

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 three meetings during the reporting period, details of which are as follows:

1. The second meeting of the fifth term Supervisory Committee was held on 31 March 2006. The meeting mainly discussed the annual working report of General Manager for 2005, considered the operation achievements and financial results for 2005 and the Annual Report of the Group for 2005. Investment plan and financial budget for 2005 were also examined. In addition, the meeting earnestly talked about the resolution regarding connected transactions and disposal of partial fixed assets. The meeting approved the 2005 report of the Supervisory Committee and listened to the 2005 report of Independent Supervisors.
2. The third meeting of the fifth term Supervisory Committee was held on 25 August 2006. The meeting considered the introduction of the Company's operation and financial conditions in the first half year of 2006. The meeting considered the explanation of interim results for 2006 and the resolution regarding no payment of interim dividend.
3. The fourth meeting of the fifth term Supervisory Committee was held on 9 February 2007 in written proposal. Due to required change in his working position, the meeting resolved that the Mr. Zhou Wen-fei's resignation be accepted and that Mr. Zhou Wen-fei shall cease to act as Chairman of the Supervisory Committee. The Supervisory Committee unanimously agreed that Mr. Cao Yong shall be the Chairman of the Supervisory Committee.

During the reporting period, 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 pertinent requirements. The Supervisors participate in the Company's decision-making process and study the performance of the Board and Senior Management by serving as nonvoting delegates of the Board, attending important meetings and other activities of the Company.

In 2006, owing to the influence of international crude oil prices, the prices of main polyester raw materials and polyester products fluctuated, 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 to expand business and strengthen internal management. The Company survived different market tests and achieved new development in various fields. Firstly, the Group basically maintained safe, stable and capacity production at its polyester facilities. The capacity utilisation rate of PTA and polyester utilities reached 95.8 per cent and 93.7 per cent respectively. The quality index of main products excelled the planned. The overall energy consumption per unit decreased by 2.3 per cent as compared with that of 2005. All technical and economic indexes are completed well. Secondly, the achievement of reducing costs and improving efficiency was obvious. The Company further strengthened internal management and caught favorable opportunity to increase the production volume of PTA and other products. Meanwhile, the Company tried every means possible to reduce purchasing cost and save the expenses of machine and material, maintenance and finance. Thirdly, all reform adjustment work was advanced steadily. Based on advancing specialised restructuring, optimising resource configuration, simplifying management levels, reducing institution staffs and optimising position setting, the Company continually advanced the employment and remuneration system reform further. The method "Compete for Appointment" was carried out and the post performance evaluation was extended. So the internal remuneration structure was further adjusted. Fourthly, new improvement was achieved concerning asset structure adjustment. The equity transfer of Tianma Chemical Fibre was completed, so the asset structure was optimised. At the end of 2006, in accordance with the PRC Accounting Rules and Regulations, the Group's total assets were Rmb 10,115,603,000, an increase of Rmb 130,728,000 as compared with last year. Among which current assets were Rmb 3,876,044,000, an increase of Rmb 1,050,228,000 as compared with last year; fixed assets were Rmb 5,996,988,000, a decrease of Rmb 768,506,000 as compared with last year. The Group's total liabilities were Rmb 1,793,690,000, an increase of Rmb 84,494,000 as compared with last year. And the shareholders' funds (excluding minority interests) were Rmb 8,274,261,000, an increase of Rmb 50,686,000 as compared with last year. Total liabilities to total assets ratio was only 17.7 per cent. The asset quality was further enhanced and financial structure was more solid. Management was strengthened

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after the establishment of Yihua UNIFI. The strength of making up the deficits and tackling key problem in the production of polyester filament was enhanced. Meanwhile, the reform and division work of non-core business was actively carried through. Fifthly, the Group further strengthened product and market development. The production of polyester staple fibre and polyester chip were arranged according to the production line and variety. In 2006, the differential rate of polyester fibre and the specialized rate of polyester chips were 66.5 per cent and 77.9 per cent, 7.1 percentage points and 4.2 percentages points higher than that of last year respectively. The product structure was optimised continually. In 2006, the Group's income from principal operation was Rmb 17,027,846,000 and the net profit was Rmb 37,415,000. The target set at the beginning of 2006 has been preferably fulfilled.

During the reporting period, the Board and the Senior Management operated in strict compliance with the laws and related regulations governing the conduct of an 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 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 pertinent information in the Financial Statements audited by KPMG and KPMG Huazhen, in which an unqualified audit opinion was issued.

The Supervisory Committee believes that KPMG and KPMG Huazhen scrupulously abide by the basic principle of independence, objectivity and equality when doing business. KPMG and KPMG Huazhen issued an unqualified audit opinion regarding the validity, fairness and accounting consistency of the balance sheet. The Supervisory Committee believes that the Financial Statements truly reflect the Group's state of affairs and the operating results, that each type of expenditure was reasonable and that the accruals were in accordance with the pertinent regulations.

The Company treated the connected transaction in compliance with pertinent regulations concerning a listed company. All connected transactions were fair and impartial and entered into according to the agreements. The Company promptly disclosed the related information in accordance with the standardized and complete procedures. There was nothing identified that had impaired the interests of shareholders or had caused any reduction of the Company's assets.

The situation with respect to market competition in 2007 is still challenging, and various uncertainty risks still exist. We believe that the Company will earnestly carry out the Board's deployment, further circumvent market risks by catching hold of all favorable opportunities, and put measures of reform, development, and cost reduction into effect, so as to give a 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 and to protect the interests of the shareholders.

By Order of the Supervisory Committee

Cao Yong

Chairman

30 March 2007, Nanjing