A/S Riga Shipyard

Financial Statements for the years
Ended 31 December 1999 and 1998 and
Independent Auditors' Report

TABLE OF CONTENTS

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INDEPENDENT AUDITORS' REPORT

To the shareholders of A/S Riga Shipyard:

We have audited the accompanying balance sheet of A/S Riga Shipyard (the Company) as of 31 December 1999, and the related statements of profit and loss, shareholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Company for the year ended 31 December 1998 were audited by other auditors whose report dated 15 April 1999 expressed an unqualified opinion on these financial statements which were prepared in accordance with Latvian Statutory Requirements.

Except as discussed in the following paragraph, we conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Because we were not engaged as auditors until after 31 December 1999, we were not present to observe the taking of the physical inventories as of that date, and we have not been able to satisfy ourselves concerning the inventory quantities at that date by means of other auditing procedures. Furthermore, in our judgment, the amounts of the inventories as of 31 December 1999 materially affect the determination of the results of operations and cash flows for the year ended 31 December 1999.

In our opinion, except for the item mentioned in the preceding paragraph, the financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 1999 and the results of its operations and cash flows for the year then ended, in accordance with International Accounting Standards.

Deloitte & Touche

Deloitte & Touche
Riga, Latvia
12 June 2000

A/S RIGA SHIPYARD

BALANCE SHEETS
AS OF 31 DECEMBER 1999 AND 1998

	Notes	1999 LVL'000	1998 LVL'000
ASSETS			
Current Assets			
Cash		1,447	731
Trade receivables		1,886	2,736
Other receivables	2	180	772
Notes receivable	6	236	-
Inventories	4	2,386	1,838
		6,135	**6,077**
Fixed Assets			
Property, plant and equipment	5	6,155	6,347
Notes receivable	6	377	-
Investments in associate	7	1,317	1,317
		7,849	**7,664**
TOTAL ASSETS		**13,984**	**13,741**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities	10	1,325	1,247
Long-term liabilities	9	423	380
Shareholders' Equity			
Share capital	8	11,672	11,000
Retained Earnings		564	1,114
Total Shareholders' Equity		**12,236**	**12,114**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**13,984**	**13,741**

The accompanying notes are an integral part of these consolidated financial statements.

STATEMENTS OF PROFIT AND LOSS
FOR THE YEARS ENDED 31 DECEMBER 1999 AND 1998

	Notes	1999 LVL'000	1998 LVL'000
Sales	11	**15,186**	**16,482**
Cost of Sales		(13,915)	(15,112)
Gross profit		**1,271**	**1,370**
Other operating income		671	473
Selling expenses		(367)	(320)
Administrative expenses		(414)	(471)
Other operating expense		(457)	(552)
Profit from operations		**704**	**500**
Interest income		24	38
Interest expense		(31)	(5)
Profit before tax		**697**	**533**
Income Tax	12	187	171
Net Profit For The Year		**510**	**362**
Basic Earnings per share (in LVL)	13	**0.04**	**0.03**

The accompanying notes are an integral part of these consolidated financial statements.

STATEMENTS OF SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED 31 DECEMBER 1999 AND 1998

	Share Capital LVL'000	Retained Earnings LVL'000	Total LVL'000
At 31 December 1997	**10,000**	**752**	**10,752**
Issuance of shares	1,000	-	1,000
Net income for the year	-	362	362
At 31 December 1998	**11,000**	**1,114**	**12,114**
Issuance of shares	672	(672)	-
Dividend	-	(388)	(388)
Net income	-	510	510
At 31 December 1999	**11,672**	**564**	**12,236**

The accompanying notes are an integral part of these consolidated financial statements.

A/S RIGA SHIPYARD

CASH FLOW STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 1999 AND 1998

	1999 LVL'000	1998 LVL'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	697	533
Adjustments for:		
Depreciation	964	895
Interest expense	31	5
Interest income	(24)	(38)
(Profit) / Loss on sale of fixed assets	(8)	1
Operating cash flow before movements in working capital	1,660	1,396
Changes in operating assets and liabilities:		
Accounts receivable	362	406
Inventories	(448)	47
Current liabilities	27	(220)
Cash generated by operations	1,601	1,629
Income tax paid	(85)	(190)
Interest paid	(31)	(5)
Net cash provided by operating activities	**1,485**	**1,434**
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	24	38
Acquisition of investment in associate	-	(1,217)
Proceeds on sale of property, plant & equipment	10	26
Purchase of property, plant & equipment	(804)	(1,052)
Net cash used in investing activities	**(770)**	**(2,205)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	(388)	-
Issuance of share capital	389	1,000
Net cash provided by financing activities	**1**	**1,000**
Net increase in cash	**716**	**229**
CASH, BEGINNING OF YEAR	**731**	**502**
CASH, END OF YEAR	**1,447**	**731**

The accompanying notes are an integral part of these consolidated financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General information - The Company was founded in 1913 in Riga, Latvia. It was privatized and registered in the Enterprise registry in the Republic of Latvia in 1995. Principle business activities of the Company include the building and repairing of large ships and vessels.

The accompanying financial statements are presented in the national currency of Latvia, the Lat ("LVL").

Basis of Preparation - The financial statements have been prepared on the historical cost basis of accounting, in accordance with International Accounting Standards (IAS). The following summarizes the more significant of these policies.

Use of Estimates - The preparation of the financial statements in accordance with International Accounting Standards requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Construction Contracts – Where the outcome of a construction contract can be estimated reliably, revenue and cost are recognized by reference to the stage of completion of the contract activity at the balance sheet date as measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognized as expenses in the period they are incurred.

When it is probable that the total costs will exceed contract revenue, the expected loss is recognized as an expense immediately.

Inventories - Inventories consist mainly of metal and other materials used in the repairing and building of ships and are stated at the lower of cost and net realizable value. Cost is determined by the first-in, first-out method. Raw material cost is based on replacement costs and for other inventories at net realizable value. Appropriate consideration is given to deterioration, obsolescence and other factors when evaluating net realizable value.

Cash Equivalents – Cash equivalents include cash on hand and deposits in banks.

Foreign Currencies - The Company performs the majority of transactions in the national currency. Transactions denominated in foreign currency are translated into LVL at the official Bank of Latvia exchange rate on the date of the transaction, which approximates the prevailing market rate. Monetary assets and liabilities are translated at the rate of exchange on the balance sheet date. The applicable rates used for the principal currencies as of 31 December 1999 and 1998 were as follows:

	1999				**1998**	
1 USD	=	0.583000 LVL		1 USD	=	0.569 LVL
1 DEM	=	0.300392 LVL		1 DEM	=	0.340 LVL

All resulting gains and losses relating to cash are recorded in the profit and loss account in the period in which they arise. Gains and losses on translation are credited or charged at foreign exchange rates prevailing at year end.

Accounts receivable - The Company evaluates the collectability of its receivables on an ongoing basis. An allowance for potentially uncollectible amounts is not provided as the Company has acquired Credit Risk Insurance and the Company receives compensation if a debtor defaults.

Revenue recognition and related expenses - Revenues are recognized as income on the accrual basis when earned. Expenses are charged to operations as incurred.

Property, plant and equipment - Property, plant and equipment are stated at historical cost, less accumulated depreciation. Depreciation, including amortization of capital improvements, is computed using the straight-line method over the estimated useful lives of the related assets.

Depreciation is provided in equal monthly installments except for the month placed in service over the expected useful lives as follows:

Buildings	2.5 - 20 years
Machinery	2 - 10 years
Vehicles and other equipment	2 - 5 years

All assets in excess of LVL 50 are capitalized. Gains and losses on disposal of fixed assets are recognized in the profit and loss account in the year of disposal.

Earnings per share - Basic earnings per share was calculated by dividing the net profit for the year by the weighted average number of ordinary shares outstanding during the year. The Company had no dilutive options outstanding during 1999 and 1998.

Fair value of financial instruments – Fair value represents the amount at which an asset could be exchanged or liability settled on an arms length basis. Where, in the opinion of management, the fair value of financial assets and liabilities differs materially from their book value, such fair values are separately disclosed in the notes to the financial statements.

Taxation – The charge for current tax is based on the results for the year as adjusted for items which are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statements carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using currently enacted tax rates applied to taxable income in the years in which those temporary differences are expected to be recovered or settled.

Parent company - The parent company is A/S Remars Riga and the ultimate parent company is A/S Baltijas Holdings.

2. OTHER RECEIVABLES

At 31 December other receivables are composed of the following:

	1999 LVL'000	1998 LVL'000
Other accounts receivable	36	164
Corporate income tax overpayment	-	125
Due to parent company	25	-
Unpaid share capital	-	389
Loans to management and staff	-	2
Prepaid expenses	119	92
	180	**772**

Trade and other accounts receivable comprise amounts due from customers for the repair and construction of ships, and other services. The average credit period is 45 days. The management considers that the carrying amount of trade and other receivables approximates their fair value.

3. CREDIT RISK

The Company's credit risk is primarily attributable to its trade receivables. Management believes that credit risk is low as the Company has acquired Credit Risk Insurance. The Company receives full compensation in case a debtor defaults.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

4. INVENTORIES

At 31 December inventories are composed of the following:

	1999 LVL'000	1998 LVL'000
Work in process	1,230	514
Raw materials and supplies	1,156	1,324
	2,386	**1,838**

5. PROPERTY, PLANT AND EQUIPMENT

At 31 December Property, Plant and Equipment are composed of the following:

	Buildings LVL'000	Equipment and Machinery LVL'000	Other Fixed Assets LVL'000	Construction in progress LVL'000	Total LVL'000
Historical cost					
1 January 1999	**2,618**	**5,698**	**74**	**95**	**8,485**
Additions	-	-	9	795	804
Disposals	(37)	(15)	-	-	(52)
Transfer	172	366	91	(629)	-
31 December 1999	**2,753**	**6,049**	**174**	**261**	**9,237**
Accumulated depreciation					
1 January 1999	**413**	**1,685**	**40**	-	**2,138**
Charge for period	186	765	13	-	964
Disposals	(7)	(13)	-	-	(20)
Transfers	-	(40)	40	-	-
31 December 1999	**592**	**2,397**	**93**	-	**3,082**
Net book value					
1 January 1999	**2,205**	**4,013**	**34**	**95**	**6,347**
31 December 1999	**2,161**	**3,652**	**81**	**261**	**6,155**

The assets stated above are held for the Company's own use.

6. NOTES RECEIVABLE

At 31 December notes receivable was composed of the following:

	1999 LVL'000	1998 LVL'000
Sale of ships	578	-
Other	35	-
Total	**613**	-
Due within one year	236	-
Due after more than one year	**377**	-

Notes receivable for the sale of ships represent notes for 992,221 USD for the sale of 5 ships that were originally acquired as collateral from another customer. As of 31 December 1999 the balance outstanding was 992,221 USD. 10% of the notes are repayable as a down payment and the balance is repayable in 3 equal annual installments with a maturity date of 4 August 2002. The notes are unsecured and are free of interest.

The aggregate loan repayment amount is composed of the following:

	Total LVL'000
2000	236
2001	180
2002	180
2003	8
2004 and beyond	9
	613

7. INVESTMENT IN ASSOCIATE

The investment in the associated company consists of 689,453 common shares (1998: 689,453) of Latvijas Udensceli, a joint stock company registered in Latvia. This represents 41% of the shares. The principle activity of the company is underwater dredging.

Legal proceedings are currently under way to declare Latvijas Udensceli as insolvent. The Company has made alternative arrangements to safeguards its investment. The management of the Company believes that these alternative arrangements are sufficient to enable the company to fully realize the investment it has made in the associated company.

8. SHARE CAPITAL

As of 31 December 1999 issued share capital consisted of 11,672,107 (1998: 11,000,000) common shares with a nominal value of LVL 1 each. All shares are fully paid.

The original share capital of 10,000,000 common shares of 1 LVL each was increased in December 1998 by 1,000,000 shares in order to finance further investments.

The share capital was further increased in December 1999 by a capitalization of 672,107 LVL of retained earnings into 672,107 common shares of 1 LVL each.

9. LONG-TERM LIABILITIES

At 31 December Long-term Liabilities are composed of deferred tax as follows:

	1999 LVL'000	1998 LVL'000
Accelerated tax depreciation		
Balance brought forward as of 1 January	380	274
Charge to income for the year	43	106
Balance carried forward as of 31 December	423	380

10. CURRENT LIABILITIES

At 31 December Current Liabilities are composed of the following:

	1999 LVL'000	1998 LVL'000
Trade Accounts payable	603	690
Due to parent company	23	-
Advances from customers	424	254
Tax liabilities	136	132
Other	139	171
	1,325	**1,247**

Trade and other payables comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 33 days.

The management considers that the carrying amount of trade and other payables approximates their fair value.

11. REVENUE

Revenue was comprised of the following:

	1999 LVL'000	1998 LVL'000
Ship Building	2,169	530
Ship Repairs	12,687	14,921
Other	330	1,031
	15,186	**16,482**

12. INCOME TAXES

The tax charge for the year comprises the following:

	1999 LVL'000	1998 LVL'000
Current tax	144	65
Deferred tax	43	106
Total	**187**	**171**

The charge for the year can be reconciled to the profit per the income statement as follows:

	1999 LVL'000	1998 LVL'000
Profit before tax	697	533
Computed tax at the expected statutory rate (25%)	174	133
Tax effect of expenses that are not deductible in determining taxable profit	13	38
Tax expense for the year	**187**	**171**

13. EARNINGS PER SHARE

Earnings per share is based on the following data:

	1999	1998
Earnings (Net Profit for the year in thousands LVL)	510	362
Weighted number of common shares	11,672,107	10,611,002

The denominator for the purposes of calculating earnings per share has been adjusted for the capitalization issue in December 1999.

14. NON CASH TRANSACTIONS

During the year the Company issued notes receivable for 578 thousand LVL in exchange for the sale of 5 ships that were originally acquired as collateral from a customer. In addition, the Company issued notes receivable for 31 thousand LVL in return for the sale of a building.

15. CONTINGENT LIABILITIES

The Company offers a warranty on ships repaired or constructed. The Company undertakes to repair any defects that are discovered within 12 months after delivery of the ships. No provision has been made for these because, due to past low instances where customers have exercised their rights under this condition, the management believe that any future losses will not be material.

16. SUBSEQUENT EVENTS

On 28 March 2000 the Company acquired a subsidiary, Tosmare a shipyard located in Liepaja. The Company acquired 962,000 shares, 60% of the subsidiary, for 962 thousand LVL.

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