

## Chairman's Statement

On behalf of the board of directors (the "Directors"), I am pleased to present to the shareholders the results and operations of Ying Wing Holdings Limited (the "Company") and its subsidiaries (the "Group") for the year ended 31 December 2000.

### RESULTS

The year ended 31 December 2000 was a year of business realignment for the Group and during the year, the Group was faced with difficult operating business environment. The Group's turnover for the year ended 31 December 2000 amounted to HK\$124,742,000, representing a drop of 41% over the previous year. Loss attributable to shareholders amounted to HK\$13,601,000, comparing with profit attributable to shareholders of HK\$27,514,000 in the previous year. Substantial drop in operating results was due to a combination of factors, including overall industry drop in market prices for finished fabric products, management's decision to scale down the processing of raw fabric, and allocation of the Group's resources to set up new production facilities for snack food business resulting in certain pre-operating expenses

### DIVIDEND

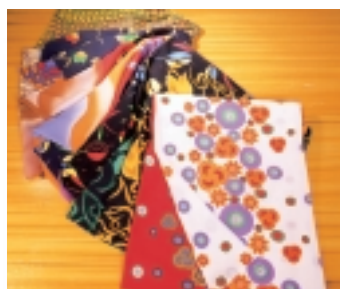
The Directors do not recommend the payment of a final dividend for the year ended 31 December 2000.

### CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Tuesday, 8 May 2001 to Tuesday, 15 May 2001, both days inclusive, during which period no transfer of shares will be effected. In order to establish entitlement to attend and vote at the forthcoming annual general meeting, all share transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Secretaries Limited of 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong for registration, not later than 4:00p.m. on Monday, 7 May 2001.

### REVIEW OF OPERATIONS

During the year, processing of raw fabric and sale of finished fabric are still the major business of the Group. It accounted for approximately 80% of the Group's turnover. In January 2000, the Group entered into a joint venture agreement with an independent third party to establish a sino-foreign equity joint venture in Shantou Free Trade Zone, the mainland People's Republic of China (the "PRC"), in which the Group has 80% equity interest. The principal activity of this new joint venture is to manufacture and sell snack food in the PRC. During the year, the Group has injected capital of approximately HK\$23 million in respect of this joint venture.



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### PROCESSING OF RAW FABRIC AND TRADING OF FABRIC

During the year, the Group's traditional core business, which is the processing of raw fabric and trading of fabric, suffered from difficult market conditions. Fierce competition among the manufacturers in the PRC continued from last year. Turnover from these business activities dropped significantly. Since the Group expected to sustain a positive level of gross profit margin, it has suffered from losing several major customers during the year. In order to maintain its competitiveness in the market, the Group in fact has lowered its gross profit margin to retain its existing customers and thus resulted in an overall decrease in turnover and gross profit margin.

During the year, as explained in the 1999 Annual Report of the Company, the Group applied funds of approximately HK\$8 million, out of net proceeds raised in December 1998, for installation and upgrading of certain existing processing equipment, with an aim to improve the Group's production efficiency. While new equipment were introduced, there were old machines scrapped and disposed during the year. Despite continuous efforts made on cost controls in production overhead and upgrading processing technology, the Group recorded a loss before taxation of HK\$6,443,000 in these core business activities. The loss was mainly attributable to the following reasons:

- Increase of prices of raw material and substantial decrease in selling prices caused a substantial decline in the overall gross profit margin.
- Disposal of certain obsolete processing machinery at a loss of approximately of HK\$3 million.
- Provision for doubtful debts of approximately HK\$3 million in response to the changes in market conditions and customers' payment pattern.

### SNACK FOOD

During the year, a new joint venture company in Shantou Free Trade Zone, the PRC was established to manufacture and sell snack food in the PRC markets. The Group entered a technical agreement with a food technologist company in the United Kingdom. Pursuant to the agreement, the Group obtained the recipe, the process and technical know-how to enable the Group to manufacture fabricated snack food products in the PRC. Experienced food consultants and food technologists from oversea countries and food engineers in the PRC have joined the company in setting up production line. Commercial production of stackable fabricated potato chips, which are packed in paper tubes under the brand name of "Kolorful", had been successfully commenced in November 2000.



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The Group recorded a loss before taxation of HK\$8,088,000 in snack food business. It was mainly due to the following reasons:

- Research and development expenditure of approximately HK\$3.9 million mainly paid to consultants from the United Kingdom for their professional advice and management in respect of the snack food project.
- Pre-operating expenses of approximately HK\$1.5 million for the establishment of new production line.
- Promotion and marketing expenses of approximately HK\$1 million.

### LIQUIDITY AND FINANCIAL RESOURCES

During the year, the Group relied primarily upon funds generated internally from the Group's operating activities and bank borrowings. As at 31 December 2000, bank borrowings amounted to HK\$11 million, which were mainly utilized to fund its new investment in snack food business. Despite the drop in operating results for the year, the Group's liquidity and financial position remained healthy with its current ratio at 1.1 (1999: 1.5) and its gearing ratio, which is measured on the basis of the Group's total borrowings over shareholders' fund, at 0.18 (1999: 0.18) at the balance sheet date. Cash and bank balances amounted to HK\$23 million at the balance sheet date (1999: HK\$31 million).

In view of the Group's current cash and working capital position together with its existing available banking facilities, the Directors are confident that the Group will have sufficient funds to meet its present requirements for business operations and debt repayment in accordance with the scheduled maturity.

### EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2000, the Group employed approximately 900 full time managerial, administrative and production staff in the PRC and in Hong Kong. The Group remunerates its employees based on their performance, experience and prevailing industry practice. The Group has a share option scheme and provides rent-free quarters to its employees in the PRC.

### PROSPECTS

Looking ahead, the Directors are of the opinion that the business environment for the processing of raw fabric and trading of fabric will still be very tough. Signs of slowing down of demands in the finished fabric products of the Group were seen in the beginning of the year 2001. In response, the Group is keeping on its strategic decision made in last year by reducing the exposure in the business of processing and trading of fabric under this harsh business environment. Low and negative gross profit margin products have been reduced or stopped in production, and the Group will concentrate in the manufacture of positive or higher gross profit margin products. As there is no indication of any significant improvement in market condition of raw fabric business, the Directors do not expect that the Group's result performance in this business activity will significantly improve in the coming year.

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In view of snack food business, "Kolorful" potato chips received fairly favorable response since its launching to the market. Marketing plans have been implementing to further enhance the image of the Group's "Kolorful" brand name. Frequent well-organized promotion activities will be carried out in coming year to make the Group's brand name well established in the PRC. The Group has drawn up sales strategies for marketing this new product and will continue its efforts to extend the sales network in the PRC. The Directors are confident that this business will have good potential grow in the future and expect satisfactory return from it will be provided to the Group in the coming year.

The Group will continue to put great effort in controlling its production and administrative costs in all its business activities and allocate its resources to the business with best potential and returns so as to get improvement in the Group's operating results in the years to come.

### APPRECIATION

On behalf of the Directors, I would like to take this opportunity to express my sincere gratitude to our loyal staff for their contribution and their dedication and to our shareholders, customers, suppliers and business associates for their continuing support.

On behalf of the Board

**TSOI Hon Chung**

*Chairman*

Hong Kong, 27 March 2001