

MANAGING DIRECTOR'S STATEMENT AND ANALYSIS

I am pleased to make the seventh Annual Report of Pacific Andes International Holdings Limited for the financial year ended 31 March 2001. The year 2001 was a remarkable one for the Group in terms of sales growth, profitability and strategic focus. Pacific Andes continued to identify unique opportunities and adapt to frequently changing business environments.

The management has placed great efforts into developing and diversifying its business to achieve substantial growth of 27.8% in turnover and 61.1% in net profit for the year ended 31 March 2001.

Results

For the year ended 31 March 2001, the Group's turnover increased 27.8% to HK\$2.67 billion, compared to last year's figure of HK\$2.09 billion. Profit attributable to shareholders soared 61.1% to HK\$56.7 million against last year's figure recorded at HK\$35.2 million.

Basic earnings per share for the year amounted to HK8.6 cents, compared to HK5.4 cents for the year 2000.

Return on equity, representing a ratio of earnings before taxation over shareholders' funds and minority interests, improved from last year's 7.5% to 9.4%.

The Group's total borrowings as at 31 March 2001 were about HK\$575 million, representing an increase of 18.8% compared to the previous year. This is due to an increase in the trade related borrowings as a result of an increase in turnover. The debt-to-equity ratio stood at the comfortable level of 61%. Debt represents interest-bearing borrowings less discounting advances drawn on trade receivables with insurance coverage and cash and deposits with financial institutions. Equity comprises shareholders' funds and minority interests.

Dividend

Barring unforeseen circumstances and a requirement for profits to be retained for specific expansion plans, the board of directors propose, starting from fiscal year 2001, distributing one-third of the Group's net profit as dividend to shareholders. The board of directors expect that dividend will be paid once in September/October every year. As such, a final dividend of HK3 cents per share has been proposed to shareholders.

Review of Business

The operating environment for fiscal year 2001 remained challenging for the Group with the purchasing power of EU customers declining with the weak Euro, the slowdown of the Japanese economy, prevailing high rates of interest during the year, the increase in oil prices and the cut in fish quotas for Alaska pollock, one of our major products.

Thanks to the insight of the Group's management, developing various internal measures to mitigate the difficult operating environment and implementing successful marketing strategies to maintain the quality of the Group's sales and increasing market share, our results for the year were non-the-less remarkable.

Review of Operations

Seafood Division

During the year under review, the Group sold approximately 205,000 metric tonnes of seafood products, compared to 159,000 metric tonnes over the same period last year. This represented an increase of approximately 28.9%. Sales for seafood products increased approximately 31.4%, amounting to HK\$2,614 million.

With a strong demand for our products and the increment in product prices, the sales of frozen fish and fillets and portions increased 53.3% and 8.4% respectively.

Sales by Geographical Location

The PRC remains the major market for the Group, accounting for 51% of the Group's total sales mix. Of our total sales, North America and Western Europe accounted for 24% and 16% respectively.

With the increase in the volume and price of our new value added products, sales to Western Europe soared 52.9% from the previous year to HK\$437 million. Sales to North America increased by 10.1% to HK\$630 million.

The slowdown of the Japanese economy and the weakening of the Japanese Yen in the second half of the year 2000 dampened the inventory flow of our customers who ordered high value products. As such, sales to Japan dropped 3.2% compared to the previous year. In view of the situation, we have reduced our sales to various Japanese market, placing our emphasis on North America and Western Europe.

Sourcing

As a growing company, the Group is looking into new opportunities to expand our products and markets. With the huge market potential for frozen seafood products, the Group will be placing greater effort on sourcing more seafood species. This is our core business base and, as a market leader, we hope to introduce new species to various markets in the near future.

Processing

In the year under review, the Group processed 45,000 metric tonnes of fillets and portions, compared to 34,000 metric tonnes for the year of 2000. This represents an increase of 32%.

At the end of year 2000, the Group entered into a long-term leasing agreement with a PRC company to operate a processing factory and cold storage facility. The factory with 8,000 m³/t of cold storage facility, is capable of processing about 1,000 m³/t of value added frozen seafood products a month. We are committed to further expanding our processing capacity by acquiring or building our own processing facility in the year to come.

Review of Operations – *continued*

Processing – *continued*

The management believes that investment in new processing factory will enhance the Group's production capacity and operational efficiency. It also provides additional storage facilities allowing extra savings on storage and transportation costs. As a whole, the Group's processing capabilities are a crucial factor to becoming a leader in the global frozen food industry.

Vegetable Division

The 2001 fiscal year marked the critical development of our vegetable business. The 370 hectares of vegetable farmland, growing a variety of vegetables, finally came into full operation. Additionally, the Group made supply arrangements with local farmers in Shangdong, Zhejiang, Gansu and Fujian Provinces providing a further 1,110 hectares of farmland. This land is designed to grow various species of vegetables to meet the requirements of our customers.

In addition to putting a new production line into our existing vegetable factory at the beginning of 2000, we also made arrangements with local plant owners who allowed us to supervise production of vegetable products using their facilities.

Sales of vegetables recorded a turnover of HK\$13 million for the year ended 31 March 2001, representing a substantial increase of 1,370% over the previous year. However, sales remained insignificant by comparison to our seafood business. In starting up this business we have focused on selling vegetable products to our existing seafood customers in North America, Western Europe and Japan. These customers have extensive wholesale and retail operations and there is significant potential for us to offer more products to them. We have only just begun to tap this market and are confident that our sales volume will substantially increase in the coming year.

Shipping services

As we have been gradually reducing our shipping services to our suppliers, shipping services income dropped by 55.6% compared with 2000. This is in line with our strategy to focus our resources on core products and services. We will continue the strategy of keeping shipping services to a minimum as it is not a primary business focus.

Outlook

Looking ahead, the Group remains optimistic about its performance. We have witnessed many ups and downs in the different market economies in the past. With our high flexibility in shifting resources to value-added products, advance anticipation of problems, and the adjustment of our marketing strategies to suit prevailing conditions, we are fortunate not to have been affected by the downturn in any one market. We will continue to increase our product base and our product range, shift our marketing emphasis, and focus our product varieties to take advantage of our diversified markets and distribution network. As such, despite the slowdown in the U.S. economy, we remain positive and optimistic of our growth in the years to come.

The PRC is our major market. With an economic growth rate of 7% per annum the living standards in the PRC are improving. Consumers are becoming more health conscious and as a result call for more protein food products. With a population of 1.2 billion, we expect the demand from PRC consumers for our products will continue to be strong. Additionally, we expect the PRC's impending accession to the WTO should provide enormous business opportunities for the Group.

With our goal to become a vertically integrated global food company that harvests, sources, produces, processes, and distributes our frozen food products through an extensive distribution network to the worldwide market, our development will be focused on organic growth, further integration and cost controls, and selective business mergers.

As we look to the future, we are confident that we are heading in the right direction and that our strategies and objectives will strengthen our competitive position in the vertically integrated global food industry.

Appreciation

On behalf of the Board, I would like to take this opportunity to express my sincere gratitude to our customers, suppliers, bankers, business partners and shareholders for their continuous support. Since 1986 we have developed in to a leading frozen food product supplier. None of this would have been possible without the dedication of our thousands of Pacific Andes employees, whose uncommon talents and loyalty is commendable. Their significant contributions to this year's results are fully appreciated and we owe them many thanks. This includes the fishermen whose endeavours ensure we have the top quality, nutritious products that are the basis of our business.

Looking forward, we are committed to continuing our hard work to sustain growth and bring in better returns for our shareholders.

Very truly yours,

Ng Joo Siang
Managing Director
Pacific Andes International Holdings Limited
23 July 2001