

REPORT OF THE SUPERVISORY COMMITTEE

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

I. WORK INFORMATION

(I). General 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 ("Articles"). During the year, with the support of shareholders, Board of Directors, senior management and related departments of the Company, the Supervisory Committee operates canonically and exerts benign functions.

In accordance with the Articles, the members of supervisory committee attended general meetings, and attended the meetings of Board, meetings of the presidents and other relevant meetings as a nonvoting delegate. Supervisory Committee can gain the information of significant events and decisions of the Company in time, and exercised superintendence during the decision-making of significant events. Moreover, the supervisory committee has gained timely information of the asset and finance through the relevant information and reports provided by related administrative depts, and provide advantages to the prosecution of the duties of supervisory committee. For instance: the chairman of the Supervisory Committee attended the twelfth meeting of the 5th term of the Board as nonvoting delegate and declared the opinion that the supervisory committee was exciting with the great increase of the net profit in the first quarter of 2006 of the Company and was very satisfied with the endeavor of the senior management; the independent supervisor Mr. Ye Weiming attended the fourteenth meeting of the 5th term of the Board as nonvoting delegate and expressed two suggestions to the Interim Report 2006 consigned by the chairman of the Supervisory Committee and on behalf of Supervisory Committee. The secretary to the Board offered the explanation on one suggestion and accepted the other suggestion; the chairman of the Supervisory Committee attended the sixteenth meeting of the 5th term of the Board as nonvoting delegate and expressed the opinion that loan assurance to United Steel Structure shall be carried out in accordance with normative process. The secretary to the Supervisory Committee reinforced the above-mentioned opinion. All above information indicates that the supervisory committee can exercise its superintendence in accordance with the law and regulations to protect the interests of the Company and shareholders.

During the year under review, members of the Supervisory Committee of the Company 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.

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(II). The information of the supervisory committee meetings

During the year under review, the Supervisory Committee held five meetings:

1. The fourth meeting of the 5th term of the Supervisory Committee was held on March 10, 2006 in the Company. The following resolutions were passed at the meeting:
 - 1) Approving the resolution approved at the ninth meeting of the 5th term of the Board on January 24, 2006 that in respect of the balance of the trust deposit in Guangzhou International Trust Investment Company owning by the Company, record the real estate located in Xinjiang which in settlement of debts owing to the Company with an amount of RMB227,102,566, the received cash amounting to RMB920,000 which in settlement of debts owing to the Company with an amount of RMB1,840,000 in the accounts for the year 2005, and write off relevant special bad debt provision amounting to RMB171,392,471 accordingly.
 - 2) Approving the resolution approved at the tenth meeting of the 5th term of the Board of canceling the bad debt provision amounting to RMB47.408 million for the trust deposit with an amount of RMB47.408 million of the Company at Guangzhou Economic and Technology Development Zone International Trust and Investment Company ("GETDZITIC").
2. The fifth meeting of the 5th term of the Board held on March 23, 2006 approved: 1) The report of the Supervisory Committee for the year 2005 and submission of the same to general meeting for consideration; 2) The annual report of the Company for the year 2005.
3. The sixth meeting of the fifth term of the Supervisory Committee was held on April 24, 2006 in the Company and approved the First Quarterly Report of 2006.
4. The seventh meeting of the fifth term of the Supervisory Committee was held on August 17, 2006 and approved the interim report of 2006.
5. The eighth meeting of the 5th term of the Supervisory Committee was held on October 26, 2006 and passed the resolution that approved the third quarterly report of 2006.

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(III). Information of “Supervisors’ work-day” meetings and training

During the period under review, according to the “Supervisor’s work-day schedule of Guangzhou Shipyard International Company Limited”, the Supervisory Committee held five “Supervisors’ work-day” meetings. The main contents of the meetings are:

1. Learning the *China Securities Regulatory Commission (CSRC) Notice Regarding Opinion on Improving Quality of Listed Companies* issued by State Council (Guo Fa [2005]34).
2. Learning *Notice on Further Doing the Audit Work of Listed Companies* by China Securities Regulatory Commission Guangdong Securities Regulatory Bureau ([2005]205).
3. Learning the amended *Company Law* and the *Securities Law of the PRC*.
4. Learning the *Standards Concerning the Contents and Format of Annual Reports of Listed Companies (2005 Revision)* issued by CSRC ([2005]141) and the *Explanation of Standards of Annual Reports (2005 Revision)* issued by Listing Division of Shanghai Stock Exchange.
5. Learning the *Notice regarding Carrying Out and Fulfilling the CSRC Notice Regarding Opinions on Improving Quality of Listed Companies approved and forwarded by State Council* issued by State-owned Assets Supervision and Administration Commission of Guangdong Provincial People’s Government and Guangdong Securities Regulatory Bureau collectively.
6. Learning the *Report of Mr. Liu Xingqiang and Ms. Feng Yuhua in the Supervisory Work Conference of Listed Companies in Guangdong Province* issued by China Securities Regulatory Commission Guangdong Securities Regulatory Bureau.
7. Learning *Notice on Handling Certain Corporate Finance Issues after Implementation of China’s Amended Company Law* issued by the Ministry of Finance of PRC.
8. Learning the amendments to *Criminal Law of the PRC*.
9. Learning the *Model Rules of Proceeding for the Supervisory Committee of Listed Companies* issued by Shanghai Stock Exchange in May 2006.
10. Learning the *Guidelines on the Internal Control for Listed Companies* issued by Shanghai Stock Exchange in June 2006.
11. Learning the *Conversation System Regulation of Listing Companies* issued by Shanghai Stock Exchange in August 2006.

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12. Discussing the daily management of the Company and communicating on matters related.

By work-day meetings of supervisors, all supervisors of the Company can obtain more information of the laws, regulations and requirements and pulse of lasted policies, and the independent supervisors can gain the relevant information of the Company timely through to exert their authority better.

With the arrangement of the Company, two members of the Supervisory Committee of the Company have attended the 2006 training class of directors and supervisors, which was organized by Guangdong Securities Regulation Bureau in December of this year, on fundamental principles of listed Companies, the rights, duties and legal responsibilities of the directors and supervisors of listed companies, and the New Accounting Standard of Business Enterprises, and so on. The trainings abovementioned are in favor of improving the ability and standards of fulfilling the duties of the supervisors and Supervisory Committee.

II. 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 2006, the Board of Directors and executive team remained united and went all out to work with all the staff. During the year, all the operations of the Company has made a great improvement.

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III. 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 2006. We consider that the financial records met the requirements of *PRC Accounting Rules and Regulations* and HKFRS, accurately reflected the financial position and business results of the Company.

We also consent to the Reports of the Board of Directors and the profit distribution proposal for the year.

Ascenda Certified Public Accountants, Limited (Beijing) 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