



Chapter VIII Supervisors' Report

1. Meetings and Resolutions of the Supervisory Committee

During the reporting period, the Supervisory Committee held three meetings, the details are as follows:

Meeting	Summary of matters resolved	Date of Meeting	Newspapers for Publication of the Resolutions	Date of Announcement
The Eighth meeting of the Fourth Supervisory Committee	1. The 2005 Supervisors' Report of the Company was considered and approved; 2. The 2005 Financial Report of the Company was considered and approved; and 3. The 2005 Annual Report of the Company and its Summary were considered and approved.	18th April 2006	Securities Times, Wen Wei Po and The Standard in Hong Kong	19th April 2006
Extraordinary Meeting of Supervisor Committee	Agreed to make amendments to the original Rules of Proceedings for the Meetings of Supervisory Committee and to submit the amended version to the general meeting for consideration and approval.	6th June 2006		
The Ninth meeting of the Fourth Supervisory Committee	1. The 2005 Interim Report of the Company and the Summary thereof reflect the operating results and financial position of the Company fairly, truly and accurately. 2. The Board of the Company worked diligently and responsibly, with scientific and rational decision-making. The Supervisory Committee was not aware of the Directors and senior management discharging their duties in contravention of the State laws and regulations and the Articles of Association or in prejudice against the interests of the Company.	15th August 2006		

2. Opinion of the Supervisory Committee on the lawful operation of the Company

In accordance with the relevant State laws and regulations, the Supervisory Committee conducted its conscientious monitoring of the procedures for convening the general meetings and the Board meetings of the Company, the resolutions, the implementation by the Board of the resolutions passed at the general meetings, the discharge of duties by the senior management of the Company, and the internal management system of the Company. The Supervisory Committee is of the opinion that the Board engaged itself in standardised operation in accordance with to the Company Law, the Securities Law, the Articles of Association of the Company, and the relevant laws and regulations. The Board members worked diligently and responsibly, with scientific and rational decision-making. Every management system of the Company became more sound and was consistently operated. The Supervisors were not aware of the Directors and senior management of the Company discharging duties in contravention of the state laws and regulations and the Articles of Association of the Company or in prejudice against the interests of the Company.

3. Opinion of the Supervisory Committee on the financial status of the Company

The Supervisory Committee made a conscientious review on the profit distribution proposal of the Company for 2006 to be submitted by the Board of the Company for approval at the general meeting and the relevant audited materials in respect of the auditors' report for 2006 prepared by the domestic and international auditors with unqualified opinion. The Supervisory Committee considers that the auditors' report of the Company for 2006 reflects the financial status and operating results of the Company in an objective way.

4. Opinion of the Supervisory Committee on the use of proceeds by the Company in investments

No proceeds from the issue of shares were utilized by the Company during the reporting period.

5. Opinion of the Supervisory Committee on the acquisition and disposal of assets

The Supervisory Committee was of the opinion that the prices for the acquisition and disposal of assets by the Company were reasonable and there were not any events of insider dealings, prejudice of interests to certain shareholders or loss of assets.

6. Opinion of the Supervisory Committee on connected transactions

During the reporting period, every connected transaction of the Company was disclosed in accordance with the relevant disclosure requirements, and the transaction prices were settled according to prevailing market prices. Nothing was found detrimental to the interests of the Company.

As shown from the unaudited management accounts of the Company, the aggregate value of the relevant continuing connected transactions for the year 2006 (i.e. the supply of finished goods, raw materials and components and parts by the Group to China Textile Machinery (Group) Company Limited and its group members) exceeded the 2006 approved cap. The continuance of the relevant continuing connected transactions in the year 2006 after exceeding the 2006 approved cap without obtaining the independent shareholders' approval on a timely basis constituted a breach of the Listing Rules. The Supervisors of the Company consider that the failure to re-comply with the requirements of Listing Rules on a timely basis, which was inadvertent and regretful, is an isolated event.

The Supervisors will closely supervise the implementation of relevant compliance system by the Board and the management of the Company to avoid recurrence of a similar event.