

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 other relevant laws and rules, 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 five meetings during the reporting period, details of which are as follows:

1. The eighth meeting of the fourth term Supervisory Committee was held on 29 March 2005. The meeting mainly discussed the annual working report of general manager for 2004, considered the operation achievements and financial results for 2004, the 2004 annual report of the Company and the 2004 report of Independent Supervisors. The meeting also considered and passed the resolution regarding the special opinion on the disposal of partial fixed assets and the 2004 report of the Supervisory Committee.
2. The ninth meeting of the fourth term Supervisory Committee was held on 10 June 2005 in written proposal and specially discussed the resolution regarding the special opinion on the disposal of partial fixed assets.
3. The tenth meeting of the fourth term Supervisory Committee was held on 26 August 2005. The meeting considered the explanation of interim results for 2005. The meeting considered and approve the interim report for 2005 and the resolution regarding the assets disposal.
4. The eleventh meeting of the fourth term Supervisory Committee was held on 15 December 2005 in written proposal and passed the summary report of the fourth term Supervisory Committee.
5. The first meeting of the fifth term Supervisory Committee was held on 23 December 2005 and elected the chairman of the fifth term Supervisory Committee.

During the reporting period, the Supervisors attended the Board meeting as nonvoting delegates.

1. The Supervisory Committee supervises the legal operations of the Company and the performance of the Board and Senior Management according to relevant requirements. The Supervisors participate in the Company's decision-making process and understanding the performance of the Board and Senior Management by being nonvoting delegates of the Board, attending important meetings and other activities of the Company.

In 2005, the market competition of polyester became more severe owing to the multiple influences of high international crude oil price, the obvious fluctuation of polyester raw materials and the tough exports situation of domestic textiles, which gave relatively great pressure on production, operation and management. Meanwhile, internal reform adjustment also was a heavy task. Faced with various difficulties, the Company earnestly carried out the deployment and requirement of the Board and exerted great effort in expanding operation and strengthening internal management. The Company outlived different market tests and achieved new development in various fields. Firstly, the Company continually advanced specialised reconstruction, optimised resources collocation, simplified management levels, reduced institution staffs, optimised position settings and reduced cost and expenses greatly. Secondly, under the circumstances of low domestic operation rate of polyester industry, the Company organised production and operation carefully and basically realised full-load production and selling all the products produced. The production volume of polyester products for 2005 reached 2,155,660 tonnes, increasing by 28.1% compared with the same period last year. The production volume of PTA for 2005 reached 970,507 tonnes, increasing by 4.0% compared with the same period last year. The polyester capacity utilisation rate reached 94.8 percent. The ratio of sales to production reached 99.9 percent. The energy-consumption of unit product decreased by 4.1% compared with the same period last year. The products continually keep high and stable quality. Thirdly, the joint venture was established between the Company by injecting former Polyester Plant No.5 and UNIFI Asia. The Sale and Purchase Agreement of Tianma Chemical Fibre was entered into on 24 March 2006. The Company's assets structure was further optimised. Fourthly, new progress was achieved about the product structure adjustment and technology and new product development were enhanced. The specialisation polyester chips project with an annual capacity of 160,000 tonnes was built and put into operation on schedule, and capacity enlargement project of the PTA II line has been completed successfully. The SSP installment

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with an annual capacity of 100,000 tonnes of polyester products with domestically-set technology has passed the examination and check by relevant organisations. The Company's polyester specialised rate and fibre differential rate are expected to be 73.7 percent and 59.4 percent. The Company further strengthened the internal management and supervision, looked up the weakness of management so as to consummate internal control system.

During the reporting period, the Board and the Senior Management operated in strict compliance with the laws and related regulations governing the conduct of internationally-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.

2. 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 Company treated the connected transactions in compliance with the relevant regulations, all connected transactions were fair and impartial and 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.

During the reporting period, owing to obvious fluctuation of polyester materials and the decrease of product profit margin, the Company recorded an operational loss. But the Company keeps relatively low ratio of total liabilities to total assets and the moderate finance structure was maintained.

Looking ahead, the situation of market competition in 2006 is still severe and various uncertain risks still exist. We believe that the Company will earnestly carry out the Board's deployment, further evade market risks by catching hold of all favorable opportunities, put measures of reform, development, cost reducing into effect so as to give good return to investors.

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 contributes to the development of the Company.

By Order of the Supervisory Committee

Zhou Wen-fei

Chairman

31 March 2006, Nanjing