

A/S RIGA SHIPYARD

*Independent Auditors' Report and
Consolidated Financial Statements
for the years ended
31 December 2000 and 1999*

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INDEPENDENT AUDITORS' REPORT

To the shareholders of A/S Riga Shipyard:

We have audited the accompanying consolidated balance sheets of A/S Riga Shipyard ("the Company") as of 31 December 2000 and 1999, and the related consolidated statements of profit and loss, shareholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 audits provide a reasonable basis for our opinion.

In our opinion the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of 31 December 2000 and 1999 and the results of its operations, cash flows, and changes in equity for the years then ended in accordance with International Accounting Standards.

DELOITTE & TOUCHE

Deloitte & Touche
Riga, Latvia
1 June 2001

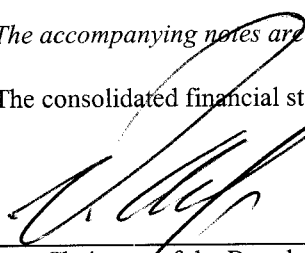
A/S RIGA SHIPYARD


CONSOLIDATED BALANCE SHEETS
AS OF 31 DECEMBER 2000 AND 1999

	Notes	2000 LVL'000	1999 LVL'000
ASSETS			
Non-current assets			
Fixed assets			
Property, plant and equipment	2	7,175	6,155
Total fixed assets		7,175	6,155
Financial investments			
Investments	4	1,317	1,317
Long term loan	3	211	377
Total financial investments		1,528	1,694
Goodwill		126	-
Total non-current assets		8,829	7,849
Current assets			
Inventory			
Inventory	5	2,770	2,386
Total inventory		2,770	2,386
Accounts receivable			
Trade receivables	6	4,834	1,886
Other receivables	7	1,339	416
Total accounts receivable		6,173	2,302
Cash	8	155	1,447
Total current assets		9,098	6,135
TOTAL ASSETS		17,927	13,984

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

The consolidated financial statements were approved and signed on behalf of the Company by:


Chairman of the Board
Vasijs Melniks


Member of the Board
Sergejs Goljicins

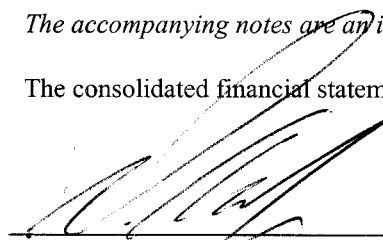

A/S RIGA SHIPYARD

**CONSOLIDATED BALANCE SHEETS
AS OF 31 DECEMBER 2000 AND 1999**

	Notes	2000 LVL'000	1999 LVL'000
LIABILITIES AND SHAREHOLDERS' EQUITY			
Shareholders' Equity			
Share capital	10	11,672	11,672
Retained earnings		1,510	564
Total Shareholders' Equity		13,182	12,236
Minority interest		573	-
Long-term liabilities			
Deferred tax	11	225	423
Total long-term liabilities		225	423
Short-term liabilities			
Advance payments received		1,025	423
Trade payables		2,265	603
Due to related party		77	23
Taxes and social security payments		300	137
Other creditors		280	139
Total short-term liabilities		3,947	1,325
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		17,927	13,984

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

The consolidated financial statements were approved and signed on behalf of the Company by:

 Chairman of the Board Vasīljs Melņiks	 Member of the Board Sergejs Goljicins
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A/S RIGA SHIPYARD

**CONSOLIDATED STATEMENTS OF PROFIT AND LOSS
FOR THE YEARS ENDED 31 DECEMBER 2000 AND 1999**

	Notes	2000 LVL'000	1999 LVL'000
Sales	12	20,746	15,186
Cost of sales	13	(19,490)	(13,915)
Gross profit		1,256	1,271
Selling expenses		(108)	(367)
Administrative expenses		(401)	(414)
Other operating income	14	542	671
Other operating expense		(312)	(457)
Profit from operations		978	704
Interest income		92	24
Interest expense		(74)	(31)
Goodwill amortisation		(32)	-
Profit before tax		964	697
Income tax	15	(24)	(187)
Profit before minority interest		940	510
Minority interest		6	-
Net profit		946	510
Basic earnings per share (LVL)	16	0.08	0.04

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

The consolidated financial statements were approved and signed on behalf of the Company by:


Chairman of the Board
Vasilis Melniks

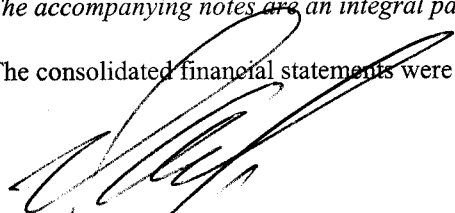

Member of the Board
Sergejs Goljicins

A/S RIGA SHIPYARD**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED 31 DECEMBER 2000 AND 1999**

LVL '000	Share capital	Retained earnings	Total
31 December 1998	11,000	1,114	12,114
Share emission	672	(672)	-
Dividends declared	-	(388)	(388)
Current year profit	-	510	510
31 December 1999	11,672	564	12,236
Current year profit	-	946	946
31 December 2000	11,672	1,510	13,182

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

The consolidated financial statements were approved and signed on behalf of the Company by:



Chairman of the Board
Vasīlijs Melņiks



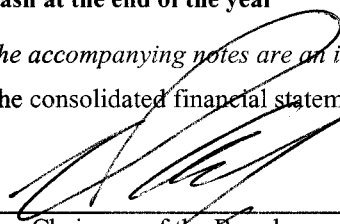
Member of the Board
Sergejs Golīcins


**CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED 31 DECEMBER 2000 AND 1999**

	2000 LVL'000	1999 LVL'000
Cash flow from operating activities		
Profit before corporate income tax and minority interest	964	697
Adjustments:		
Depreciation	1,016	964
Goodwill amortisation	32	
Interest expense	74	31
Interest income	(92)	(24)
Loss (Profit) on sale of fixed assets	603	(8)
Operating cash flow before movements in working capital	2,597	1,396
Changes in operating assets and liabilities:		
Inventory	(384)	(448)
Trade accounts receivable	(3,705)	362
Trade payables	2,520	27
Cash generated by operations	1,028	1,601
Income tax paid	(229)	(85)
Interest paid	(74)	(31)
Net cash provided by operating activities	725	1,485
Cash flow from investing activities		
Purchase of fixed assets	(1,160)	(804)
Proceeds on sale of property, plant and equipment	77	10
Acquisition of subsidiary	(1,026)	-
Interest received	92	24
Net cash used in investing activities	(2,017)	(770)
Cash flow from financing activities		
Issuance of share capital	-	389
Dividends paid	-	(388)
Net cash used in financing activities	-	1
Net (decrease) increase in cash	(1,292)	716
Cash at the beginning of the year	1,447	731
Cash at the end of the year	155	1,447

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

The consolidated financial statements were approved and signed on behalf of the Company by:


Chairman of the Board
Vasīlijs Melņiks


Member of the Board
Sergejs Goljicins

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2000 AND 1999**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General information

Riga Shipyard (the Company) was founded in 1913 in Riga, Latvia. The yard was privatised 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.

Basis of preparation of the consolidated financial statements

The consolidated financial statements have been prepared in accordance with International Accounting Standards. The accompanying consolidated financial statements are presented in the national currency of Latvia, the lat ("LVL").

All resulted gains and received services are presented on the historical cost basis of accounting in accordance with costs of purchase or production.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and the financial statements of its sole subsidiary A/S Tosmare Shipyard. All intercompany balances and transactions have been eliminated.

Foreign currencies

Transactions denominated in foreign currency are translated into LVL at the official Bank of Latvia exchange rate on the date of the transaction. Monetary assets and liabilities are translated at the rate of exchange on the balance sheet date. The applicable rate used for the principal currencies as at 31 December 2000 and 1999 were as follows:

	31 Dec 2000	31 Dec 1999
USD	0.6130000	0.583000
DEM	0.2914580	0.300392

Gains and losses on translation are credited or charged at the Bank of Latvia official exchange rate on the balance sheet date.

Exchange differences arising on the settlement of monetary items are recognised in the period in which they arise.

Accounts receivable

Accounts receivable is stated at their net realisable value. Accounts receivable represent the net value computed as balance due from customers less provision for doubtful debts. Provisions for doubtful debts represent the estimated amounts of probable losses that have been incurred at the balance sheet date.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2000 AND 1999**

Inventories

Inventories consist mainly of fuel for machinery and are stated at the lower of cost or market value. Cost is determined by the first-in, first-out method. Raw materials cost is based on replacement costs and for other inventories at net realisable value. Appropriate consideration is given to deterioration, obsolescence and other factors when evaluating net realisable value.

Fixed assets

Fixed assets are stated at historical cost, less accumulated depreciation.

The charge for depreciation is computed for all fixed assets using the historical costs. The charge of depreciation is computed using the straight-line method based on the following expected useful lives (in years):

Buildings	2.5 - 20
Machinery	2 - 10
Vehicles and other fixed assets	2 - 5

For tax purposes depreciation on tangible fixed assets is calculated under the double declining balance method over the period established in accordance with tax legislation.

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 consolidated financial statements.

Revenue recognition

Revenue earned from contracts for ship construction and repair are recognised using the completed-contract method. Under this method, expenses related to any certain contract are accumulated in work in process until the completion of that contract. Upon completion, capitalised costs are released to the statement of profit and loss as cost of sales and billings are recognised as sales.

Due to the relatively short-term nature of contracts and due to the fact that no significant change in the amount of contracts in process at year-end has occurred over the financial periods, the impact of not using the prescribed method is not material to the financials statements as a whole.

Income tax

Corporate income tax is calculated in accordance with Latvian tax legislation. Deferred taxation is provided for on all temporary differences arising between the accounting and taxation treatment of income and expenses. The deferred taxation liability is calculated based on the tax rates that are expected to apply when the temporary differences reverse. The principal temporary differences arise from differing rates of depreciation on property and equipment and tax losses carried forward. Where an overall deferred taxation

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2000 AND 1999**

asset arises, this is only recognised in the consolidated financial statements where its recoverability is foreseen with reasonable certainty.

Use of estimates

The preparation of consolidated financial statements according to International Accounting Standards requires management to make estimates and assumptions that effect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Financial Instruments

The group's principal financial assets are bank balances, Notes receivable, and trade receivables. Trade receivables are stated at their nominal value as reduced by the appropriate allowance for estimated irrecoverable amounts. Significant financial liabilities include finance leases obligations, interest bearing bank loans and overdrafts, and trade and other payables. Trade and other payables are stated at their nominal value.

Reclassification

Certain amounts in the previous year financial statements have been reclassified for the purpose of compliance with the reporting format of the current year.

Parent company

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2000 AND 1999**

2. FIXED ASSETS

LVL'000	Buildings	Equipment and Machinery	Other Fixed Assets	Construction in progress	Total
Historical cost					
31 December 1999	2,753	6,049	174	261	9,237
Additions	54	435	126	545	1,160
Acquisition of subsidiary	1,612	12	7	-	1,631
Disposals	(69)	(40)	(6)	(616)	(731)
31 December 2000	4,350	6,456	301	190	11,297
Accumulated depreciation					
31 December 1999	592	2,397	93	-	3,082
Charge for period	196	782	38	-	1,016
Acquisition of depreciation	74	1	-	-	75
Disposals	(5)	(40)	(6)	-	(51)
31 December 2000	857	3,140	125	-	4,122
Net book value					
31 December 1999	2,161	3,652	81	261	6,155
31 December 2000	3,493	3,316	176	190	7,175

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

3. LONG – TERM LOANS

At 31 December, long – term loans are composed of the following:

	2000 LVL'000	1999 LVL'000
Sale of ships	608	578
Other	35	35
Total	643	613
Due within one year	432	236
Long-term loans	211	377

Long – term loans 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 in 1999. As of 31 December 2000 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 instalments with a maturity date of 4 August 2002. The notes are unsecured and are free of interest. Subsequently to year end the notes have been converted into the shares of debtor.

A/S RIGA SHIPYARD

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2000 AND 1999

4. INVESTMENTS

The investment in the associated company consists of 689,453 common shares (1999: 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.

In November 1999, Latvijas Udensceli was declared insolvent. The Company has made alternative arrangements to safeguard its investment. The management of the Company believes that these alternative arrangements are sufficient to enable the company to fully realise the investment it has made in the associated company.

Subsequent to year-end on 26 March 2001, the Company concluded an agreement with Hebron Shipping Limited and Hudson Shipping Limited, jointly, to purchase 99% shares in Kattegat Dredging Shipping Ltd. and Labrador Dredging Shipping Ltd. (hereafter "Acquired Companies"), all companies being registered in Malta. These companies own specialised dredging vessels, equal to the par value of the share capital as evidenced by certificates of survey from independent marine surveyors approved by the Lloyd's register.

Payment for this transaction consists of the Company's transfer of all share of Latvijas Udensceli at its current book value of 1,317,150 LVL (or 2,057,402 USD per the exchange rate of the contract), forgiveness of debt owed to the Company by the Acquired Companies in the total amount of 1,625,812 USD, transfer to the seller of the right of claim to Latvijas Udensceli for repair work performed totalling 3,689 LVL (5,486 USD per the exchange rate of the contract) and assumption of a long-term note payable to the sellers in the amount of 1,494,967 USD with a due date of 26 March 2006 and required annual payment of no less than 300,000 USD.

5. INVENTORY

At 31 December, inventory are composed of the following:

	2000 LVL'000	1999 LVL'000
Raw materials and supplies	1,478	1,056
Work in process	1,151	1,230
Advance payments for goods	141	100
Total	2,770	2,386

6. TRADE RECEIVABLES

At 31 December, trade receivable is composed of the following:

	2000 LVL'000	1999 LVL'000
Trade accounts receivable	5,341	2,393
Provisions	(507)	(507)
Total	4,834	1,886

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2000 AND 1999**

7. OTHER RECEIVABLES

At 31 December, other receivables are composed of the following:

	2000	1999
	LVL'000	LVL'000
Other accounts receivable	779	272
Due from related parties	538	25
Prepaid expenses	22	119
Total	1,339	416

Trade and other receivables 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.

8. CASH

At 31 December, cash is composed of the following:

	2000	1999
	LVL'000	LVL'000
Cash in banks	143	1,435
Cash on hand	12	12
Total	155	1,447

9. CREDIT RISK

The Company's credit risk is primarily attributable to its trade receivables. The management believe that credit risk is low as the Company has acquired Credit Risk Insurance. The Company receives full compensation in case a debtor defaults, after deductible limits are reached.

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

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

10. SHARE CAPITAL

As of 31 December 2000 issued share capital consists of 11,672,107 (1999: 11,672,107) common shares with a nominal value of LVL 1 each. All shares are fully paid.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2000 AND 1999**

11. DEFERRED TAX

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

	2000 LVL'000	1999 LVL'000
Deferred tax liabilities at the beginning of the period	423	380
(Decrease) Increase of deferred tax liabilities and expenses	(198)	43
Deferred tax liabilities at the end of the period	225	423

12. SALES

For the year ended 31 December, Sales are comprised of the following:

	2000 LVL'000	1999 LVL'000
Ship Repairs	16,025	12,687
Ship Building	4,514	2,169
Other	207	330
Total	20,746	15,186

13. COST OF SALES

For the year ended 31 December, Cost of Sales is comprised of the following:

	2000 LVL'000	1999 LVL'000
Cost of materials and services	12,155	6,952
Salaries	3,616	2,045
Fixed assets depreciation	1,016	888
Social tax	917	550
Other costs	1,786	3,480
Total	19,490	13,915

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2000 AND 1999**

14. OTHER OPERATING INCOME

For the year ended 31 December, other operating income is comprised of the following:

	2000 LVL'000	1999 LVL'000
Rent income	213	264
Sale of inventory	152	114
Foreign currency exchange and revaluation difference	87	36
Tugging services	57	15
Other income	33	242
Total	542	671

15. INCOME TAXES

The tax charge for the year comprises the following:

	2000 LVL'000	1999 LVL'000
Current tax	222	144
Deferred tax	(198)	43
Total	24	187

16. EARNINGS PER SHARE

Earnings per share is based on the following data:

	2000	1999
Earnings (Net Profit for the year in thousands LVL)	946	510
Weighted number of common shares	11,672,107	11,672,107

17. ACQUISITION

Effective 28 March 2000, the Company acquired 60% of the share capital of A/S Tosmare Shipyard, from the Latvian Privatisation Agency in exchange for 1,026 LVL'000, which consists of cash consideration of 983 LVL'000 and 34 thousand privatisation vouchers with a cost of 43 LVL'000. The purchase price which exceeded the original basis of A/S Tosmare Shipyard is accounted for as goodwill.

This transaction has been accounted for by the purchase method of accounting for acquisitions.

No provisions for restructuring were recognised at the date of acquisition, nor in the period since that date.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2000 AND 1999**

18. CONTINGENCIES

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 these warranties, the management believe that any future losses will not be material.

On 19 and 27 October 2000, the Company issued guarantees to Unibanka for loans of its ultimate parent company, Baltijas Holdings, in the amount of 189,000 USD and 3,000,000 LVL respectively. These guarantees were outstanding as of 31 December 2000.

The Company has a line of guarantee from Unibanka. The balance of guarantees issued to the Company's suppliers from Unibanka as of 31 December 2000 was 3,120,792 USD. In February 2000, the Company prolonged the line of guarantee limited to 2,500,000 LVL for 18 months and secured the guarantee line with its inventory.

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