



Report of the Supervisory Committee

To all Shareholders:

During the reporting period, all the Supervisors of the Company have complied with the Company Law, the Company's Articles of Association and the relevant regulations, fulfilled their responsibilities, protected the interests of the Company and the shareholders, abided by the principles of honesty and trustworthiness, and worked diligently.

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

1. The second meeting of the fourth term Supervisory Committee was held on 4 April 2003. Four Supervisors attended the meeting and the other one was absent for business. The meeting considered the Financial Statements for 2002, the proposed scheme of profit distribution for 2002, the resolution regarding the remuneration of Directors, Supervisors and Senior Management for 2002 and the Report of Independent Supervisors. The meeting also considered and passed the Report of the Supervisory Committee.
2. The third meeting of the fourth term Supervisory Committee was held on 15 August 2003. Four Supervisors attended the meeting and the other one was absent for business. The meeting considered the resolution regarding no payment of interim dividend and the Interim Report for 2003.
3. The fourth meeting of the fourth term Supervisory Committee was held in writing. The meeting considered and passed the Rules of Proceedings for the Supervisory Committee, which made clear the responsibilities and rights of Supervisors and the working process of the Supervisory Committee.

The Supervisors participate in the Company's decision-making process by being nonvoting delegates of the Board, attending important meeting, monographic meeting and other activities of the Company. The Supervisory Committee places great importance in developing the function of independent and outside supervisors. Independent and outside supervisors take part in the Audit and Investment Committee under the Board so as to understand the important decision-making items. The Supervisory Committee ensures that the Company operates legitimately and supervises the performance of the Board and Senior Management.

In 2003, facing the tough competition and influence of bursting Iraq War and SARS, the Company succeeded in realizing the operational targets by market expansion and cost reduction under the leadership of the Board. The Company kept maintaining safe and stabilized production. The capacity utilization rate of main equipment reached 102.0 per cent. The total production volume of polyester products amounted to 1,498,762 tonnes, the products maintained at high quality. The consolidated turnover and the profit attributable to shareholders are Rmb 10,343,641,000 and Rmb 259,131,000 respectively with an increase of 29.1 per cent and 79.6 per cent. Despite there was intense competition in polyester market, the combined ratio of sales to production reached 99.9 per cent. The structural adjustment projects, such as PTA project with an annual capacity of 450,000 tonnes, staple fibre project with an annual capacity of 90,000 tonnes, specialization polyester chip project with daily capacity of 450 tonnes (on trial run) and the improvement project of No. 5K production line, were all successfully in operation as scheduled and with obvious investment contribution. The differentiation rate of fibre products and specialization rate of polyester materials are 45.0 per cent and 62.8 per cent. Considerable economic benefits have been achieved by structural adjustment and technological improvement.

The Company continually advocated management innovation and the ERP begun an all-around single run. The Company was nominated the National Quality Award and awarded National Quality Management Advanced Enterprise. The Company enhanced the internal reform continuously by flattening the management structure, perfecting the resources management system, carrying out remuneration reform on job performance and the progress in entering voluntary resignation contracts with its employees. The Company strengthened its foundation management and "Handbook of Internal Control" was compiled, which standardized the Company's 28 key and related business processes.



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The Supervisory Committee believes that:

During the reporting period, the Board and the Senior Management operated in strict compliance with the laws and related regulations governing the conduct of international-listed company, devoted themselves to the required responsibilities specified in the Company's Articles of Association, and earnestly carried out all the resolutions of the shareholders' general meetings and the Board meetings. During the reporting period, the Company, the Directors and the Senior Management did not violate any laws, regulations or the Company's Articles of Association, and the Company was not involved in any material litigation or arbitration.

The Supervisory Committee has earnestly reviewed the relevant information on the Financial Statements audited by KPMG and KPMG Huazhen, in which an unqualified audit opinion was issued. The Supervisory Committee believes that the Financial Statements truly reflect the Group's state of affairs and the operating results and each type of expenditure was reasonable and the accruals were in accordance with the relevant regulations.

The Supervisory Committee believes that the Company's connected transactions were in compliance with the relevant regulations, all connected transactions were entered into according to the agreements. The Company disclosed the related information timely in accordance with the standardised and complete procedures. There was nothing identified that had impaired the interests of shareholders or had caused any reduction of assets of the Company.

In the coming year, the Supervisory Committee, in strict compliance with the Company Law and the Company's Article of Association, will continue to perform its duties earnestly, to protect the interests of the shareholders, and to make greater contribution to the Company's development.

By Order of the Supervisory Committee

Huang Gui-geng

Chairman

26 March 2004, Nanjing