

I am pleased to present to our shareholders the annual report of Sino InfoTech Holdings Limited (the "Company") and its subsidiaries (the "Group") for the year ended 31 December 2001.

## Review of Operations and Prospects

During the year ended 31 December 2001, the Group achieved a turnover of approximately HK\$85,413,000, representing a decrease of approximately 56% compared to that of the previous year. The loss from operating activities of the Group was approximately HK\$31,583,000 as compared to approximately HK\$21,500,000 of last year. The increase in loss from operating activities was resulted from the decrease in the Group's turnover and gross margin on sales because of severe price competition and sluggish demand of the Group's products. The Group has recorded an attributable loss to shareholders of approximately HK\$70,486,000 this year. This included a provision for impairment in value of goodwill on acquisition of interest in an associate and provision for impairment loss on the associate, Wu Holdings Limited ("Wu Holdings"), of approximately HK\$5,357,000 and approximately HK\$24,387,000 respectively.

The Group owns 28.84% of Wu Holdings, which in turn owns 47.7% (2000: 56.2%) of Qiao Xing Universal Telephone, Inc. ("Qiao Xing"). Wu Holdings' interest in Qiao Xing was diluted as a result of the issuance of new shares by Qiao Xing in relation to the conversion of convertible debentures into Qiao Xing' shares by the debenture holders. In this year, the Group's share of loss and tax credit of Wu Holdings were approximately HK\$11,530,000 and approximately HK\$2,703,000 respectively.

On 31 December 2001, the Group entered into an agreement (the "Agreement") with Bermuda Trust (Cook Islands) Limited ("Bermuda Trust"), the trustee of The Qiao Xing Trust, pursuant to which the Group has conditionally agreed to sell, and Bermuda Trust has conditionally agreed to purchase the Group's entire interest in Wu Holdings for a consideration of approximately HK\$40 million. Subsequent to the balance sheet date, on 1 March 2002, the transaction was approved by the independent shareholders of the Company in a special general meeting. Up to the date of report, the conditions as specified in the Agreement had not yet been fully fulfilled and, accordingly, the said transaction has not been completed.

The Group will continue to search for investment opportunities and to increase its liquidity and capital base.

## Dividend

The Directors do not recommend the payment of any dividends for the year ended 31 December 2001 (2000: Nil).

## Liquidity and Financial Resources

The Group's daily operating activities were financed by internal sources and banking facilities (trust receipt loans). Cash deposits of HK\$6,000,000 and the Group's leasehold land and buildings in Hong Kong were pledged to a bank to secure banking facilities granted to a subsidiary of the Group. As at 31 December 2001, these facilities were utilised to approximately HK\$2,947,000 (2000: HK\$3,712,000).

On 29 May 2001, the Company has placed and allotted 100,452,778 shares to United Home Limited for cash. The net proceed from the placement was approximately HK\$11.5 million and was used as working capital of the Group.

As at 31 December 2001, the Group's equity was approximately HK\$78 million (2000: HK\$137 million). The Group had no long-term debt as at 31 December 2001 and 2000. The gearing ratio, which was computed by current liabilities over shareholders' fund, was 40.9% (2000: 34.7%).

## Foreign Currencies and Treasury Policy

Most of the Group's business transactions, assets and liabilities are denominated in Hong Kong Dollars, United State Dollars or Renminbi. It is the Group's treasury policy to manage its foreign currency exposure whenever its financial impact is material to the Group. During the year, the Group does not have any fixed interest rate borrowings and has not engaged in any financial instruments for hedging or speculative activities.

## Employees

As at 31 December 2001, the Group had approximately 900 (2000: 1,200) employees in Hong Kong and the PRC. Salaries, bonuses and benefits were decided in accordance with market conditions and performance of the respective employees.

## Conclusion

On behalf of the Board of Directors, I would like to thank our management and staff for their hard work and our valued suppliers, customers and shareholders for their continued support.

**YEH Shuen Ji**

*Chairman*

Hong Kong, 24 July 2002