

Report of the Chairman

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

To all shareholders:

It is my pleasure to present to you the Group's audited annual results for the year ended 31 December 2006. The Group's consolidated turnover increased by 7.8 per cent to Rmb 17,027,846,000 (2005: Rmb 15,798,665,000). Although the operational circumstances of the domestic polyester industry did not distinctly changed in 2006, the profit attributable to equity shareholder of the Company was Rmb 40,468,000 and basic earnings per share was Rmb 0.010, achieved by exerting efforts to extend reform adjustments, reduce costs and expenses and optimize the product mix. In view of the Group having recorded a fixed asset impairment provision of Rmb 783,621,000 due to the establishment of a joint venture with UNIFI Asia Holding SRL by injecting the assets of the southern area of filament business department (former Polyester Plant No.5) and the equity transfer of Foshan Tianma Chemical Fibre Company Limited ("**Tianma Chemical Fiber**", former Yizheng Chemical Fibre Foshan Polyester Company Limited), the loss attributable to equity shareholders of the Group was Rmb 967,508,000 and basic loss per share was Rmb 0.242 in 2005.

Pursuant to the requirements of the PRC's Company Law and the Company's Articles of Association, to offset the year 2005 loss, the Board proposed that no final cash dividend would be paid for the year ended 31 December 2006 (final cash dividend for 2005: Nil).

In 2006, owing to the great volatility of global oil prices, the domestic prices of polyester raw materials and products fluctuated severely at a high level. Especially in February and September, the prices of polyester raw materials and products twice fell precipitously. As a result, the operational environment for polyester industry was very challenging. Meanwhile, though the newly-added domestic polyester production capacity plainly decreased, the total domestic polyester production capacity remained excessive. Moreover, owing to the tight supply and elevated price of parxylene ("**PX**"), the raw materials profits of the polyester industry further increased, while the profit margins on polyester finished products narrowed.

In 2006, faced with the acute situation of profound adjustment in the polyester industry and the high volatility of elevated raw material prices, the Group continued to extend reform adjustments and tried to expand its operations. By exerting efforts to strengthen internal management, reduce costs and expenses, and optimise its product structure, affirmative progress was achieved in various fields concerning production and operation. Meanwhile, the Group successfully erased the deficits and earned surpluses in its operational results.

In 2006, under the circumstances of about 75.0 per cent operation rate of the domestic polyester industry, the Group maintained safe, stable and capacity production at its polyester facilities. The production volume of PTA and the sales volume of polyester products are both reached historically high levels. The results of reducing costs and expenses were obvious. Some measures drafted at the beginning of 2006 for reducing costs and expenses concerning were fulfilled. All reform adjustments proceeded smoothly. Restructuring based on department specialisation was further extended, and management processes and the division of labour were optimised. The total number of registered employees decreased by 2,561. The equity transfer of Tianma Chemical Fibre was successfully completed, which further enhanced the Group's total asset quality. the Group's competitiveness and risk management ability were further strengthened.

In 2007, PRC's economy's relatively rapid growth and domestic demand for textiles are expected to continue their expansion. Due to the competitive advantage of the PRC's textile industry in the international market, the steady rise of the PRC's textile and apparel exports is expected to continue as well. The effects of PRC's joining the WTO will continue to appear. Though the investment in domestic polyester projects has returned to rationality and the newly-added domestic polyester production capacity has clearly decreased, the investment in technology innovation and development of differentiated products will continue to increase. Meanwhile, a surplus to likely to remain in the total domestic polyester production capacity, and so the profit margins of polyester products will not remarkably improve. Furthermore, some factors such as the adjustment of PRC's VAT rebates policy, Renminbi appreciation, and international trade protectionism are expected to increase the uncertainty in the PRC's textile and apparel export environment, which in turn should intensify the market risk to the domestic polyester industry.

Report of the Chairman

In 2007, the Group will actively adapt to the rigours of polyester market competition and continue to extend reform adjustments, vigorously improve management, expedite product structural adjustments, and refine the core business of polyester chemical industry manufacturing in the areas of competitiveness and risk management ability. To achieve this the Group will (1) strengthen product marketing and raw material purchases so as to enhance their ability to respond to the market and to raise profits as the market allows; (2) comprehensively deploy the safety and environmental protection responsibility system to maintain safe and stable operation of facilities; (3) further strengthen internal control and constantly improve management. (4) thoroughly mine the potential to improve efficiency, conserve energy and raw materials, and significantly reduce costs and expenses; (5) extend product structural adjustment and continually advance technology innovation so as to add value to products. (6) continually extend reform adjustments, actively advance non-core business divestiture, and expedite the establishment of a market-based employment and remuneration system.

Looking ahead, the investment in domestic polyester projects is expected to continue its return to rationality and remain stable. Meanwhile, the relatively rapid growth of PRC's economy and gradual escalation of domestic consumption create an opportunity for steadily increasing domestic demand for polyester products. Along with the further acceleration of domestic polyester industry structural adjustments, the demand for polyester products also shifts from quantity to choice—namely, from general products to functional, differentiated, and high value-added products. The group will take the polyester market demand as guidance, expedite technology innovation and product development, further advance structural adjustments and refine the core business of the polyester chemical industry according to the goal of “maximising value with the lowest necessary headcount and costs” and encompassing “quality, variety, cost, management and profit.”

Last but not least, I would like 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 of the Group.

Qian Heng-ge

Chairman

30 March 2007, Nanjing