

The Board of Directors (the "Directors") of Ying Wing Holdings Limited (the "Company") announces the unaudited consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2001, together with the comparative figures. These condensed interim financial statements have not been audited, but were reviewed by the Company's audit committee.

## RESULTS

For the six months ended 30 June 2001, the turnover of the Group amounted to HK\$16,518,000 (2000: HK\$64,402,000), representing a substantial decrease of 74% over that of the same period last year. Loss attributable to shareholders was HK\$12,052,000, compared with profit attributable to shareholders of HK\$2,037,000 of the corresponding period last year.

## BUSINESS REVIEW AND PROSPECTS

During the first half year of 2001, apart from its core business of raw fabric processing, the Group has gradually diversified its business activities into the manufacture and sale of snack food. As to the business restructuring, the Directors have taken into consideration of the serious slowdown as noted in the Group's business of raw fabric processing. Processing of raw fabric will no longer represent significant contribution to the Group's revenue and operating result in the foreseeable future. Therefore, the Group continues to shift its focus from the processing of raw fabric to the manufacture and sale of snack food. The Directors believe that such movement is in the interests of the Group as a whole and expect satisfactory returns from the snack food business will be provided to the Group in the medium to long term.

### Processing of raw fabric and trading of fabric

The first half year of 2001 was a difficult period for the Group's traditional business activities, which were the processing of raw fabric and trading of fabric. During the period, the Group continued to face intense competition from state-owned enterprises in the mainland People's Republic of China (the "PRC"). Competitors have been offering big price cuts to boost sales, resulting in very tough market competition. Substantial decrease in selling prices followed by the Group caused substantial decline in the Group's overall gross profit margin. In addition, despite the fact that the Group has taken positive steps to carry out a series of measures for credit control on trade debts and to shorten time for collection of book debts in order to minimize the possibility of bad debts, the Group still had a substantial increase in long outstanding trade receivables at the balance sheet date.

For the period under review, the Group recorded a loss before taxation of HK\$10,438,000 in the business of raw fabric processing. The loss was mainly attributable to the following reasons:

- Substantial drop in overall gross profit margin due to substantial decrease in selling prices;
- Provision for doubtful debts of HK\$4,975,000 in response to the changes in market conditions and customers' payment pattern; and
- Disposal of certain processing machinery at a loss of HK\$874,000.

Apart from the processing of raw fabric, the Group did not have any trading of fabric during the period because trading of fabric now carried very low gross profit margin but at relatively higher risk in collection of trade debts.

Looking ahead, the Directors are of the opinion that the business environment for the raw fabric processing will still be very tough. Fierce market competition will continue to exert pressure on selling prices. Moreover, the environmental protection issue in the PRC will be a big concern to the Group. During the process of bleaching and dyeing of raw fabric, a substantial quantity of polluted water will be discharged. The Group has existing polluted water treating facilities that meet the relevant environmental standards of the PRC and has the polluted water treated before being discharged. However, as environmental concern now becomes one of the big issues for local government of the PRC to handle, the Directors foresee that additional and more stringent environmental protection laws and regulations in the PRC will be imposed. It means that operation costs for processing raw fabric may substantially increase, and as a result of which the Group's profitability may be adversely affected.

As there is no indication of any favorable improvement in market conditions of raw fabric business, the Directors expect to scale down this business in the coming half year. In order to apply the Group's resources more effectively, certain old and idle processing machines will be disposed in the second half of the year.

### **Manufacture and sale of snack food**

As disclosed in the 2000 Annual Report of the Company, the Group has established a joint venture company in Shantou Free Trade Zone, the PRC last year to manufacture and sell snack food in the PRC. In order to enable the Group to manufacture high quality fabricated potato chips, the Group has obtained the recipe, the process and technical know-how from a food technologist company in the United Kingdom. Commercial production of stackable fabricated potato chips, which are packed in composite paper can under the brand name of "Kolorful", had been successfully commenced in November 2000.

During the period, the Group recorded a loss before taxation of HK\$2,224,000 in the snack food business. It was mainly because the joint venture company has not achieved the economy of scale since its establishment in November last year. In addition, as "Kolorful" is a new brand to the PRC consumers, much cost was incurred for product promotion and development of brand image for the PRC markets.

The Group has adopted the most stringent manufacturing and quality control standards. All processing equipments and machineries were purchased from European countries; they are first-rate equipment with great potential for expansion. Experienced food consultants and food technologists from overseas have joined the company in setting up production line and producing satisfactory products. Most of raw materials for production are sourced from overseas so as to enable the Group to provide high and stable quality products to consumers. Since its commercial production, the Group has introduced fabricated potato chips in five different flavors to the PRC markets, which were original, sour cream and onion, hot and spicy, barbecue and tomato flavors. Products are well accepted by the PRC consumers and the Group will continue to provide potato chips with more new flavors and different taste.

Whilst strengthening the snack food quality control to enhance its competitiveness, the Group has taken positive steps to enlarge its customer base to boost sales. The Directors decided that in the second half year of 2001, additional working capital will be arranged for marketing development and setting up of distribution network in various cities in the PRC. As a result, the Directors do not expect the result performance from snack food business will substantially improved in the second half year. However, with improved living standard and the ever-increasing popularity of snack food in the PRC, the Directors believe that the Group's fabricated potato chips will be highly popular in the PRC markets. The Directors are confident that this business will have good potential to grow in the future and expect satisfactory returns from it will be provided to the Group in the medium to long term.

## **Business Outlook**

The overall business environment of the Group's raw fabric processing is expected to remain difficult. In the coming year, the Group's core business will be mainly on the manufacture and sale of potato chips.

In addition, the Directors, with the Group's existing financial resources, will continue to consider any possibility of business diversification with the objective to reverse the Group's negative results brought by the Group's existing activities. The Directors will explore new business and investment opportunities in a prudent manner. Various business proposals are now under consideration by the Directors, included one for which the Group has appointed a consultant to carry out a preliminary flexibility study in respect of setting up a new joint venture company in the PRC for processing Chinese patent medicine. Nevertheless, the Directors will adopt a prudent investment policy in selecting new investment that could provide new sources of profit to the Group and lead to future growth of the Group.

## **LIQUIDITY AND FINANCIAL RESOURCES**

During the period, the Group generally finances its operations with internally generated cash flow and bank borrowings. At 30 June 2001, the Group had outstanding bank borrowings of HK\$14 million, all of which were due within one year and were mainly utilized as working capital for the Group's business operations. Despite the drop in operating results for the period, the Group's liquidity and financial position remained healthy with its current ratio at 0.97 (at 31 December 2000:1.1) and its gearing ratio, which was measured on the basis of the Group's total borrowings over shareholders' fund, at 0.17 (at 31 December 2000:0.18) at the balance sheet date. Bank balances and cash amounted to HK\$15.6 million (at 31 December 2000:HK\$23 million) at the balance sheet date.

During the period, a subsidiary of the Group in the PRC made use of low-interest Renminbi bank loan to maintain its financial flexibility for local working capital. Of the total bank borrowings at 30 June 2001, a bank loan of Renminbi 3 million, equivalent to approximately HK\$2.8 million, was secured by the Group's land and buildings in the PRC with a total net book value of approximately HK\$7.2 million at the balance sheet date. Other bank borrowings were in Hong Kong Dollars and were secured by the corporate guarantee of the Company to the extent of HK\$31.1 million and personal guarantee given by certain directors of the Company.

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 fund requirements for business operations in the coming year and debt repayment in accordance with the scheduled maturity.