

REPORT OF THE SUPERVISORY COMMITTEE

The Fourth Supervisory Committee of the Company has the pleasure to present the 2003 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, president 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 executive meetings and other relevant important meetings. They reviewed the relevant data and reports supplied by administrative departments including financial dept., audit dept., marketing dept., and investment and development dept. 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.

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

1. The fourth meeting of the fourth term Supervisory Committee was held on 22nd April 2003 in the Company with attendance by 5 supervisors (including 1 valid proxy). The main agenda of the meeting were: (1) To consider the 2002 report of the Supervisory Committee. (2) To consider the 2002 Annual Report of the Company. (3) To consider the First Quarterly Report of 2003 of the Company. The following resolutions were passed in the meeting: (1) The 2002 report of the Supervisory Committee was approved and shall be submitted to the general meeting for consideration. (2) The 2002 Annual Report of the Company was approved. (3) The First Quarterly Report of 2003 of the Company was approved.
2. The fifth meeting of the fourth term Supervisory Committee was held on 15th August 2003 in the Company with attendance by 5 supervisors (including 1 valid proxy). The agenda of the meeting was to consider the 2003 Interim Report of the Company. A resolution of approved of the 2003 Interim Report of the Company was passed at the meeting.
3. The sixth meeting of the fourth term Supervisory Committee was held on 24th October 2003 in the Company with attendance by 5 supervisors (including 1 valid proxy). The agenda of the meeting was to consider the Third Quarterly Report of 2003 of the Company. A resolution of approval of the Third Quarterly Report of 2003 of the Company was passed at the meeting.

During the year under review, in accordance with the regulations of the "Supervisor's work-day schedule of Guangzhou Shipyard International Company Limited", the Supervisory Committee held five "Supervisors' work-day" meetings. The main content of the meetings included briefing by the deputy chief accountant of the Company on the anticipate financial final accounts for the year 2002 and the financial status of the first half of 2003 of the Company, 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 "Supervisor's 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 and the Articles of Association of the Company to review the annual report for year 2002, the Financial Statements and the profit distribution proposal of the Company which should be submitted to general meeting for consideration. We consider that the financial records the financial statements are prepared in accordance with the 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.

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During the year under review, the company had not raised any fund.

During the year under review, the transactions involving the acquisition and sale of assets were conducted under fair and reasonable, 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 procedure of decision-making of the Company is in accordance with Articles of Association of the Company and has established necessary internal control system, and that the directors, president 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 and Listing Rules of Shanghai Securities Exchange and The Stock Exchange of Hong Kong Limited. There were no violations of laws, regulations or Articles of Association of the Company, nor was there any abuse of power to detriment the interests of the Company, the Shareholders or the staff.

In 2003, the production operations of the Company encountered greater difficulties than ever. The Board of directors and executive team remained united and went all out to work, firmly executed guiding principles of "Strengthening Shipbuilding, Vitalizing Non-shipbuilding", closely relies on all staff, gave prominence to the key point of production, enhanced cost control, 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.

Guangzhou 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.

Guangzhou Regional Office of China Securities Regulatory Committee (the "GRO") conducted a routine inspection on the Company from 11th to 15th August 2003. The Company received the Notice for Rectification of Guangzhou Shipyard International Co., Ltd. (the "Notice") (CSRC [2003] 447) issued by GRO on 9th October 2003. The Committee gave it highly emphasis and analyzed the problems mentioned. On 24th October 2003, it was discussed by the fourth meeting of the fourth term Supervisory Committee and reformed in accordance with relevant regulations and procedures, modifying Article 27 of rules of Procedure for the Supervisory Committee and substituting two independent supervisors when the Report disclosed.

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

On behalf of the Supervisory Committee
Chairman
Fu Dexiang

Guangzhou, 16th April 2004