



To the shareholders of  
**Sinocan Holdings Limited**  
*(Incorporated in Bermuda with limited liability)*

We have audited the financial statements on pages 20 to 53 which have been prepared in accordance with accounting principles generally accepted in Hong Kong other than as set out below.

### **RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

The Companies Ordinance requires the directors to prepare 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 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 ("HKSA") 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 as follows:

#### **(1) Opening balances and comparative figures**

We draw your attention to the fact that the financial statements for the year ended 31 December 1999 were audited by another firm of accountants. We are required to satisfy ourselves as to the adequacy of the figures brought forward as at 1 January 2000 and the comparative figures included in the financial statements. The work we normally

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carry out to enable us to confirm the adequacy of these figures includes a review of prior year audit files. We were not able to review the audit files of the previous auditors for the year ended 31 December 1999. In addition, we have not been able to carry out alternative audit procedures covering the year ended 31 December 1999 to enable us to express an opinion on the figures brought forward as at 1 January 2000 and the comparative figures in these financial statements.

### **(2) Plant and machinery**

As a result of unsatisfactory market acceptance for two-piece cans, new products introduced by the Group early in 1999, the Group's plant and machinery related to the two-piece cans with a book value of approximately HK\$160,730,000 as at 31 December 2000 have been idle throughout the year. No provision for impairment in respect of these plant and machinery has been made. In the absence of an independent professional valuation of these assets or other satisfactory procedures, we have not been able to quantify the effect of impairment in the carrying value of these plant and machinery on the financial statements for the year ended 31 December 2000.

### **(3) Inventories**

Shanghai Sinocan Lianxing Metal Containers & Painting Co., Ltd, a subsidiary company, has raw materials, work in progress and finished goods amounting to HK\$30,044,437, HK\$8,482,701 and HK\$16,434,898 respectively which are included as part of the Group's total inventories as of 31 December 2000 and disclosed in Note 16 to the financial statements. We are unable to obtain sufficient information to determine whether the inventory balances are fairly stated. There were no other satisfactory audit procedures that we could adopt to confirm that the inventories balances are fairly stated in the financial statements.

### **(4) Trade payables, other payables and loans from shareholders/creditors**

We are unable to obtain sufficient information to determine whether the trade payables and other payables amounted to HK\$6,951,000 and HK\$26,187,000 respectively, which are included in the trade and other payables in the consolidated balance sheet and disclosed in note 18 to the financial statements, are fairly stated. There were no other satisfactory audit procedures that we could adopt to confirm that the trade payables and other payables balances are fairly stated in the financial statements.

**(4) Trade payables, other payables and loans from shareholders/creditors (continued)**

Loans from Itochu Corporation ("Itochu") and JHY International Inc. ("JHY"), both being shareholders of the Company, amounted to HK\$19,189,678 and HK\$513,503,000 respectively were included in the consolidated balance sheet as at 31 December 2000 and disclosed in notes 20 and 21 to the financial statements. We are not able to obtain sufficient information to determine whether the balances and terms of the loans are fairly stated. There were no other satisfactory audit procedures that we could adopt to confirm that the loans from Itochu and JHY are fairly stated and properly disclosed in the financial statements.

**(5) Subsidiaries not audited by us**

The Company has investments in the Fujian Sinocan Lianjian (Group) Co., Ltd., Desheng Lianfeng Tin Manufacture Co., Ltd, Fujian, Putian Lianfa Tin Manufacture Co. Ltd Fujian and Tianjin Sinocan Lianda Co., Ltd. (collectively referred as "PRC subsidiaries"). The unaudited financial information of the PRC subsidiaries was included in the financial statements of the Company. As the audited financial statements of these subsidiaries prepared under accounting principles generally accepted in Hong Kong are not available, we are not able to satisfy ourselves that the results and state of affairs of the PRC subsidiaries are properly stated in the financial statements of the Company for the year ended 31 December 2000.

In addition, included in note 26 to the financial statements for the year ended 31 December 2000 are capital commitments in respect of capital contributions to certain subsidiaries registered in the PRC in the amount of HK\$71 million. We are unable to obtain sufficient information regarding the amount of capital commitments of the Group as at 31 December 2000. There were no other satisfactory audit procedures that we could adopt to satisfy ourselves that the capital commitments disclosed on note 26 to the financial statements are fairly stated.

**(6) Net book value of certain pledged assets**

The banking facilities available to certain subsidiaries of the Company in the PRC amounted to HK\$107,607,000 are secured by the mortgage of certain assets of the Group. The net book value of the assets pledged to the banks in connections with the banking facilities are required to be disclosed in the financial statements of the Company in

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accordance with Paragraph 66(b) of HKSA Statement 2.117 "Property, Plant and Equipment". We are unable to obtain any information on the net book value of these assets. There were no other satisfactory audit procedures that we could adopt to satisfy ourselves that the information disclosed in note 19 to the financial statements are fairly stated.

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.

### **FUNDAMENTAL UNCERTAINTY RELATING TO THE GOING CONCERN BASIS**

In forming our opinion we have considered the adequacy of the disclosures made in note 2 to the financial statements concerning the adoption of the going concern basis on which the financial statements have been prepared. As explained in note 2 to the financial statements, the Company has experienced severe financial difficulty in the past few years and is currently negotiating with JHY, its shareholder and major creditor, for the purpose of restructuring the Group's indebtedness and revitalising the Group's financial position and business. The financial statements have been prepared on a going concern basis, the validity of which depends upon the successful outcome of its negotiations with JHY or any other further restructuring measures to be implemented to secure new or restructured funding for the Group and on the successful turnaround of its business. The financial statements do not include any adjustments that would result from the failure of these measures. We consider that the appropriate disclosures have been made, but the fundamental uncertainty relating to whether the going concern basis is appropriate is so extreme that we have disclaimed our opinion.

### **DISCLAIMER OF OPINION**

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 of the Group at 31 December 2000 and of the loss and cash flows of the Group for the year then ended and as to whether the financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance because of the significance of the fundamental uncertainty relating to the going concern basis and the significance of the effects of the limitation in scope in respect of the evidence available to us on matters set out in items (1) – (6) on the basis of opinion section of this report.

In respect alone of the limitation on our work as set out in the “Basis of opinion” section of this report:

- (i) we have not obtained all the information and explanations that we considered necessary for the purpose of our audit; and
- (ii) we were unable to determine whether proper books and records had been kept.

**RSM Nelson Wheeler**

*Certified Public Accountants*

Hong Kong

23 April 2001