

Report of the Auditors

TO THE SHAREHOLDERS OF SINOCAN HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 18 to 45 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

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 in the following respects:

1. Opening balances and comparative figures

We draw your attention to the fact that the financial statements for the year ended 31 December 2000 were audited by another firm of accountants who have expressed a disclaimer opinion on whether the financial statements gave a true and fair view of the state of affairs and the results of the Group. We are required to satisfy ourselves as to the accuracy of the figures brought forward as at 1 January 2001 and the comparative figures included in the financial statements. The work we normally carry out to enable us to confirm the accuracy 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 2000. In addition, we have not been able to carry out alternative audit procedures covering the year ended 31 December 2000 to enable us to express an opinion on the figures brought forward as at 1 January 2001 and the comparative figures in these financial statements.

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2. Plant and machinery

As a result of the obsolescence of two-piece cans, the Group's plant and machinery utilized for the production of two-piece cans with a carrying value of approximately HK\$183,325,000 as at 31 December 2001 has been idle throughout the year. No provision for impairment in respect of this plant and machinery has been made. In the absence of an independent professional valuation of these assets and other satisfactory procedures, we have not been able to quantify the effect of impairment in the carrying value of this plant and machinery on the financial statements for the year ended 31 December 2001.

3. Trade and other payables

We have not been able to obtain sufficient information to determine whether or not trade payables and other payables amounting to approximately HK\$5,951,000 and HK\$26,319,000 respectively, which are included in the line item of "trade and other payables" in the consolidated balance sheet and disclosed in note 19 to the financial statements, are fairly stated. There were no other satisfactory audit procedures that we could adopt to confirm that the above balances of trade payables and other payables are fairly stated in the financial statements.

4. Loans from minority shareholders of a subsidiary

Loans from Itochu Corporation ("Itochu Corp") and Itochu Hong Kong Limited ("Itochu HK"), both being minority shareholders of a subsidiary of the Company, amounting to approximately HK\$20,705,000 and HK\$13,803,000 respectively, were included in the consolidated balance sheet as at 31 December 2001 and disclosed in note 20 to the financial statements. We have not been able to obtain sufficient information to determine whether or not 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 above loan balances are fairly stated and properly disclosed in the financial statements.

5. Subsidiaries not audited by us

The Company has equity interests in Fujian Sinocan Lianjian (Group) Company Limited, Desheng Lianfeng Tin Manufacture Company Limited, Fujian, Putian Lianfa Tin Manufacture Company Limited, Fujian and Tianjin Sinocan Lianda Company Limited (collectively referred as the "PRC subsidiaries"). The unaudited financial information of the PRC subsidiaries was included in the financial statements of the Group. As audited financial statements of these subsidiaries prepared under Hong Kong generally accepted accounting principles are not available, we have not been able to satisfy ourselves that the results and state of affairs of the PRC subsidiaries are properly stated in the financial statements of the Group for the year ended 31 December 2001.

In addition, as disclosed in note 26 to the financial statements, capital commitments includes an amount of HK\$71,000,000 in respect of capital contributions to certain subsidiaries registered in the PRC. We have not been able to obtain sufficient information to verify the above amount of capital commitments of the Group as at 31 December 2001. 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.

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6. Interests in associates

We have not been able to obtain sufficient information to determine whether or not the share of net deficiencies in associates other than goodwill of HK\$3,662,000 prior to 15 October 1999 as disclosed in note 16 to the financial statements are fairly stated. There were no other satisfactory audit procedures that we could adopt to confirm that the balance is fairly stated in the financial statements. In addition, we have not able to obtain sufficient information in connection with the current status of the liquidation of the associates.

Included in note 27 to the financial statements for the year ended 31 December 2001 are contingent liabilities in respect of proportionate guarantees given to banks for borrowings of an associate, Kisco (BVI) Limited in the amount of HK\$19,757,000. We have not been able to obtain sufficient information to verify the amount of contingent liabilities to the Group as at 31 December 2001. There were no other satisfactory audit procedures that we could adopt to satisfy ourselves that contingent liabilities have been fully disclosed and fairly stated in note 27 to the financial statements.

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

In forming our opinion we have considered the adequacy of the disclosures made in note 3 to the financial statements concerning the adoption of the going concern basis on which the financial statements have been prepared. As explained in note 3 to the financial statements, the Group has experienced severe cash flows and financial difficulty in the past few years. The Company has been negotiating with JHY, its shareholder and largest creditor, for the purpose of restructuring the Group's indebtedness and revitalising its financial position and business. On 1 March 2002 JHY filed a petition to wind up the Company and is claiming for the principal sum and accrued interest totalling approximately HK\$567,084,000 from the Group.

We have also considered the adequacy of the disclosures made in note 3 to the financial statements concerning the judgement from the Shanghai Municipal First Intermediate People's Court in the PRC (the "People's Court") under an application by Bank of China (Shanghai Nanhui sub-branch) ("BOC") for the freezing and confiscation of certain plant and machinery of a major subsidiary, Shanghai Sinocan Lianxing Metal Containers & Printing Co Limited ("Lianxing"), which owed a sum of RMB39,860,000 to BOC, and the application by the Agricultural Bank of China (Shanghai Kangqiao Development Area sub-branch) ("ABC") to the People's Court demanding the immediate repayment of the outstanding default loan in the amount of RMB18,930,000 owed by Lianxing.

We have also considered the disclosure in note 3 to the financial statements with respect to a court judgment given by the High Court of Hong Kong Special Administrative Region in favour of Dao Heng Bank ("DHB") against the Company for a total amount of approximately \$3,820,000. It is expected that DHB will apply for a possession order of the mortgaged properties and to realize it for the satisfaction of the outstanding loan.

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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, BOC, ABC and DHB to resolve the above matters, or any other restructuring measures needed to be implemented to secure new funding for the Group, and on the successful turnaround of its business to profit. The financial statements do not include any adjustments that would result from a failure in meeting such conditions.

QUALIFIED OPINION: DISCLAIMER ON VIEW GIVEN BY FINANCIAL STATEMENTS

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 evidence available to us on matters set out in items (1) – (6) in the “Basis of opinion” section of this report, we are unable to form an opinion as to whether or not the financial statements give a true and fair view of the state of affairs of the Company and of the Group at 31 December 2001 and of the loss and cash flows of the Group for the year ended and as to whether or not the financial statements have been prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

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.

HORWATH HONG KONG CPA LIMITED

Certified Public Accountants

Chan Kam Wing, Clement

Practising Certificate number P02038

2001 Central Plaza
18 Harbour Road
Wanchai
Hong Kong