

# REPORT OF THE SUPERVISORY COMMITTEE

The Fifth Supervisory Committee of the Company has the pleasure to present the 2005 Report of the Supervisory Committee and would like to extend our best wishes to every shareholder.

## WORK INFORMATION

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 the financial affairs, Directors, president and other senior management 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 attended general meetings, meetings of the Board of Directors, meetings of presidents and other relevant important meetings. They reviewed the relevant data and reports supplied by administrative departments and obtained information from different sources so as to gain an understanding on areas including financial position, fund flows and operational management of the Company. These have provided a sound basis for the Committee to carry out its duties.

During the year under review, the Supervisory Committee held six meetings and three "Supervisors' work-day" meetings.

1. The 12th meeting of the fourth term of the Supervisory Committee was held on March 31, 2005 in the Company with attendance by all five supervisors. The following resolutions were passed at the meeting: 1) Approved the report of the Supervisory Committee for the year 2004 and submission of the same to general meeting for consideration; 2) Approved the annual report of the Company for the year 2004; 3) Approved the nomination of Mr. Wang Shusen, Mr. Liu Shibai, Mr. Wang Shiming and Mr. Ye Weiming as supervisor candidates for the fifth term of the Supervisory Committee by shareholders who representing over 5% shares of the Company, and the submission of the same to general meeting for consideration. Mr. Liang Mianhong was elected as the supervisor candidate of the fifth term of the Supervisory Committee pursuant to the staff democracy election result of the Company; 4) Approved the special decision made by the Board of Directors of the Company with respect to the write off of the provision for six bad debts in the aggregate amount of RMB 4,352,953.73.
2. The extraordinary meeting of the fourth term of the Supervisory Committee was held on April 7, 2005. All five supervisors voted by means of written resolution to approve the proposal of amending several items of the Articles of Association of the Company, and submission of the same to general meeting for consideration in accordance with the document ([2005] 61) issued by the China Securities Regulatory Commission Guangdong Securities Regulatory Bureau concerning the requirement on the relevant contents of the articles of association of listing companies.

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3. The 13th meeting of the fourth term of the Supervisory Committee was held on April 22, 2005 in the Company. All the supervisors including 2 proxies attended the meeting and approved the First Quarterly Report of 2005.
4. The first meeting of the fifth term of the Supervisory Committee was held on May 27, 2005 with attendance by five supervisors, and the resolution for electing Mr. Wang Shusen as chairman of the fifth term of the Supervisory Committee was passed at the meeting.
5. The second meeting of the fifth term of the Supervisory Committee was held on August 19, 2005 with attendance by five supervisors, and approved the interim report of 2005.
6. The third meeting of the fifth term of the Supervisory Committee was held on October 26, 2005 with attendance by five supervisors, and the meeting passed the resolution that approved the third quarterly report of 2005.

During the period under review, according to the "Supervisor's work-day schedule of Guangzhou Shipyard International Company Limited", the Supervisory Committee held three "Supervisors' work-day" meetings. The main content of the meetings included: 1) Learning the report of Mr. Liu Xingqiang, the director of Guangdong Securities Regulatory Bureau of China Securities Regulatory Commission, with the subject of "Strengthening supervisory ability, raising the level of law enforcement, advancing the healthy and stable development of capital market"; 2) the briefing by the Chief Accountant and director of financial center of the Company on financial situation for the first half of 2005, and the chairman of the Supervisory Committee and supervisors delivered statements respectively in the meeting on the financial work of the Company; 3) the briefing by the chief legal advisor and the minister of risk management department of the Company on the progress of the trust deposit debts restructuring with GZITIC; 4) The study of operating principles on debts restructuring of the trust deposit in GZITIC, and the matters in respect of bankruptcy of Havens (a shareholder of United Structures); 5) learning relevant policies and regulations of A share reform; 6) researching, discussing and communicating on matters related. Through the "Supervisor's work-day" meetings, the independent supervisors could understand the relevant situations of the Company in time.

In the course of reviewing the interim report of 2005, the Supervisory Committee discussed the operation and financial status of the Company, and delivered six proposals which were submitted to the Board on August 19, 2005. In the fifth meeting of the fifth term of the Board of Directors on October 26, 2005, after the briefing by the president of the Company on the debts restructuring of the trust deposit in GZITIC, the Chairman of the Supervisor Committee delivered two proposals on the resolution passed by supervisors' work-day" meetings to the Board and the management.

Members of the Supervisory Committee have attended the second training class of directors and supervisors, training classes on Company Law and the Securities Law of the PRC organized by Guangdong Securities Regulatory Bureau of China Securities Regulatory Commission and by the Company respectively.

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## **SUPERVISORY COMMITTEE'S INDEPENDENT OPINION ON THE COMPANY'S OPERATION ACCORDING TO LAW**

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 Lawfully conducted under fair and reasonable price, 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 of 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 management have carried out their duties rigorously, scrupulously and diligently in accordance with the fiduciary, clean and prudent principles under the regulations of the Listing Rules of the Shanghai Stock Exchange and The Stock Exchange of Hong Kong Limited. There were no violations of laws, regulations or the 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 2005, the Board of Directors and executive team remained united and went all out to work with all the staffs, and surmounted the difficulties of price rising of raw and processed materials and equipments as well as the appreciation in the value of RMB; solved the problems in the settlement and production of special stainless steel pipes of the first 29,000dwt chemical oil tanker and reduced the period shipbuilding through implementing the improvement of shipbuilding management; opened up the ship market and non-ship market actively, and the orders of operations increased continuously; the Company achieved the desired results with a great increase compared to that of 2004, and the Company has got onto the proper way of stable, healthy and continuous development.

## **SUPERVISORY COMMITTEE'S INDEPENDENT OPINION ON REVIEWING OF THE FINANCIAL CONDITION OF THE COMPANY**

The Committee has executed its powers in accordance with the Company Law 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 for the year 2005. We consider that the financial records met the requirements of PRC Accounting Rules and Regulations and HK GAAP, 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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Guangdong Yangcheng Certified Public Accountants Company Limited and PricewaterhouseCoopers, Certified Public Accountants, which were appointed to audit the financial statements of the Company for this year have presented their audit reports on the Company with unqualified opinion.

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

On behalf of the Supervisory Committee

*Chairman*

**Wang Shusen**

Guangzhou, March 23, 2006