1. During the period under review, a significant litigation and arbitration the Company is as follows:

   By a contract ("the Contract") entered into between Guangdong Changda Road-construction Company Limited ("Changda Company") and the Company in 1994, the Company agreed to manufacture, paint the steel box girder of Humen Bridge, and manufacture the traveling crane (the foregoing works were collectively referred to as "the Works") for Changda Company. The Works had been completed by the Company and accepted by Changda Company on October 28, 1996.

   Due to Changda Company's default in paying the contract price in compliance with the schedule stipulated in the Contract, The Company raised the litigation against Changda Company for the liquidated damage, plus the interest thereof, since April 2000.

   The above mentioned litigation, after several hearings and changing the requests, ended on August 22, 2003 by the Final Judgment forwarded by the Supreme Court of Guangdong Province, which demanded Changda Company to pay to the Company the liquidated damage in amount of RMB10,892,411, plus the interest thereof in amount of RMB2,339,589. Changda Company refused to pay the Company, thereafter, the Company applied to the Intermediate Court of Guangzhou for the enforcement of the judgment. On September 24, 2003, the Company received the payment in full thereof in amount of RMB 13,232,000 which was included into the current Profit & Loss of the Company for the year under review.

2. During the period under review, due to the exiting from container manufacturing business, the Company disposed asset which amounted to RMB19 million, other than that, the Company had no other significant acquisition, sale or disposition of assets.

3. During the period under review, the connected transactions made between the Company and its associated companies and the enterprises under CSSC and the associated companies of the Group in respect of sales of goods amounted to RMB17.24 million and in respect of purchases of materials and payment of labor expenses amounted to RMB36,602 million. All connected transactions were carried out in accordance with the ordinary terms of business agreement or (where there is no such agreement) on terms no less favorable than terms offered by third parties. The Group did not receive any extraordinary benefit or suffer any extraordinary loss on such transactions. Details of such transactions are set out in note 6 to the financial statements prepared under PRC accounting standards contained in this report.

4. During the period under review, the Company had not managed any trust, any contract or lease assets of other companies or other companies had not managed any trust, any contract or leased the assets of the Company, which occurred during the period under review or occurred before but continued to the period under review.

5. During the period under review, the Company did not provide any guarantee of a significant nature that occurred during the period under review or before but continued to the period under review.

6. As at 31st December 2003, the Company's trust deposits with non-banking financial institutions amounted a total to RMB444,500,000. Among these, the trust deposits at Guangzhou International Trust and Investment Company (GZITIC) at the end of the period amounted to RMB397,070,000 with accumulated special non-recovery provision of RMB325,370,000. Except of the above, the Company had not other significant trust that occurred during the period under review or before but continued to the period under review.

   The Company's trust deposits at Guangzhou Economic and Technology Development Zone International Trust and Investment Company (GETDZITIC) has been made provision totally in 2000. On 6th January 2003, People's Bank of China Guangzhou Branch announced to abolish GETDZITIC, and the liquidation team, which organized by the administrative committee of Guangzhou economic and technology development zone under authorization, in charges of the liquidation work in accordance with "Abolish Regulation to Financial Institution". The Company reported its debt to liquidation team on 14th February 2003, which was confirmed by liquidation team on 8th December. On 16th March 2004, the Company received the notice of Kai Guo Tou Che Zi (2004) No. 9 from the liquidation team, which announced the work progress of liquidating to GETDZITIC, and in accordance with the liquidation situation, there was not assets in GETDZITIC to repay, all creditors were faced with the situation of "zero repayment". The next work of processing the final liquidation and abolishing procedure, which is writing off GETDZITIC, or applying for bankruptcy liquidation to court, or other suggestions, will be decided after soliciting opinions from creditors.

7. During the period under review, the Company or the shareholders who hold over 5% (including 5%) shares of the Company did not give any undertaking that might have a great impact on the business results or financial condition of the Company during the period under review or occurred before but continued to the period under review.

8. During the period under review, in accordance with the Measures Concerning Employee Medical Insurance, the Company joined the basic medical insurance that was managed by Guangzhou Municipal Labor Protection Administration Department and incurred insurance amounting to RMB9.71 million for its employees.

9. During the period under review, in accordance with the housing reform policy of Guangzhou City, the Company paid housing allowance amounted to RMB4.03 million for the qualified staff.

10. In accordance with the demand of environment relocation of the east district of the Company, the Mechanical Engineering Division of the Company has completed relocation on schedule successfully, and has renamed to Nanhai Mechanical and Electrical Company. The land located at 124 Gexin Road, which has been used by it has been handed over to Guangzhou Municipal Land Developing Center on schedule. The other land located at 118 Gexin Road, which has been used by Container Manufacturing Division, which is a subsidiary of the Company and has paused to manufacture on 9th September 2003, has been handed over Guangzhou Municipal Land Developing Center before 18th December 2003.

    About the future of the container manufacturing business, the Company thought after analyzing and researching in detail that it is difficult to gain returns from this business due to the stinging market competition, the significant raise in the cost of raw materials and the downward adjusted tax-refund rate at present. And the Company will face a quite worse risk if continue to invest in this business. Therefore, the management of the Company decided to make strategy adjustment to the product instruction, and tabled a proposal of exiting container-manufacturing business to and approved by the Board of Directors.

In the future, the Company will concentrate on the building of handy-size tankers and bulk carriers. The exiting of container manufacturing business will result in a decrease in the turnover, but will not affect the profitability of the Company. The Company has accounted relevant expenses of the exiting in the profit and loss account for year of 2003, and will arrange relevant assets of the former container-manufacturing business.

11. Guangzhou Regional Office of China Securities Regulatory Commission (the "GRO") conducted a routine inspection on the Company during the period between 11th August and 15th August 2003. The Company received the Notice for Rectification of Guangzhou Shipyard International Company Limited ("the Notice") (GSRC [2003] No. 447) issued by GRO on 9th October 2003. The Board of Directors and the management of the Company paid the greatest attention to the Notice, examined the problems stated in the Notice, and worked out the rectification measure in accordance with Corporate Governance Rules for Listed Companies, Company Law, and other laws and regulations. The detail of the rectification report has been published in the form of announcement of resolutions passed at meeting of the Board of Directors in "Shanghai Securities News", "Hong Kong Commercial Daily" and "China Daily" on 11th November 2003.

    In accordance with the requirement of the Notice and the resolutions of the Board of Directors of the Company, the Company checked the national debts investment income with amount of RMB5.76 million in 2001 is the interest income of previous years. So, the Company should adjust relevant account which prepared under PRC accounting standard and systems for the year of 2001, reduce the profit after tax by RMB5.76 million, and accordingly increase the beginning retained earnings with amount of RMB5.76 million for the same year. Such adjustment has been audited by Guangzhou Yangcheng Certified Public Accountants Co., Ltd. and was published in Shanghai Securities News, Hong Kong Commercial Daily and China Daily on 19th April 2004.

12. The Company received the notification of Zhen Jian Li Tong No. 001 on 17th November 2003, due to the alleged breaches to securities laws and regulations by the Company, the Company is currently being investigated by the Guangzhou Investigation Bureau of China Securities Regulatory Commission (the "GIB") in respect of certain issues in the previous announcement commencing on 17th November 2003. The matter has been published in "Shanghai Securities News", "Hong Kong Commercial Daily" and "China Daily" on 17th November 2003. There has not any final result of the investigation up till this report disclosed.

13. The State Council has decided to adjust downwards tax refund ratio of part export products on 13th October 2003, in accordance with that, the Company has initially estimated the influence that because the tax refund ratio of shipbuilding product, which is one of the main export products of the Company, still maintains the ratio of 17%, and for other mechanical and electrical products of the Company represent relative small export quantity, it was estimated that the adjustment would impact the two business of the Company slightly.

14. The Company has signed construction contract for the 15th and 16th vessels of 35000dwt product tankers with Denmark A.P.Moller Group in March 2003. Because the commence of shipbuilding of the Company is not enough at that moment, these two vessels were tiny profit with low price. But along with the construction of the two vessels, because of the rising in the price of marine steel plates and the exchange

rate of Eurodollar to U.S. dollar, the construction cost of the two vessels increased. In accordance with the present situation of construction, it is anticipate that the Company will loss RMB5.91 million and RMB7.65 million for the two vessels respectively. In accordance with accounting standard and the accounting policy of the Company, and with the approval of the Board of Directors of the Company, the Company made long-term contract loss provision with amount of RMB13.56 million for that.

15. The statement to financial dealing with connected parties and external guarantees:

    In accordance with the relevant regulations stated in "the Notice of Standard the Finance Dealing with Connected Parties and the External Guarantees of List Companies", Zhen Jian Zi [2003] No. 56 (the "Notice") issued by CSRC and the State Council National Assets Regulatory Commission, the Company has checked itself on the matters of financial dealing and impropriation with and by the controlling shareholder and other connected parties, and external guarantees with the results are as follows:

    (1) The financial impropriation has been accounted and mainly of that are advance payment, account receivable and other receivable result form the normal operation with connected parties.

    (2) The Company had not found any guarantee breach of regulations, and its subsidiary companies had not any external guarantee.

    (3) The Company amended the Article of Association and increased the regulation to external guarantee in it in the Extraordinary General Meeting held on 26th March 2004.

16. In order to convenient for the security law business of listing H shares in Hong Kong and developing relevant business in Hong Kong market, Rong Guang Development Co. (the "RG") was registered with HKD10,000 in the second half of 1993 in Hong Kong. The Company holds 98% shares of RG, the other 2% shares, which were held by a Hong Kong people originally and were given up to the Company afterward. After that, RG invested HKD140,000 to purchase 70% shares equity of Hong Kong Jie Yue Development Co. and rename to Fung Kuang Development Co. (the "FK", which engaged for the agent of importing materials and equipments of shipbuilding business of the Company and developing part business of the Company in Hong Kong. Due to the business of RG and FK is litter, the Company had not accounted them in the consolidated account. With the steel structure business of the Company developed in Hong Kong and South-east Asia, the business of RG and FK would enlarge further. In order to reflect the business situation thoroughly and standard administration, the management of the Company decided to account RG and FK in consolidated account since 2003.

17. The re-appointment of Guangzhou Yangcheng Certified Public Accountants Company Limited ("YCPA") and PricewaterhouseCoopers as the Company's PRC auditors and international auditors respectively for 2003 was approved in the 2002 Annual General Meeting. Up till now, such accounting firms and Mr. Huang Weicheng and Mr. Xie Min from it have been providing auditing services to the Company consecutively for 11 years, 8 years and 3 years respectively. Annual audit fee for 2002 of RMB488,000 and HKD1,243,000 were paid to YCPA and PricewaterhouseCoopers respectively. In addition, RMB250,000 and RMB265,900 were paid to PricewaterhouseCoopers as review fee for interim financial statements for 2002 and 2003 respectively.