

QUESTIONS AND ANSWERS

1. What recent developments are worth noting?

Over the past decade, Pacific Andes has transformed itself from a frozen seafood trading company to a fully integrated global seafood processor and distributor. Processing activities have increased from a mere 17% of total sales in 1996 to 41% in the current year.

Distribution activities, including our "Just-In-Time" programme, together with our adaptive marketing strategies implemented in the North America and Western European markets, have enabled us to significantly increase sales to these two markets notwithstanding temporary interruptions arising from changes in US economic conditions and the temporary trade ban imposed by the EU. Sales to North America and Western Europe soared by 38% and 50% respectively, as compared with the previous year.

In view of the continual increase in the PRC's demand for better quality and nutritious food products, we reactivated distribution activities in the PRC during the year. Our distribution network, which we built to cover 11 provinces in the PRC and which we reluctantly scaled down in the Asian financial crisis, allowed us to readily set in motion activities in Shandong province without much hindrance. During the year, turnover derived from the distribution activities in the Shandong province reached HK\$400 million.

We do believe that these developments enable us to provide better products and services to our customers and therefore enhance the returns to our shareholders.

2. Which market performed the most outstandingly? Where do the growth drivers lie?

In the review period, all our major markets – the PRC, North America and Western Europe – experienced encouraging growth.

Sales to Western Europe recorded the most outstanding results, rising over 50%. We attribute the increase in sales in Western Europe, and the remarkable improvement in sales to North America, to the intensification of our cost efficient processing activities in the PRC and flexibility in our marketing and distribution strategies.

Currently, the PRC accounts for 51% of the Group's total sales mix and achieved a 32% sales growth from the previous year. With improved living standards in the PRC and a growing demand for high quality and nutritious seafood products, we strongly believe that the PRC will remain a high growth market.

As there is growing consumers' health consciousness and recognition of seafood products as healthier alternatives to meat products are, we therefore consider that there is tremendous potential of consumers for Pacific Andes to excel in all markets.

3. What seasonal factors may influence the Group's sales performance?

Our main frozen seafood products are fillets, portions and frozen fish. Fillets and fish portions are produced continuously and steadily without seasonal effect. Fish, depending on their variety are subject to seasonal fluctuations.

However, as an established and experienced sourcer of fish, we are able to avoid impact to our business by obtaining our supply from our diversified global network of suppliers.

4. Did the global economic slowdown and economic uncertainties resulting from the "911" event affect Pacific Andes business?

Working on a worldwide scale means that we do encounter various economic booms and recessions in the global market occasionally; the Asian financial crisis in 1997, the Eastern European economic downturn in 1998 and the prolonged recession in Japan. Nonetheless, we have been able to anticipate upsurges and problems in advance and adjust our strategies accordingly.

The challenging economic situation in the U.S. did affect certain products, particularly the higher priced items. However, seafood is a staple food and as a consumer product is less susceptible to ups and downs in the economy. At the same time, we are experienced in handling market fluctuations. We were able to manage the effect of changing demand. Through an ability to rapidly alter our product range and product mix, we were able to weather the economic challenges that this past year has delivered and have not been adversely affected. We continue to remain optimistic about our ability to manage fluctuations in the ever-changing market.

5. How did the EU Commission's decision to ban products of animal origin from the PRC affect Pacific Andes?

In January 2002, the Commission of the European Union ("EU Commission") prohibited the import of all products of animal origin imported from the PRC and intended for human consumption or animal feed use. The prohibition was imposed due to the detection by the EU Commission of antibiotic residue in certain shrimp products imported from the PRC. Furthermore, an inspection visit to the PRC carried out by the experts of EU Commission identified serious shortcomings regarding veterinary medicine's regulation and the antibiotic residue control system in live animals and animal products, which may lead to the presence of harmful residues in products intended for human or animal consumption, presenting a risk to their health.

The Group's seafood products are frozen once they are caught at high sea and are not exposed to such contamination. In addition, our processing of seafood products is subject to strict procedures with quality checks to meet the stringent specifications of European and international standards. Nevertheless, our product exports to Europe were temporarily prohibited and our shipments to Europe were forcibly suspended. This affected sales growth for the last quarter of the year. Consequently, this placed a burden on our inventories.

Fortunately, after bilateral negotiations and discussions between government representatives from both the EU and the PRC, the EU announced it would lift the ban on all the products handled by the Group with effect from 10 July 2002. This means that we are able to resume export to Europe.

6. What has contributed to the trebling of sales of vegetable products?

Many of our Western European customers who buy our seafood products now also buy vegetable products and we have seen them continue to increase their demand throughout the year. Western Europe is now the major market for our vegetable product sales.

7. What are the benefits of the "Just-In-Time" programme?

Our JIT programme is a long-term supply contract established with selected customers primarily based in Western Europe and North America. This arrangement benefits our customers by meeting their demand precisely when needed. This cuts down our customers' inventory holding costs significantly. It also benefits Pacific Andes by helping us better forecast and plan our production schedule, shipment schedule and raw material requirements. This reduces the possibility of overstocking and improves our supply efficiencies.

8. What has contributed to the increase in the gearing ratio to 87% from 61% in the previous year?

The 33% increase in our sales, the development of distribution activities in the PRC, the import ban of animal-origin products from PRC into the EU and the delay and shortening in the Alaskan pollock fishing season due to the reduction of fishing quota by the Russian government have all resulted in the temporary increase in inventory holdings and, accordingly, the increase in the gearing ratio.

However, as the import ban has been lifted and the Alaskan pollock fishing quota is expected to increase next year. This will considerably decrease the pressures we experienced this past year allowing our inventory holdings to be reduced.

We aim to maintain an optimal gearing ratio at around 60% on a year-to-year basis.

9. Pacific Andes plans to build a new processing plant in the PRC. What is the reason for this investment?

Pacific Andes aims to be a leading global food supplier and will therefore continue to explore new opportunities to expand product mix and to further strengthen its position in the global market place.

The plan to build a modern food processing centre in Qingdao, the PRC, at a total investment cost of US\$30 million is an exciting development. Currently our processing bases are scattered over Shandong province. Consolidating our operations will increase our operational efficiencies and enhance productivity thereby allowing us to reduce costs. In addition, the new manufacturing base will enhance our capacity and ability to produce value-added products which will further strengthen our leading position in the frozen fish fillets processing industry.

The new food processing centre will include 30,000 metric tonnes of cold storage facility, a fish fillets and portions processing plant with an annual processing capacity of 45,000 metric tonnes, a breaded fish fillets and portions processing plant, an ultra low temperature, frozen sashimi products processing plant. Additionally, there will be a fish-meal processing plant which utilizes the fish bones and by-products for production of high-value animal feed stuff. All these new processing facilities will enhance our ability to meet the increasing requirements of our customers for value-added products.

10. How do you see the PRC's entry into the WTO impacting the Group?

Pacific Andes has conducted business with PRC companies for more than 15 years. Upon accession to the WTO, and prior to all the conditions of the WTO being implemented, we succeeded in achieving sales of HK\$1.8 billion to the PRC during the year. We anticipate that this success will continue and will be further supported by the full implementation by the PRC, of WTO accession conditions.

This includes our expectation that tariffs on imported fish will be reduced from an average of 25.3% to a targeted average of 10.6% by January 1 2005. Additionally, the PRC has agreed to apply all taxes and tariffs uniformly to both domestic and foreign enterprises and the restrictions on imported products and provision of services in the PRC will be eased. This will allow a greater, more cost effective flow of our frozen seafood products into the market. To leverage potential, we do plan to further strengthen our local distribution network in the PRC in the coming years.