

Report of the Supervisory Committee

Financial data contained therein are extracted from the financial statements prepared in accordance with IAS

To all Shareholders:

During the report period, all the Supervisors of the Company have complied with the Company Law, the Company's Articles of Association and the Regulation Concerning the Supervisory Committee, fulfilled their responsibilities, protected the interests of the Company and the shareholders, abided by the principles of honesty and trustworthiness, and devoted themselves to working cautiously and diligently.

The Supervisory Committee held five meetings during the report period, details of which are as follows:

1. The fifth meeting of the third term Supervisory Committee was held at the Conference Centre of Yihua Hotel of the Company, Yizheng City, Jiangsu province, PRC on 15 January 2001. The meeting considered the Report of the General Manager.
2. The sixth meeting of the third term Supervisory Committee was held at the Conference Centre of Yihua Hotel of the Company, Yizheng City, Jiangsu province, PRC on 12 April 2001. The meeting considered and passed the report of Supervisory Committee for 2000, and considered the operating results and the financial position for 2000.

Details of which was disclosed through press announcement in China Securities, Shanghai Securities News, Securities Times, Hong Kong Economic Times and South China Morning Post on 16 April 2001.

3. The seventh meeting of the third term Supervisory Committee was held at the Conference Centre of Yihua Hotel of the Company, Yizheng City, Jiangsu province, PRC on 4 June 2001. The meeting considered the report about the operating situation for the first four months.
4. The eighth meeting of the third term Supervisory Committee was held at the Conference Centre of Yihua Hotel of the Company, Yizheng City, Jiangsu province, PRC on 23 August 2001. The meeting considered the resolution regarding that no interim dividend would be paid and passed the Interim Report for 2001.

Details of which was disclosed through press announcement in China Securities, Shanghai Securities News, Securities Times, Hong Kong Economic Times and South China Morning Post on 26 August 2001.

5. The ninth meeting of the third term Supervisory Committee was held at the Conference Centre of Yihua Hotel of the Company, Yizheng City, Jiangsu province, PRC on 21 December 2001. The meeting considered the assets transaction between the Company and Yihua and the investment on staple fibre project with an annual capacity of 90,000 tonnes.

In 2001, under the leadership of the Board, the Company focused on the annual target, conducted operation in the severe market situation, strengthened the management in various field, speeded up the structure adjustment and made greater efforts in reform to meet challenges, and all the work has pushed forward steadily. Compared with the same period of last year, the output of the Group was 1,249,000 tons, increased by 9.3%, the sales volume of main products was 1,116,000 tons, increased by 10.3%, the overall ratio of sales to production during the whole year was 100.9%, and the payment of the sales was received 100%; the cost was reduced with the unit manufacturing cost of main products reduced by 9.9% and administrative expenses reduced by 53.0%; initial effect has shown in the adjustment of structure, with the differential rate of staple fibre reaching 34.7%. At present, the Group remains a relatively steady financial structure, and the total liability to total asset ratio on 31 December 2001 was 20.2%.

By attending the meetings of the Board and attending the management meetings of the General Manager by the Chairman of the Supervisory Committee, the Supervisory Committee reviewed the reports of the Board and of the General Manager, the resolutions regarding the reform, development and operation. In the principle of sincerity and spirit of high sense of responsibility, they conducted careful study and put forward comments and suggestions for improvement in a timely manner, putting the emphasis on ensuring that the guiding principle of decision-making process and corresponding solutions were in accordance with the laws and regulations of the State, the Company's Articles of Association, resolutions of the shareholders' meeting and be in the shareholders' interests.

The Supervisory Committee believes that:

1. During the report period, the Company has operated strictly in compliance with the Company Law, the Articles of Association of the Company, other related laws and regulations and the requirements of the regulatory bodies at home and abroad. The Directors and senior management worked for the best interests of the Company, diligently performed the duties as stimulated in the Articles of Association of the Company, earnestly carried out the resolutions of the shareholders' meetings and the Board, built the fairly sound internal control systems, and strictly operated under the regulations to the international listed company.

On 20 June 2001, the fifteen meeting of the third term Board considered and passed the resolution to appoint Mr. Xu Zheng-ning as General Manager. Due to Mr. Ma Yu-ping's personal reason, the Board resolved that Mr. Ma Yu-ping ceased to act as General Manager of the Company and accepted the resignation of Mr. Ma Yu-ping as director of the Company.

2. During the report period, the Company did not violate any laws, regulations or the Articles of Association of the Company, and the Company was not involved in any material litigation and arbitration.

Report of the Supervisory Committee

3. The Supervisory Committee has earnestly reviewed the relevant information on the Financial Statements for the year ended 31 December 2001 audited by KPMG and KPMG Huazhen. An unqualified audit opinion was issued. These financial statements will be submitted to 2001 AGM later for approval. The Supervisory Committee believes that the Financial Statements reflect the Group's state of affairs and operating results truly, accurately and objectively. All expenses are reasonable, the reserves transferred from the income statement are in accordance with the laws and regulations and the Articles of Association of the Company, the financial structure of the Company is excellent.

4. The connected transactions and information disclosures have been in compliance with the related regulations, and there was nothing identified that has jeopardise the interests of the shareholders or has caused any reduction of assets from the Company.

By Order of the Supervisory Committee

Huang Gui-geng

Chairman

29 March 2002, Nanjing