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## **SINO-TECH INTERNATIONAL HOLDINGS LIMITED**

**泰豐國際集團有限公司\***

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 724)**

### **FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2010**

The board of directors (the “Board”) of Sino-Tech International Holdings Limited (the “Company”) is pleased to announce the audited consolidated financial results of the Company and its subsidiaries (collectively, the “Group”) for the year ended 31 December 2010.

#### **RESULTS OVERVIEW**

During the year ended 31 December 2010 (the “Reporting Period”), the Group recorded a turnover from continuing operations of approximately HK\$785.1 million, representing an increase of 45.7% compared with approximately HK\$538.9 million for the year ended 31 December 2009 (the “Corresponding Period”). The increase in turnover was mainly due to higher sales of electronic products and the full-year contribution from logistics services.

Net loss from continuing operations for the Reporting Period was reduced to approximately HK\$532.2 million from approximately HK\$770.9 million in the Corresponding Period mainly due to decreased impairment loss on goodwill. The loss for the year was mainly attributable to the impairment loss on goodwill and other intangible assets, the amortisation of other intangible assets, the imputed interest on convertible notes, and the share option expenses (collectively, the “Non-cash Items”).

The impairment loss on goodwill and other intangible assets, the amortisation of other intangible assets, the imputed interest on convertible notes, and the share option expenses arise as a result of accounting treatment under the provisions of the applicable accounting standards and are of non-cash nature. Before these Non-cash Items, the Group made a marginal loss of HK\$0.8 million in 2010, as compared with a profit of HK\$22.4 million in 2009.

\* *For identification purpose only*

## FINANCIAL HIGHLIGHTS

	<b>2010</b>	2009
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
Turnover from continuing operations	<b>785,121</b>	538,855
Gross profit from continuing operations	<b>51,696</b>	77,694
Loss for the year from continuing operations	<b>532,180</b>	770,904
Loss for the year from discontinued operations	–	9,087
Loss for the year attributable to owners of the Company	<b>532,180</b>	779,991
Impairment loss on goodwill	<b>98,662</b>	780,309
Impairment loss on other intangible assets	<b>211,558</b>	–
Amortisation of other intangible assets	<b>143,885</b>	16,557
Imputed interest on convertible notes	<b>45,944</b>	5,573
Share option expenses	<b>31,310</b>	–
<b>Net (loss) profit for the year before impairment loss on goodwill and other intangible assets, amortisation of other intangible assets, imputed interest on convertible notes and share option expenses</b>	<b>(821)</b>	22,448

## FINAL DIVIDEND

The Board does not recommend the payment of final dividend for the year ended 31 December 2010 (2009: Nil).

## CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2010

	<i>Notes</i>	<b>2010</b> <b>HK\$'000</b>	2009 HK\$'000
<b>Continuing operations</b>			
Turnover	3	<b>785,121</b>	538,855
Cost of sales		<b>(733,425)</b>	(461,161)
Gross profit		<b>51,696</b>	77,694
Other income		<b>6,418</b>	1,562
Distribution costs		<b>(6,934)</b>	(4,481)
Administrative expenses		<b>(53,167)</b>	(28,721)
Impairment loss on goodwill		<b>(98,662)</b>	(780,309)
Impairment loss on other intangible assets		<b>(211,558)</b>	–
Amortisation of other intangible assets		<b>(143,885)</b>	(16,557)
Share option expenses		<b>(31,310)</b>	–
Gain arising on change in fair value of investment property	9	<b>6,652</b>	–
Impairment loss on trade receivables		–	(3,967)
Other expenses		<b>(60)</b>	(2,114)
Finance costs	4	<b>(47,016)</b>	(5,581)
Loss before taxation	5	<b>(527,826)</b>	(762,474)
Taxation	6	<b>(4,354)</b>	(8,430)
Loss for the year from continuing operations		<b>(532,180)</b>	(770,904)
<b>Discontinued operations</b>			
Loss for the year from discontinued operations		–	(9,087)
Loss for the year attributable to owners of the Company		<b>(532,180)</b>	(779,991)
Loss per share (in Hong Kong cents):	8		
From continuing and discontinued operations			
Basic		<b>(7.61)</b>	(19.28)
Diluted		<b>(7.61)</b>	(19.28)
From continuing operations			
Basic		<b>(7.61)</b>	(19.05)
Diluted		<b>(7.61)</b>	(19.05)

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

	<b>2010</b> <b>HK\$'000</b>	2009 HK\$'000
Loss for the year	<b>(532,180)</b>	(779,991)
Other comprehensive (expenses) income		
Exchange differences arising on translation of foreign operations	<b>(138)</b>	1,249
Release of foreign exchange reserve upon disposal of subsidiaries	<u>          -</u>	<u>(2,346)</u>
Other comprehensive expenses for the year	<u><b>(138)</b></u>	<u>(1,097)</u>
Total comprehensive expenses for the year attributable to owners of the Company	<u><b>(532,318)</b></u>	<u>(781,088)</u>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2010

	<i>Notes</i>	<b>2010</b> <i>HK\$'000</i>	2009 <i>HK\$'000</i>
<b>Non-current assets</b>			
Property, plant and equipment		<b>162,945</b>	138,576
Investment property	<i>9</i>	<b>300,000</b>	–
Goodwill		<b>657,895</b>	756,557
Other intangible assets		<b>118,000</b>	473,443
Deposits for acquisition of property, plant and equipment		<b>21,202</b>	174
		<b>1,260,042</b>	1,368,750
<b>Current assets</b>			
Deposits paid for potential investments		<b>64,500</b>	14,500
Inventories		<b>197,052</b>	106,262
Trade and bills receivables	<i>10</i>	<b>272,219</b>	226,067
Prepayments, deposits and other receivables		<b>87,024</b>	3,685
Deposits in other financial institution		<b>446</b>	446
Tax recoverable		<b>1,627</b>	–
Bank balances and cash		<b>30,767</b>	345,837
		<b>653,635</b>	696,797
<b>Current liabilities</b>			
Trade and bills payables	<i>11</i>	<b>172,707</b>	71,233
Other payables and accruals		<b>30,105</b>	14,016
Amount due to a director		<b>471</b>	182
Tax payable		–	7,266
Bank borrowings – secured		<b>162,593</b>	–
Obligations under finance leases		<b>314</b>	14
		<b>366,190</b>	92,711
<b>Net current assets</b>		<b>287,445</b>	604,086
<b>Total assets less current liabilities</b>		<b>1,547,487</b>	1,972,836

	<b>2010</b>	2009
<i>Notes</i>	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
<b>Non-current liabilities</b>		
Obligations under finance leases	262	25
Convertible notes	498,416	664,606
Employee benefits	150	107
Deferred tax liabilities	11,678	8,298
	<u>510,506</u>	<u>673,036</u>
<b>NET ASSETS</b>	<b><u>1,036,981</u></b>	<b><u>1,299,800</u></b>
<b>Capital and reserves</b>		
Share capital	86,828	61,165
Reserves	950,153	1,238,635
	<u>1,036,981</u>	<u>1,299,800</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2010*

## 1. Basis of preparation

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”), Hong Kong Accounting Standards (“HKASs”) and Interpretations (hereinafter collectively referred to as the “HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), and the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Listing Rules”).

The consolidated financial statements are presented in Hong Kong dollars (“HK\$”), unless otherwise stated and have been approved for issue by the Board on 23 March 2011.

## 2. Principal accounting policies

The consolidated financial statements have been prepared on the historical cost basis, except for certain investment property and financial instruments, which are measured at revalued amounts or fair values, as appropriate.

In current year, the Group has applied the following new and revised standards, amendments and interpretations (“Int”) (“new and revised HKFRSs”) issued by the HKICPA.

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvement to HKFRSs 2008
HKFRSs (Amendments)	Improvements to HKFRSs 2009
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 39 (Amendment)	Eligible Hedged Items
HKFRS 1 (Revised)	First-time Adoption of HKFRSs
HKFRS 1 (Amendment)	Additional Exemptions from First-time Adopters
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions
HKFRS 3 (Revised)	Business Combinations
HK – Int 5	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners

Except as described below, the adoption of the new and revised HKFRSs had no material effect on the consolidated financial statements of the Group for the current or prior accounting periods.

#### *HKFRS 3 (Revised) Business Combinations*

The Group applies HKFRS 3 (Revised) Business Combinations prospectively to business combinations for which the acquisition date is on or after 1 January 2010. The requirements in HKAS 27 (Revised) Consolidated and Separate Financial Statements in relation to accounting for changes in ownership interests in a subsidiary after control is obtained and for loss of control of a subsidiary are also applied prospectively by the Group on or after 1 January 2010.

As there was no transaction during the current year and prior year in which HKFRS 3 (Revised) and HKAS 27 (Revised) are applicable, the application of HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to other HKFRSs had no effect on the consolidated financial statements of the Group for the current or prior accounting periods.

Results of the Group in future periods may be affected by future transactions for which HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to the other HKFRSs are applicable.

HK-Int 5 – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause clarifies that term loans that include a clause that gives the lender the unconditional right to call the loans at any time (“repayment on demand clause”) should be classified by the borrower as current liabilities. The Group has applied HK-Int 5 for the first time in the current year with no retrospective application being made as the Group did not have any term loan with repayment on demand clause at 1 January 2009 and 31 December 2009.

Bank loans (that are repayable more than one year after the end of the reporting period but contain a repayment on demand clause) with the aggregate carrying amount of approximately HK\$162,593,000 has been classified as current liabilities in the consolidated statement of financial position as at 31 December 2010. The application of HK-Int 5 has had no impact on the reported profit or loss, total comprehensive income and equity for the current and prior years.

Such term loans have been presented in the earliest time band in the maturity analysis for financial liabilities that reflects the remaining contractual maturities.



### ***Standards or interpretations issued but not yet effective***

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs 2010 except for the amendments to HKFRS 3 (Revised in 2008), HKFRS 7, HKAS 1 and HKAS 28 <sup>1</sup>
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters <sup>3</sup>
HKFRS 1 (Amendments)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters <sup>5</sup>
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets <sup>5</sup>
HKFRS 9	Financial Instruments <sup>7</sup>
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets <sup>6</sup>
HKAS 24 (Revised)	Related Party Disclosures <sup>4</sup>
HKAS 32 (Amendment)	Classification of Rights Issues <sup>2</sup>
HK(IFRIC)–Int 14 (Amendment)	Prepayment of a Minimum Funding Requirement <sup>4</sup>
HK(IFRIC)–Int 19	Extinguishing Financial Liabilities with Equity Instruments <sup>3</sup>

<sup>1</sup> *Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate.*

<sup>2</sup> *Effective for annual periods beginning on or after 1 February 2010.*

<sup>3</sup> *Effective for annual periods beginning on or after 1 July 2010.*

<sup>4</sup> *Effective for annual periods beginning on or after 1 January 2011.*

<sup>5</sup> *Effective for annual periods beginning on or after 1 July 2011.*

<sup>6</sup> *Effective for annual periods beginning on or after 1 January 2012.*

<sup>7</sup> *Effective for annual periods beginning on or after 1 January 2013.*

HKFRS 9 Financial Instruments issued in November 2009 and amended in October 2010 introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition.

- HKFRS 9 requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at fair value at the end of subsequent accounting periods.
- The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was recognised in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors of the Company anticipate that HKFRS 9 that will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new standard may have a significant impact on amounts reported in respect of the Group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

HKAS 24 Related Party Disclosures (Revised) modifies the definition of a related party and simplifies disclosures for government-related entities.

The disclosure exemptions introduced in HKAS 24 (Revised) do not affect the Group because the Group is not a government-related entity. However, disclosures regarding related party transactions and balances in these consolidated financial statements may be affected when the revised standard is applied in future accounting periods. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the consolidated financial statements.

### **3. Turnover and segment information**

The Group's operating and reportable segments, based on information reported to the chief operating decision maker ("CODM"), for the purposes of allocating resources to segments and assessing their performance are as follows:

- (a) Electronic products segment engages in the manufacture and trading of electronic and electrical parts and components.
- (b) Logistics services segment engages in providing shipping and transportation logistics services.
- (c) Property investment segment engages in properties investments.

The logistics services segment was introduced during the year ended 31 December 2009 as a result of the acquisition of CITIC Logistics (International) Company Limited ("CITIC Logistics").

Property investment segment was introduced during the year ended 31 December 2010 as a result of the acquisition of an investment property.

### Segment revenue and results

The following is an analysis of the Group's revenue and results from continuing operations by reportable segments:

	Electronic products		Logistics services		Property investment		Total	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Sales to external customers	751,196	536,492	33,925	2,363	-	-	785,121	538,855
Other income	3,353	5	267	11	-	-	3,620	16
Total segment revenue	<u>754,549</u>	<u>536,497</u>	<u>34,192</u>	<u>2,374</u>	<u>-</u>	<u>-</u>	<u>788,741</u>	<u>538,871</u>
Contribution to segment results	18,062	48,222	(901)	(2,621)	4,851	-	22,012	45,601
Impairment loss on goodwill	-	-	(98,662)	(780,309)	-	-	(98,662)	(780,309)
Impairment loss on other intangible assets	-	-	(211,558)	-	-	-	(211,558)	-
Amortisation of other intangible assets	-	-	(143,885)	(16,557)	-	-	(143,885)	(16,557)
Segment results	<u>18,062</u>	<u>48,222</u>	<u>(455,006)</u>	<u>(799,487)</u>	<u>4,851</u>	<u>-</u>	<u>(432,093)</u>	<u>(751,265)</u>
Unallocated corporate income							2,798	1,546
Unallocated corporate expenses							(52,538)	(7,174)
Finance costs							(45,993)	(5,581)
Loss before taxation							<u>(527,826)</u>	<u>(762,474)</u>

Segment results represent the (loss) profit made by each segment without allocation of bank and other interest income, exchange gains/losses, corporate income and expenses, central administration cost, share option expenses and finance costs (except finance costs on borrowings solely obtained to finance the acquisition of investment property). This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

#### 4. Finance costs

	2010 HK\$'000	2009 HK\$'000
<b>Continuing operations</b>		
Borrowing costs on:		
Bank borrowings not wholly repayable within five years	1,023	-
Obligations under finance leases	49	8
Imputed interest on convertible notes	<u>45,944</u>	<u>5,573</u>
	<u>47,016</u>	<u>5,581</u>

## 5. Loss before taxation

Loss before taxation is arrived at after charging:

	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
<b>Continuing operations</b>		
Cost of inventories recognised as expenses	700,849	457,029
Cost of services provided	29,476	4,132
Staff costs	60,971	15,961
Depreciation of property, plant and equipment		
– owned assets	32,901	26,641
– assets held under finance leases	270	2
Auditor's remuneration	686	523
Allowance of inventories (included in cost of sales)	3,100	–
Exchange loss, net	–	1,714
Impairment loss on property, plant and equipment (included in other expenses)	–	1,818
Impairment loss on trade receivables	–	3,967
Write off of property, plant and equipment (included in other expenses)	60	296
	<u>60</u>	<u>296</u>

## 6. Taxation

The amount of taxation in the consolidated income statement represents:

	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
<b>Continuing operations</b>		
Current tax – provision for Hong Kong Profits Tax		
– charge for the year	982	11,724
– over-provision in prior years	(8)	–
	<u>974</u>	<u>11,724</u>
Deferred tax		
– current year	3,380	(3,294)
	<u>4,354</u>	<u>8,430</u>

Hong Kong Profits Tax is calculated at 16.5% (2009: 16.5%) on the estimated assessable profits for the year ended 31 December 2010.

## 7. Dividends

	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Interim dividend of HK Nil cent (2009: HK0.10 cent) per share	<u>–</u>	<u>3,797</u>

The Board does not recommend the payment of final dividend for the year ended 31 December 2010 (2009: Nil).

## 8. Loss per share

### *From continuing and discontinued operations*

The calculation of basic and diluted loss per share attributable to owners of the Company is based on the following data:

	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
<b>Loss</b>		
Loss for the purpose of basic and diluted loss per share	<u>532,180</u>	<u>779,991</u>

	2010 <b>Number of shares '000</b>	2009 <b>Number of shares '000</b>
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	<u>6,996,793</u>	<u>4,046,562</u>

The calculation of diluted loss per share for the year ended 31 December 2010 did not assume the exercise of the Company's share options as the exercise price of the share options was higher than the average market price for shares. The calculation of diluted loss per share for the year ended 31 December 2010 did not assume the conversion of the Company's outstanding convertible notes and exercise of the Company's warrants as the conversion of convertible notes and exercise of warrants would result in a decrease in loss per share.

The calculation of diluted loss per share for the year ended 31 December 2009 did not assume the conversion of the Company's outstanding convertible notes and exercise of the Company's warrants as the conversion of convertible notes and exercise of warrants would result in a decrease in loss per share.

### ***From continuing operations***

The calculation of basic and diluted loss per share from continuing operations attributable to owners of the Company is based on the following data:

	<b>2010</b> <b>HK\$'000</b>	2009 <i>HK\$'000</i>
<b>Loss</b>		
Loss for the year attributable to owners of the Company	<b>532,180</b>	779,991
<i>Less:</i> Loss for the year from discontinued operations	<u>–</u>	<u>9,087</u>
Loss for the purpose of basic and diluted loss per share	<b><u>532,180</u></b>	<b><u>770,904</u></b>

The denominators used are the same as those detailed above for both basic and diluted loss per share.

### ***From discontinued operations***

For the year ended 31 December 2009, both basic and diluted loss per share from discontinued operations was based on the loss for the year from discontinued operations of approximately HK\$9,087,000 and the denominators detailed above for both basic and diluted loss per share.

## **9. Investment property**

	<i>HK\$'000</i>
At 31 December 2009 and at 1 January 2010	–
Addition during the year	293,348
Gain arising on change in fair value	<u>6,652</u>
At 31 December 2010	<b><u>300,000</u></b>

The fair value of the Group's investment property at 31 December 2010 has been arrived at on the basis of a valuation carried out at that date by Savills Valuation and Professional Services Limited ("Savills"), an independent qualified professional valuer not connected with the Group. Savills has appropriate qualifications and recent experience in the valuation of similar properties in the relevant locations. The valuation was arrived at by reference to market evidence of transaction prices for similar properties in the same locations and conditions.

The investment property is situated in Hong Kong and held under medium-term lease.

The investment property has been pledged to secure bank borrowings of the Group of HK\$162,593,000 (2009: Nil).

## 10. Trade and bills receivables

The Group allows an average credit period of 30 to 180 days to its trade customers.

The following is an aged analysis of trade and bills receivables net of impairment presented based on the due date at the reporting date:

	<b>2010</b> <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Current	<b>203,073</b>	199,599
Overdue:		
– Within 3 months	<b>21,280</b>	22,648
– 4-6 months	<b>204</b>	2,322
– 7-12 months	<b>47,662</b>	1,498
	<u><b>272,219</b></u>	<u>226,067</u>

## 11. Trade and bills payables

The following is an aged analysis of trade and bills payables presented based on the due date at the reporting date:

	<b>2010</b> <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Current	<b>111,320</b>	56,270
Overdue:		
– Within 3 months	<b>58,353</b>	10,452
– 4-6 months	<b>1,423</b>	3,602
– 7-12 months	<b>1</b>	668
– Over 12 months	<b>1,610</b>	241
	<u><b>172,707</b></u>	<u>71,233</u>

## **12. Event after the reporting period**

On 6 October 2010, CITIC Logistics entered into a sale and purchase agreement (as amended by a supplemental agreement dated 14 December 2010) (the “Original 90% Agreement”) with Pioneer Blaze Limited and Mr. Li Weimin, an executive director and a substantial shareholder of the Company, to acquire a total of 90% equity interest in CITIC Logistics Company Limited (“CITIC Logistics BJ”). On 11 February 2011, the Original 90% Agreement was superseded by a new agreement with, among other matters, a revised aggregate consideration of HK\$210,393,289. The consideration will be satisfied by the issue and allotment of a maximum of 743,439,182 consideration shares by the Company. Completion of this transaction is subject to the fulfillment of certain conditions including but not limited to, the approval by independent shareholders at the special general meeting of the Company to be held on 25 March 2011.

On 25 November 2010, CITIC Logistics entered into a sale and purchase agreement (the “Original 10% Agreement”) with 中信汽車公司 to acquire the remaining 10% equity interest in CITIC Logistics BJ. On 11 February 2011, the Original 10% Agreement was superseded by a new agreement with, among other matters, a revised aggregate consideration of HK\$46,969,595. The consideration will be satisfied by the issue and allotment of a maximum of 165,970,300 consideration shares by the Company. Completion of this transaction is subject to the fulfillment of certain conditions including but not limited to, the approval by independent shareholders at the special general meeting of the Company to be held on 25 March 2011.

The acquisition was not completed at the date of these consolidated financial statements. For details of the above transactions, please refer to the circular of the Company dated 28 February 2011.



## MANAGEMENT DISCUSSION AND ANALYSIS

### Business and Financial Review

Turnover of the Group (from continuing operations) increased by 45.7% to HK\$785.1 million in 2010 from HK\$538.9 million in 2009 mainly due to higher sales of electronic products and the full-year contribution from logistics services. Gross profit (from continuing operations) for the year, however, fell by 33.5% to HK\$51.7 million from HK\$77.7 million in 2009 due to margin squeeze in the electronic products segment. Net loss (from continuing operations) for the year was reduced to HK\$532.2 million from HK\$770.9 million in 2009 mainly due to decreased impairment loss on goodwill. The loss for the year was mainly attributable to the impairment loss on goodwill and other intangible assets, the amortisation of other intangible assets, the imputed interest on convertible notes, and the share option expenses.

The impairment loss on goodwill and other intangible assets, the amortisation of other intangible assets, the imputed interest on convertible notes, and the share option expenses (collectively, the “Non-cash Items”) arise as a result of accounting treatment under the provisions of the applicable accounting standards and are of non-cash nature. Before these Non-cash Items, the Group made a marginal loss of HK\$0.8 million in 2010, as compared with a profit of HK\$22.4 million in 2009.

In line with the global economic recovery, the electronic products segment recorded an increase in turnover by 40.0% to HK\$751.2 million in 2010 from HK\$536.5 million in 2009. Segment profit for the year, however, decreased by 62.4% to HK\$18.1 million from HK\$48.2 million in 2009 mainly due to a significant drop in the gross margin. Labour shortages continued to be a serious issue in 2010, especially in Guangdong Province, the PRC. Shortages in workforce resulted in substantial increases in labour cost, which exerted heavy burden on the electronic components manufacturing business. Raw material cost and all other production expenses also rose significantly as a result of the continuing appreciation of Renminbi and the inflation problem.

The logistics services segment reported revenue of approximately HK\$33.9 million in 2010. The year-on-year comparison was not applicable as the logistics services business came on board only in November 2009. Revenue contributions from the segment, however, were not considered as substantial, as shipping services for the Angola project were temporarily interrupted during the year as a result of a maritime arbitration between CITIC Logistics BJ and the former handling agent for the Angola project over the termination of the cooperation agreement made between CITIC Logistics BJ and the former handling agent (the “Angola Arbitration”). The Angola Arbitration is still in progress. According to the notice from China Maritime Arbitration Commission dated 28 September 2010, the deadline for the ruling of the Angola Arbitration has been extended to 29 March 2011. Partly helped by a new logistics services project, the segment recorded a marginal loss of HK\$0.9 million before the impairment loss on goodwill and other intangible assets, and the amortisation of other intangible assets.

The property investment segment reported a profit of HK\$4.9 million in 2010 following gains of HK\$6.7 million in the change in fair value of the investment property as at the end of the Reporting Period.

## **Liquidity, Financial Resources and Capital Structure**

The Group mainly finances its business operations with internally generated cash flows and general banking facilities.

As at 31 December 2010, the Group had bank balances and cash of HK\$30.8 million (2009: HK\$345.8 million). Working capital of the Group was HK\$653.6 million (2009: HK\$696.8 million) and the Group's current ratio (measured as total current assets to total current liabilities) was approximately 1.8 times (2009: 7.5 times). The decrease in the Group's current ratio was mainly due to the acquisition of the investment property and the increase in trade and bills payables during the year ended 31 December 2010.

As at 31 December 2010, the secured bank borrowings of the Group amounted to approximately HK\$162.6 million (2009: Nil), which were secured by the investment property of the Group with carrying value of approximately HK\$300.0 million (2009: Nil) and the corporate guarantee provided by the Company. The gearing ratio, which is calculated by total interest bearing borrowings to total equity, was approximately 15.7% (2009: 0.003%).

As at 31 December 2010, the Company had zero coupon convertible notes due on 15 November 2014 (the "Convertible Notes") in the aggregate principal amount of HK\$662.4 million with an initial conversion price of HK\$0.12 per conversion share. During the year under review, Convertible Notes in the aggregate principal amount of HK\$288.0 million were converted into 2,400 million new ordinary shares of HK\$0.01 each in the capital of the Company.

As at 31 December 2010, the Group had capital expenditure commitments amounted to HK\$33.8 million (2009: HK\$6.4 million) and mainly in respect of the acquisition of property, plant and equipment.

The directors of the Company (the "Directors") believe that existing financial resources will be sufficient for current operations and capital expenditures requirement. Should other opportunities arise requiring additional funding, management also believes that the Group is in a good position to obtain financing on favorable terms.

## **Significant Investments**

On 14 March 2010, China LWM Property Limited, a wholly-owned subsidiary of the Company, entered into an agreement with an independent third party to acquire a residential property for investment purpose at a cash consideration of HK\$280.0 million, before transaction costs. The property is located at No. 8 Severn Road, the Peak, Hong Kong with a gross floor area of approximately 4,650 square feet.

## **Material Acquisitions and Disposals of Subsidiaries and Associated Companies**

On 6 October 2010, CITIC Logistics entered into a sale and purchase agreement (as amended by a supplemental agreement dated 14 December 2010) (the “Original 90% Agreement”) with Pioneer Blaze Limited and Mr. Li Weimin (“Mr. Li”), an executive Director and a substantial shareholder of the Company, to acquire a total of 90% equity interest in CITIC Logistics BJ. Mr. Li is a connected person (as defined under the Listing Rules) of the Company by virtue of his substantial shareholdings and directorships in the Company and CITIC Logistics BJ. On 11 February 2011, the Original 90% Agreement was superseded by a new agreement with, among other matters, a revised aggregate consideration of HK\$210,393,289. The consideration will be satisfied by the issue and allotment of a maximum of 743,439,182 consideration shares by the Company. Completion of this transaction is subject to the fulfillment of certain conditions including but not limited to, the approval by independent shareholders at the special general meeting of the Company to be held on 25 March 2011.

On 25 November 2010, CITIC Logistics entered into a sale and purchase agreement (the “Original 10% Agreement”) with 中信汽車公司 to acquire the remaining 10% equity interest in CITIC Logistics BJ. As the acquisition of the entire equity interest in CITIC Logistics BJ (the “Acquisition”) would be considered as a whole, this transaction also constitutes a connected transaction under the Listing Rules. On 11 February 2011, the Original 10% Agreement was superseded by a new agreement with, among other matters, a revised aggregate consideration of HK\$46,969,595. The consideration will be satisfied by the issue and allotment of a maximum of 165,970,300 consideration shares by the Company. Completion of this transaction is subject to the fulfillment of certain conditions including but not limited to, the approval by independent shareholders at the special general meeting of the Company to be held on 25 March 2011.

For details of the above transactions, please refer to the circular of the Company dated 28 February 2011. Save as disclosed above, the Group did not have any material acquisitions and disposals of subsidiaries and associated companies during the Reporting Period.

### **Charge on Group’s Assets**

As at 31 December 2010, the Group’s investment property, with carrying value of approximately HK\$300.0 million (2009: Nil), was pledged to secure the banking facilities granted to the Group.

### **Foreign Exchange Exposures**

The Group mainly earns revenue and incurs costs in Hong Kong dollars, US dollars and Renminbi. The management is aware of the possible exchange rate exposure due to the continuing appreciation of Renminbi and will closely monitor its impact on the performance of the Group to see if any hedging policy is necessary. With regard to the US dollars, foreign exchange exposure would be minimal so long as the Hong Kong SAR Government’s policy to peg the Hong Kong dollars to the US dollars remains in effect.

## **Contingent Liabilities**

As at 31 December 2010, the Group had the following material contingent liabilities:

On 15 July 2009, one of the subsidiaries of Classic Line International Limited (“Classic Line”), a former subsidiary of the Company, has been and is the subject of a judgment (in the amount of approximately US\$13.5 million) obtained in a United States court in an action in respect of damages allegedly arising out of use of fire lighters sold by the subsidiary of Classic Line. The Company is one of the co-defendants for the judgement. On 28 September 2009, the Company entered into an agreement to dispose the entire issued share capital of Classic Line and the disposal was completed on 31 October 2009.

## **Employee and Remuneration Policy**

As at 31 December 2010, the Group had 2,576 (2009: 2,100) fulltime employees in Hong Kong and the PRC. Total staff costs (including directors’ remuneration but excluding share option expenses) for the year ended 31 December 2010 amounted to HK\$36.8 million (2009: HK\$16.0 million). The employees are remunerated with reference to the qualification, experience, responsibility and performance of the individual, the performance of the Group and the market practices. Apart from the basic remuneration package and the mandatory provident fund scheme, the Company also operates a share option scheme of which the Board may, at its discretion, grant options to eligible employees of the Group.

## **Events after the Reporting Period**

Please refer to note 12 to the consolidated financial statements of this results announcement for details of events after the Reporting Period.

## **Future Outlook**

According to the International Monetary Fund (the “IMF”), the world economy is recovering, but it is a two-speed recovery. In an update to its World Economic Outlook report in January 2011, the IMF forecast that the world economy, the emerging economies and China’s economy would grow by 4.4%, 6.5% and 9.6%, respectively in 2011. In the report the IMF said that the emerging economies were expected to keep up brisk growth although it warned that inflation pressures were rising. The United States and Germany are leading the recovery among advanced economies. However, the pace of growth is not sufficient to largely reduce unemployment even as private demand recovers. In addition, the Group notices that a slew of other issues may pose risks to the global economic growth, including political turmoil in the Middle East and North Africa, rising energy prices, European sovereign debt crisis, the potential cessation of quantitative easing, potential declines in government spending, China’s credit tightening, and the Japanese earthquake and nuclear crisis. According to a report dated 21 February 2011 in the Financial Times (“FT”), many analysts fear that a sharp rise in oil prices would act as a tax on the global economy. Higher energy costs will also add to inflationary pressures, which in turn may further increase political tensions.

China's official Purchasing Managers' Index of 52.2 in February 2011 showed that growth in the manufacturing sector remained robust, though tighter monetary conditions appear to have reduced the pace of activity to a six-month low. The Group continues to believe that China's economy is slowing towards more sustainable growth and the pace will remain steady and fast as domestic consumption will increasingly drive economic growth. Nonetheless, the Group also shares some economists' view that China may continue to face relatively high inflationary pressures at least in the first half of 2011. The central government could be under pressure to accelerate the pace of tightening to curb inflation and property prices. This together with the tightness in the labor market and rising material costs point to potential steeper increases in input costs for mainland-based manufacturers. According to an FT article dated 6 January 2011, the extent to which China will embrace tightening in earnest today has consequences that resonate far beyond China itself, influencing growth and the price of commodities everywhere.

Against this backdrop, the Board believes that the year of 2011 will present both challenges and opportunities to the Group.

China's total logistics revenue (全國社會物流總額) and total logistics costs (全國社會物流總費用) in 2010 increased by 15.0% and 16.7% year-on-year, respectively. Logistics revenue for industrial products in 2010 rose by 14.6% year-on-year and accounted for 90.2% of total logistics revenue. The ratio of total logistics costs against GDP fell slightly to 17.8% in 2010 from 18.1% in 2009. On the back of strong industry data and the belief that the pace of China's economic growth will remain steady and fast, the Group thinks that the logistics industry in China will keep up robust growth and continues to see good development opportunities, particularly in the industrial logistics sector. The Group is, therefore, in the process of acquiring the entire equity interest in CITIC Logistics BJ and the Acquisition may be completed in the mid of 2011. While continuing to improve the execution and cost control of existing logistics projects, the Group is also actively sourcing new projects in an effort to expand the revenue stream of its logistics services business. The Group intends to resume shipping services for the Angola project after the ruling of the Angola Arbitration is issued (regardless of the outcome).

The Acquisition, if materialized, will further strengthen the logistics services business of the Group by providing an established platform to participate in large-scale industrial projects in China. It will expand the Group's scope of logistics services to engineering logistics and logistics project management from chemical logistics and shipping services. Through the Acquisition, the Group will take effective control over the logistics projects for the Zhanjiang Steel Base secured by CITIC Logistics BJ. By further leveraging the market position and industry qualifications of CITIC Logistics BJ in China, the Group will gain a better position in entering into prospective logistics projects in China. For more details on the Acquisition, please refer to the circular issued by the Company on 28 February 2011.

The Group expects that operating costs for the electronic products business will continue to increase in the year of 2011 as labour shortages cannot be resolved in a short period of time. The continuous strengthening in labour protection act in China with effect from 1 March 2011 will increase labour cost by approximately 20%, which in turn will increase the cost of operations for the electronic products segment, as labour cost forms a significant portion of the overall production cost. Inflation is another issue which will increase material cost and other input cost. Thus the year of 2011 is expected to be another tough year for the electronic products business. The Group will cautiously review its operations and will focus more on customers with higher profit margins.

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

## **CORPORATE GOVERNANCE PRACTICE**

The Company has complied with the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 of the Listing Rules during the Reporting Period, however:

Under the code provision A.4.1 of the CG Code, non-executive directors should be appointed for a specific term, subject to re-election. Mr. Ho Chi Fai, an independent non-executive Director, is not appointed for a specific term but his directorship is subject to retirement by rotation and re-election in accordance with the bye-laws of the Company (the "Bye-Laws") and the Listing Rules. Under the Bye-Laws, one-third of the Directors shall retire from office by rotation at each annual general meeting. This means a Director's specific term of appointment cannot exceed three years for a total of nine Directors.

Under the code provision A.4.2 of the CG Code, all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. Mr. Li Weimin, Mr. Wang Jianzhi and Mr. Huang Hanshui, all of whom are executive Directors, were not re-elected at the first general meeting after their appointment but their directorships will be subject to re-election by shareholders at the special general meeting of the Company to be held on 25 March 2011.

## **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted the Model Code as its own code of conduct regarding securities transactions by Directors. Having made specific enquiry of the Directors, all the Directors confirmed that they had complied with the required standards as set out in the Model Code for the year ended 31 December 2010.

## **SCOPE OF WORK OF SHINEWING (HK) CPA LIMITED**

The figures contained in this announcement of the Group's results for the year have been agreed by the Group's auditor, SHINEWING (HK) CPA Limited, to the amounts set out in the Group's consolidated financial statement for the year ended 31 December 2010. The work performed by SHINEWING (HK) CPA Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements, or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently, no assurance has been expressed by SHINEWING (HK) CPA Limited on this announcement.

## **AUDIT COMMITTEE**

The audit committee of the Company has reviewed the Group's consolidated financial statements for the year ended 31 December 2010, including the accounting principles and practices adopted by the Group, in conjunction with the auditor of the Company.

## **PUBLICATION OF FINAL RESULTS AND ANNUAL REPORT**

This results announcement is published on our website at <http://www.irasia.com/listco/hk/sinotech/index.htm> and the website of The Stock Exchange of Hong Kong Limited. The 2010 Annual Report will be despatched to the shareholders of the Company and will be available at the above websites in due course.

By order of the Board  
**Sino-Tech International Holdings Limited**  
**Li Weimin**  
*Executive Director*

Hong Kong, 23 March 2011

*As at the date of this announcement, the Board comprises Mr. Li Weimin, Mr. Wang Jianzhi, Mr. Lam Yat Keung and Mr. Huang Hanshui as executive directors; Academician Liu Renhuai and Mr. Xin Luo Lin as non-executive directors; and Mr. Ho Chi Fai, Ms. Liu Yanfang and Professor Ma Hongwei as independent non-executive directors.*