

(I). Report of PRC Auditors

Guangzhou China

Guangzhou Shipyard International Company Limited:

We have been appointed by the Company to conduct an audit of the balance sheet and the consolidated balance sheet as at 31st December 2000 and the profit and consolidated profit statement and the profit distribution for 2000 statement and the statement of cash flow for the year then ended (Details are set out in note 1 to 3) . The management of the Company shall be responsible for the truthfulness of the above-mentioned financial statements and our responsibility is to form an opinion on these financial statements based on our audit. We conducted our audit in accordance with the provisions of the “Independent Auditing Standards for Certified Public Accountants in the People’s Republic of China”, and based on the specific circumstances of the Company, we have reviewed the authenticity of the accounting records and carried out other auditing procedures considered necessary.

In our opinion, the financial statements attached to this report which have been prepared in accordance with the “Accounting Standards for Enterprises” and other relevant financial and accounting regulations of the “accounting rules for company limited”, give a fair view of the state of all significant affairs, the operating results and the cash flow of the Company for the year. The accounting policies as well as the classification and presentation of items in the financial statements are consistent with those adopted in the previous years.

Yangcheng Certified Public Accountants Company Limited

China Certified Public Accountants

Huang Wei Cheng, Xie Min

Guangzhou, China

April , 2001

TO THE SHAREHOLDERS OF
GUANGZHOU SHIPYARD INTERNATIONAL COMPANY LIMITED
(established in the People’s Republic of China with limited liability)

We have audited the financial statements on pages 78 to 109 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of 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. 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 circumstances of the Company and the Group, consistently applied and adequately disclosed.

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

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31st December 2000 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirement of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 20th April 2001