

# Chairman's Statement

On behalf of the Directors of Sinocan Holdings Limited (the "Company"), I present the annual results of the Company and its subsidiaries (together, the "Group") for the year ended 31 December 2001 to the shareholders.

## RESULTS

The Group suffered a slight decline in turnover and recorded a loss for the year. Turnover for the year amounted to approximately HK\$168 million, representing a decrease of approximately 19% as compared with last year. Loss attributable to shareholders was approximately HK\$108 million, equivalent to a loss per share of HK\$0.13 approximately.

## DIVIDENDS

The Board of Directors does not recommend the payment of any dividends for the year ended 31 December 2001.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review

The Group's principal activity consists of the manufacture of steel cans and plastic bottles for use in the beverage, food and chemical industries and the provision of tinplate processing, lacquering and printing services.

During the year, the Group's turnover recorded a decrease of approximately 19%. The turnover of steel cans business with its related services and the plastic bottles business recorded decreases of approximately 22% and 12% respectively as compared with last year.

The decrease in the Group's turnover for the year was attributed mainly to over-supply of three-piece steel can and the inducement of a continuous fall in the price of cans in the People's Republic of China (the "PRC") as the previous years. The plastic bottles market was also influenced that the price of plastic bottles recorded a fall simultaneously during the year. The Directors believe that the overall market atmosphere for the beverage container industry remains poor and hence the nature of business in that competition is almost entirely based on price.

The Company, as mentioned in published announcements dated 1 February 2002 and 4 March 2002 made, received a statutory demand from JHY International Inc. ("JHY"), the Company's largest creditor and substantial shareholder, claiming for a sum of approximately HK\$563 million (the "Debt") inclusive of interest accrued as at 31 January 2002 and further received a winding-up petition (the "Petition") filed by JHY against the Company at the High Court of the Hong Kong Special Administrative Region on 1 March 2002 claiming for a principal sum of approximately HK\$429 million with interest of approximately HK\$137 million, totaling approximately HK\$567 million as at the date of Petition.

As mentioned in the published announcements, the Debt was originally assigned by 21 creditor banks (the "Banks") of the Company to JHY (subject to retention of rights over certain securities) pursuant to an agreement dated 13 October 1999 in respect of various loan and other facility documentation entered into between the Banks and the Company, and all amounts due by the Company under such agreements.

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The Petition is scheduled to be heard at the High Court of the Hong Kong Special Administrative Region on 19 June 2002. The Company is seeking legal advice on the defense of the Petition. The Company will attempt to negotiate with the petitioner with an aim to reaching a possible settlement out of the Court and the directors of the Company consider that the Petition would not have an immediate material impact on the day-to-day operation and financial position of the Group. However, if it fails in the negotiation, the Company could be forced into liquidation.

Shanghai Sinocan Lianxing Metal Containers & Printing Co., Limited ("Lianxing"), a subsidiary of the Company, as stated in the published announcements dated 7 February 2002, received a judgment (the "Judgment") from the Shanghai Municipal First Intermediate People's Court (the "People's Court") in the PRC under an application by Bank of China (Shanghai Nanhui sub-branch) ("BOC") for the freezing and confiscation of certain plant and machinery of Lianxing, for a sum of approximately RMB39 million (the "BOC Debt"). Later, Lianxing, as stated in the published announcements dated 25 March 2002, received a further judgment (the "Further Judgment") from the People's Court against Lianxing for a judgment sum of approximately RMB39 million, equivalent to approximately HK\$37 million, with interest (the "Judgment Sum") to be paid within ten days from the date of Judgment. As the BOC Loan has not expired, the Board does not know the exact reason why the Judgment and the Further Judgment were made by the Court.

Lianxing received a statutory demand dated 28 March 2002 from Agricultural Bank of China (Shanghai Kangqiao Development Area sub-branch) ("ABC") for a sum of RMB18 million (the "ABC Debt") and a writ of summon dated 22 March 2002 from the People's Court. The ABC Debt is due by Lianxing to ABC pursuant to a short-term loan agreement (the "ABC Loan Agreement") entered into between Lianxing and ABC dated 24 March 2000. Under the ABC Loan Agreement, a loan of RMB27 million has been advanced by ABC to Lianxing for a period from 24 March 2000 to 22 March 2002 for general working capital uses.

The Group will seek legal advice as to PRC laws in response to these Judgments.

As at the date of this statement, the operation of Lianxing is not affected by these Judgments. Should BOC and ABC enforce the security under the Agreement to recover the Judgment Sum and the Sum of the ABC Debt respectively, the operation of Lianxing may be materially affected. Nevertheless, the Board considers that in the event Lianxing is materially affected by the above-mentioned Judgments, the Group still has sufficient level of operations through another major subsidiary of the Company to warrant the continued listing of the shares of the Company on The Stock Exchange of Hong Kong Limited.

The Company had given several guarantees in proportion to its shareholding in an associate (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited), Kisco (B.V.I.) Limited, in respect of its bank borrowings of approximately HK\$44 million in total. This resulted in contingent liabilities of approximately HK\$20 million to the Company.

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## **Liquidity and Financial Resources**

As at 31 December 2001, the Group's cash on hand and deposits held in banks totaled approximately HK\$2 million, representing a decrease of approximately 94% compared with that as at 31 December 2000.

As at 31 December 2001, the total assets of the Group were approximately HK\$549 million, representing a decrease of approximately 18% as compared with that as at 31 December 2000.

The Group continued to have a high gearing ratio, calculated on the basis of the Group's interest-bearing loans over deficiency on shareholders' funds, at approximately 262% whereas the current ratio was approximately 14% as at 31 December 2001.

As at 31 December 2001, the Group's outstanding borrowings amounted to approximately HK\$662 million, including the loans from minority shareholders of subsidiaries amounted to approximately HK\$34 million which are unsecured, bear interest at the Hong Kong dollar best lending rate and have no fixed terms of repayment. The bank loans amounted to approximately HK\$67 million were repayable within one year and certain assets of the Group were pledged to secure bank loans granted to the Group.

## **Employees and remuneration policies**

As at 31 December 2001, the Group had approximately 380 full time managerial, administrative and production staff, the majority of them are employed in the PRC. For the year, the number of employees of the Group remained stable. The Group remunerates its employees largely based on the prevailing industry practice and provides rent-free quarters to most of its employees in the PRC. Remuneration packages are structured to reward and motivate individual performance and contribution to the Group. Review of remuneration policies are conducted on a regular basis.

## **Business prospects**

Currently the Group is still facing a severe liquidity problem and unsatisfactory business environment. In the meantime, the Group is financing the daily activities through internal generating resources. The ability of the Group to operate and steer through the existing difficult period depends on the successful outcome of the restructuring plans and any further measures to be implemented by the Company to turnaround the Group's business.

## **ACKNOWLEDGEMENT**

Finally, I would like to take this opportunity to thank my colleagues in the Board and staff members at every level for their support and hard working during the year.

## **Wong Man Wing**

*Chairman*

Hong Kong  
26 April 2002