Report of International Auditors

To the shareholders of Northeast Electrical Transmission & Transformation Machinery Manufacturing Company Limited:
(a joint stock limited company incorporated in the People's Republic of China with limited liability)

We have audited the financial statements set out on pages 50 to 107 which have been prepared in accordance with accounting principles generally accepted in Hong Kong, other than as set out below.

RESPECTIVE RESPONSIBILITIES OF THE COMPANY'S DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants, except that the scope of our work was limited as explained below.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. However, the evidence available to us was limited.

1. The appropriateness of the going concern basis

For the years ended 31 December 1999 and 2000, the Group incurred significant losses of Rmb168,336,000 and Rmb364,737,000 respectively. Principally as a result of the loss, at 31 December 2000, the Company is not in compliance with certain financial covenants in respect of a syndicated bank loan of US$ 40,000,000 (equivalent to Rmb331,124,000). Moreover, pursuant to the original loan agreement a principal amount of US$13,333,000 (equivalent to Rmb110,375,000) will be due on 4 May 2001. However, up to date there is no indication that the Company is able to make the required repayment. The Company and the Group have net current liabilities of Rmb5,287,000 and Rmb305,028,000 respectively as at

31 December 2000. As explained in note 2 to the financial statements, the financial statements have been prepared on a going concern basis. The validity of the going concern basis of preparation depends on the assumptions made by the directors that the Company will be successful in obtaining a waiver from the syndicate and in extending the maturity date of the original loan agreement; an improvement in financial performance of the Group; and the success of the asset transfer arrangement (as explained in note 18 to the financial statements) with Northeast Electrical Transmission and Transformation Equipment Group Corporation ("NET"). However, in the absence of sufficient documentary evidence, we have been unable to ascertain whether the above assumptions made by the directors can be supported. Therefore we have been unable to satisfy ourselves that the going concern basis is appropriate.

Had the going concern basis not been used, adjustments would need to be made to reclassify non-current assets as current assets, to reclassify long term liabilities as current liabilities, to reduce the value of assets to their net realisable amounts and to provide for any further liabilities which might arise. Had the waiver from the syndicate not been obtained and the maturity date of the original loan agreement not been extended, adjustments would need to be made to reclassify the non-current portion of the bank loan of Rmb220,749,000 to current liabilities. There were no other satisfactory audit procedures that we could adopt to satisfy ourselves as to the appropriateness of the going concern basis, which may have a consequential effect on the Group's loss for the year and net assets at 31 December 2000.

2. The recoverability of loans to a third party company

As at 31 December 2000, the net assets of the Group included loans to a third party company of Rmb96,000,000. As more fully explained in note 24 to the financial statements, the loans were originally repayable on 15 September 1999. Although both parties had agreed to extend the loan repayment date to 31 December 2000 and certain property interests had been pledged as security, no repayment of loans has been made to date. The property which had been pledged for a loan of Rmb50,000,000 was replaced with a pledge of the shareholding in another company which is owned by a shareholder of the borrower. According to the audited financial statements of that company as at 31 December 2000 prepared in accordance with PRC Accounting Regulations, the fair value attributable to the pledged shareholding was approximately Rmb126,176,000. Therefore, the Company considered that it was not necessary to make a provision for doubtful debts against the loans. However, as we are unable to obtain an audited financial statements of that company prepared in accordance with Accounting Principles Generally Accepted in Hong Kong, we are unable to assess the fair value of the pledged shareholding. In the absence of sufficient documentary evidence, we have been unable to satisfy ourselves that the loans to a third party company are recoverable. There were no other satisfactory audit procedures that we could adopt to satisfy ourselves as to the recoverability of the loans to a third party company, which may have a consequential effect on the Group's loss for the year and net assets at 31 December 2000.

In forming our opinion we also evaluated the overall adequacy of presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

QUALIFIED OPINION

Disagreement on accounting treatment for amounts due from the holding company and other related companies

As at 1 January 2000, the net assets of the Group included amounts receivable from the holding company, NET and other related companies of Rmb545,067,000. As more fully explained in note 18 to the financial statements, during 2000 NET has partially settled an amount of Rmb344,843,000 by way of an asset transfer. This transaction was also approved by shareholders other than NET. On 22 December 2000, NET and the Company has reached another debt settlement agreement which stipulated that NET may partially settle the indebtedness by way of other asset transfers. As at 31 December 2000, the unsettled outstanding remaining balance amounted to Rmb217,341,000 comprised of trade debtors of Rmb70,655,000, trade creditors of Rmb14,822,000 and non-trade receivables of Rmb161,508,000. No repayment of the outstanding balance has been received from NET to date. The plan to partially settle the indebtedness by way of other asset transfers is still in progress.

In view of NET's failure to meet the terms of the debt settlement agreement in full so far, in our opinion, a provision should have been made. However, it is not practicable to estimate the amount of provision required.

Because of the significance of the possible effect of the limitation in evidence available to us as mentioned in the above paragraphs, we are unable to form an opinion as to whether the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2000 and of the loss of the Group for the year then ended. In our opinion, the financial statements give a true and fair view, of the cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Moores Rowland
Chartered Accountants
Certified Public Accountants
Hong Kong
20 April 2001