

## Report of the Supervisory Committee

The Fourth Supervisory Committee of the Company has the pleasure to present the 2002 Report of the Supervisory Committee and would like to extend our best wishes to every shareholder.

The Supervisory Committee faithfully carried out its duties, protected the interests of the Company and shareholders in a fiduciary, serious, just and prudent manner and strengthened its role in supervising financial affairs, Directors, General Manager and other senior manager of the Company in accordance with the Company law of the People's Republic of China (hereinafter referred to the "Company law") and the Articles of Association of the Company. During the year under review, members of the Supervisory Committee were able to attend working meetings of the Board of Directors and the General Manager and other relevant important meetings. They reviewed the relevant data and reports supplied by administrative departments including finance, auditing, sales, and enterprises management and obtained information from different sources so as to gain an understanding on areas including financial position, fund flows and operational management. These have provided a sound basis for the Committee to carry out its duties.

The Rules of procedure for the Supervisory Committee prepared in accordance with the Rule of Corporate Governance for Listed Company issued by China Securities Regulatory Commission and State Economy and Trade Commission was submitted to the 2001 Annual General Meeting held on 14th June 2002 for discussion and had been approved in that meeting.

During the year under review, the Supervisory Committee held four meetings.

1. The ninth meeting of the third term Supervisory Committee was held on 18th April 2002 in the Company with attendance by 5 supervisors (including 1 valid proxy). The main agenda of the meeting were: (1) To consider and approve the 2001 report of the third term Supervisory Committee. (2) To consider and approve the 2001 Annual Report of the Company. (3) To consider and approve the First Quarterly Report of 2002 of the Company. (4) To consider and approve the Rules of procedure for the Supervisory Committee. (5) To consider and approve the candidates of supervisors of the next term Supervisory Committee recommended by the third term Supervisory Committee to the 2001 Annual General Meeting. The following resolutions were passed in the meeting: (1) the 2001 report of the Supervisory Committee was approved and shall be presented to the General Meeting for consideration and approval. (2) The 2001 Annual Report of the Company was approved. (3) The First Quarterly Report of 2002 of the Company was approved. (4) The Rules of procedure for the Supervisory Committee was approved and shall be presented to the General Meeting for consideration and approval. (5) Mr. Fu Dexiang, Mr. Han Zineng, Ms. Zhang zhenya and Mr. Chen Xiongyi as the candidates of the next term Supervisory Committee recommended by the third term Supervisory Committee to the 2001 Annual General Meeting was approved. Mr. Chen Jinqi will still be the candidate of the next term Supervisory Committee as the employee representative of the Company.
2. The first meeting of the fourth term Supervisory Committee was held on 14th June 2002 in the Company with attendance by all 5 Supervisors. The agenda of the meeting was to elect the chairman of the fourth term Supervisory Committee. Mr. Fu Dexiang was elected as the chairman of the fourth term Supervisory Committee after discussion and voting.
3. The second meeting of the fourth term Supervisory Committee was held on 16th August 2002 in the Company with attendance by all 5 Supervisors. The agenda of the meeting was to consider and approve the 2002 Interim Report of the Company. The 2002 Interim Report of the Company was approved.

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4. The third meeting of the fourth term Supervisory Committee was held on 25th October 2002 in the Company with attendance by 5 Supervisors (including 1 valid proxy). The agenda of the meeting was to consider and approve the Third Quarterly Report of 2002 of the Company. The Third Quarterly Report of 2002 of the Company was approved.

During considering and approving the Third Quarterly Report of 2002 of the Company, combining the present business manufacture and financial condition, we declared ourselves adequately at matters concerned by supervisors, and formed "Proposals to the Present Works of the Company" and submitted to Chairman of the Board in written form.

During the year under review, according to the "Supervisors' work-day schedule of Guangzhou Shipyard International Company Limited", the Supervisory Committee held five "Supervisors' work-day" meetings. The content of the meetings included discussing relevant matters, communicating information and making on-the-spot investigations, which would be held solely or integrated into Supervisory Committee meeting according to the physical circumstances. Through the "Supervisors' work-day" meetings, the independent supervisors could understand relevant situations of the Company in time.

The Committee has executed its powers in accordance with the Company Law of the People's Republic of China and the Articles of Association of the Company to review the Report of the Directors, the Financial Statements of the Company, and the profit distribution proposal. We consider that the financial records and the financial statements are prepared in accordance with PRC accounting standards and accounting principles generally accepted in Hong Kong and accurately reflected the financial position and business results of the Company, and no questionable matters were identified. We also consent to the Reports of the Board of Directors, Financial Statements and the profit distribution proposal.

During the year under review, the Company had not raised any funds.

During the year under review, the transactions involving the acquisition and sale of assets were conducted under fair and reasonable terms, no insider trading was noted and accordingly the interests of the shareholders and the assets of the Company were not adversely affected.

During the year under review, the connected transactions were conducted under fair and reasonable terms, and accordingly the interests of the Company were not adversely affected.

The Committee is in the view that the Company has established a legal procedure of decision-making with necessary internal control system, and that the Directors, general manager and other senior managements have carried out their duties rigorously, scrupulously and diligently in accordance with the fiduciary, clean and prudent principles under the regulations of Shanghai Securities Exchange and the Listing Rules. There were no violations of laws, regulations or Articles of Association of the Company, nor was there abuse of power to detriment the interests of the Company, the shareholders or the staff.

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In 2002, the production operations of the Company encountered greater difficulties than ever. The Board of Directors and the executive team remained united and well coordinated, maintained confidence, grasped the nettle, made great efforts and went all out of work, firmly executed guiding principles of "subtle management for solid improvement", gave prominence to the key point of production, paid close attention to the manufacture schedule of RO/PAX ships and half submarine vessels. Besides, enhanced enterprise administration, put forward reconstructing the shipbuilding system of "Cost Control, Technical Management and Planing Management", did its best to advance economical benefit, made the Company surmounted difficulties and gain staggered victory, and finally achieved the target of keeping profit lever, helped the Company extricating from difficult position, and founded solid basis for the reformation and development of next step.

The Committee paid close attention to the non-recovery trust deposits of the Company with Guangzhou International Trust and Investment Company and to the situation of the two types of ship under construction which have been drawn loss provision in 2000, and kept abreast of measures and efforts executed to settle the two matters by the Board of the Directors and the executive team. The Board of the Directors has disclosed the detail in Significant Event of the Annual Report.

Yangcheng Certified Public Accountants Company Limited and PricewaterhouseCoopers, which were appointed to audit the financial statements of the Company for this year have presented their audit reports of the Company with unqualified opinion.

We would like to extend our sincere gratitude to the Board of the Directors, the senior management, all the staffs and shareholders of the Company for their trust, support and co-ordination during the year.

For an on behalf of the Supervisory Committee

**Fu Dexiang**

*Chairman*

22nd April 2003 Guangzhou