester filament	21%	14%	11%	8%	5%	5%	5%	5%
PX	8%	5%	4%	3%	2%	2%	2%	2%
MEG	12%	8.8%	7%	5.5%	5.5%	5.5%	5.5%	5.5%
PTA	14%	12.8%	8%*	7%*	6.5%*	6.5%*	7.6%	6.5%

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

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

15. The Company and its shareholders who hold more than five percent of the Company's shares did not have any undertaking which required disclosures.
16. Save as those disclosed above, the Group did not have any major event, or disclosure matter referred to in Article 62 of the Security Law of the PRC, Article 60 of the "Provisional Regulations of Administration of the Issuing and Trading of Shares of the PRC" or Article 17 of "Disclosure of Information by Public Listed Companies (the Trial Implementation Rule)" during the reporting period.