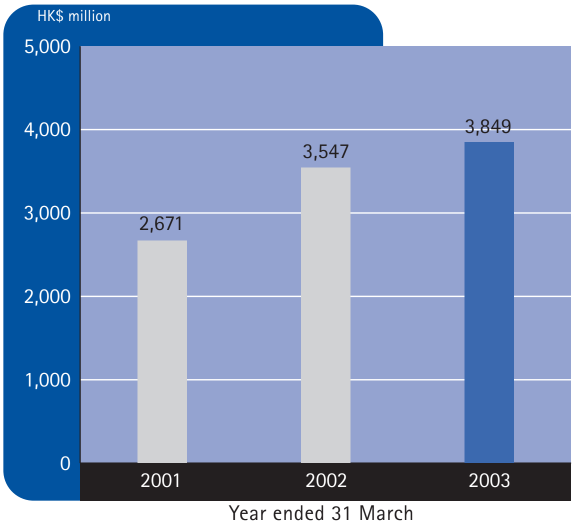
MANAGING DIRECTOR'S STATEMENT AND ANALYSIS

I am pleased to report healthy operational and financial results for Pacific Andes International Holdings Limited ("Pacific Andes" or the "Company") and its subsidiaries (the "Group") for the year ended 31 March 2003.

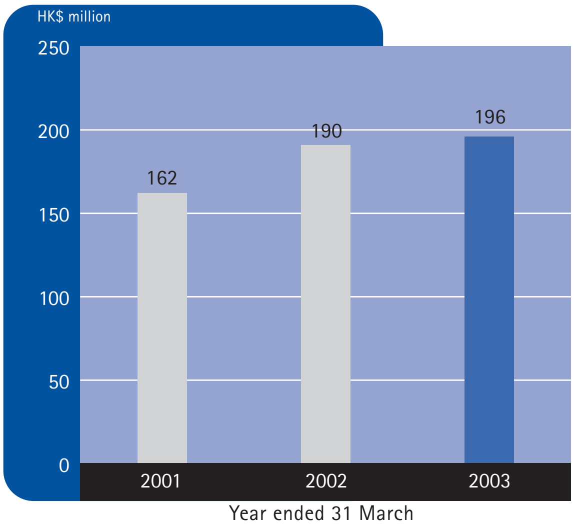
Financial Highlights



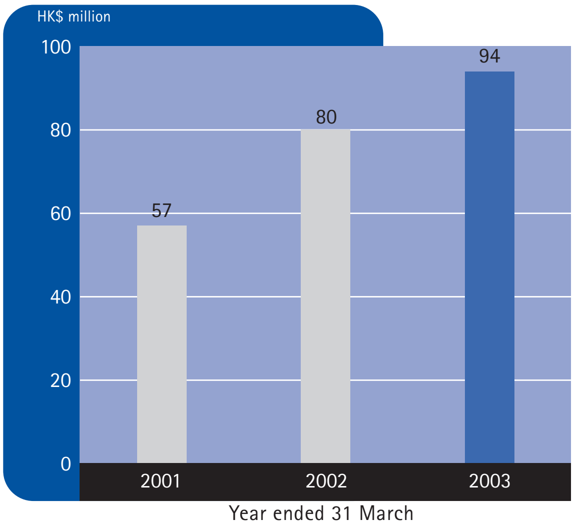
Turnover

During FY2003, the Group recorded an increase of 8.5% in turnover to HK$3.8 billion. The growth was primarily attributable to the increased demand for frozen seafood products from our existing markets.

Operating Profit

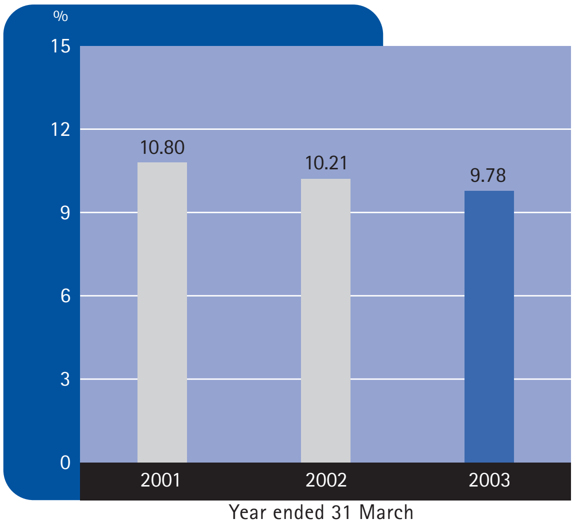


Profit Attributable to Shareholders

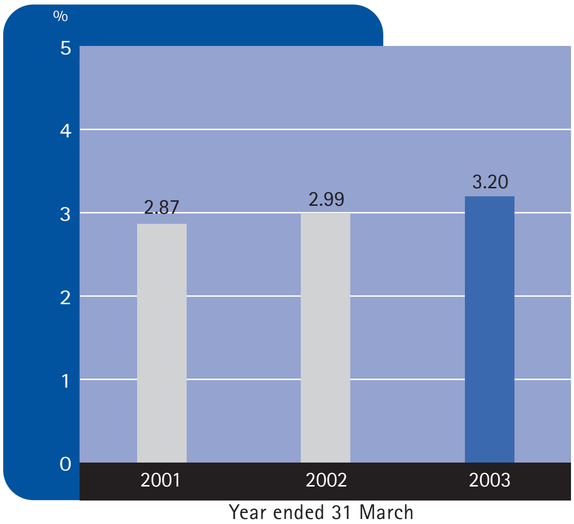


During FY2003, the Group recorded improved profitability. Operating profit increased by 3.0% to HK$196 million. Profit attributable to shareholders grew from HK$80,128,000 in FY2002, to HK$94,351,000 in FY2003, representing an increase of 17.8%.

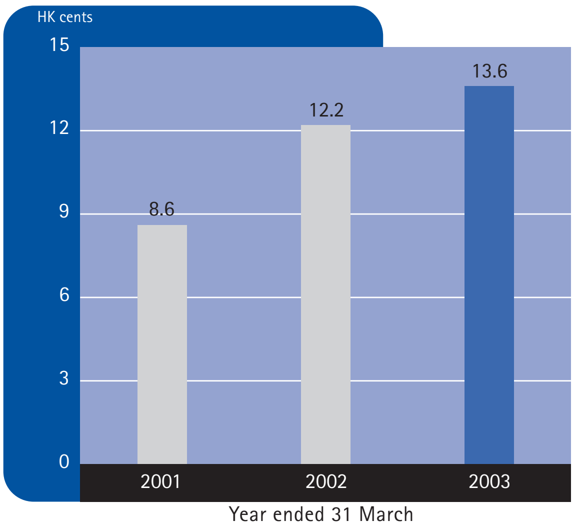
Gross Profit Margin



Net Profit Margin



The gross profit margin was down from 10.21% in 2002, to 9.78% in 2003. This was due to the lower interest rate environment, which enabled the Group to adjust its selling prices, passing the benefits of interest saving to our customers. Nevertheless, the net profit margin continued to grow from 2.99% to 3.20%, reflecting the benefits derived from our vertical integrated business operation and the saving in interest expenses.

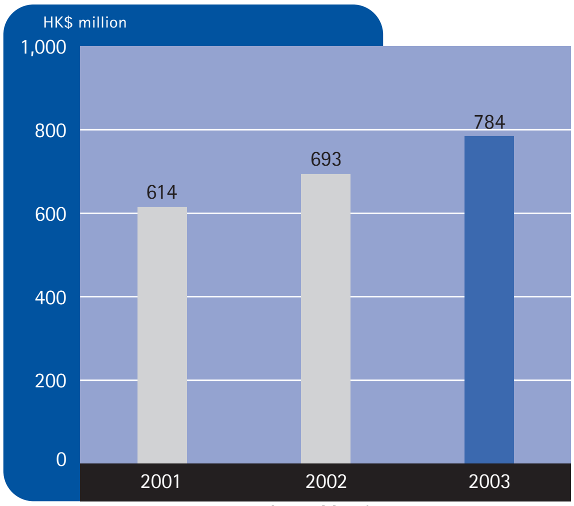


Earnings per Share

Reflecting our higher profitability, earnings per share for the year were HK 13.6 cents compared to HK 12.2 cents in 2002, an increase of 11.6%.

Shareholders' Fund

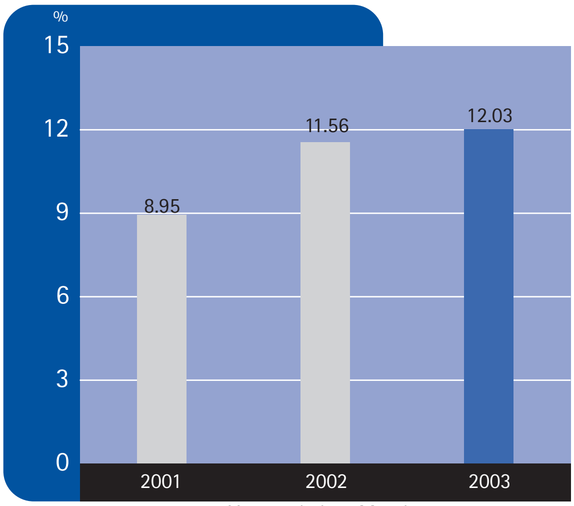
Shareholders' fund increased 13.13% to HK$784 million.



At 31 March

Return on Shareholders' Fund

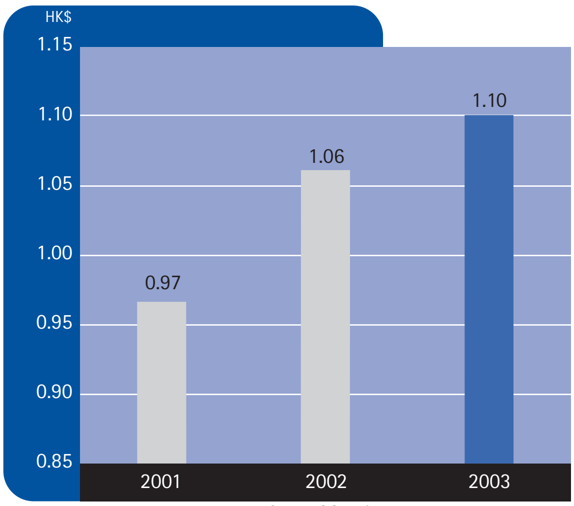
Benefiting from the improved profitability, the return on shareholders' fund improved from last year's 11.56%, to 12.03% this year.



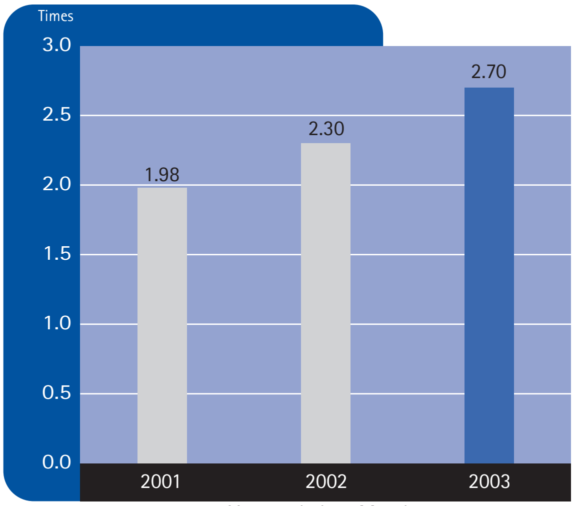
Year ended 31 March

Net Asset per Share

Net asset per share increased 3.8% to HK$1.10.

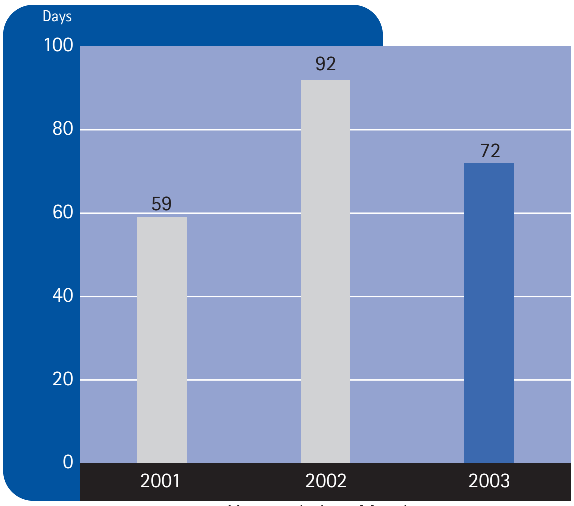


At 31 March



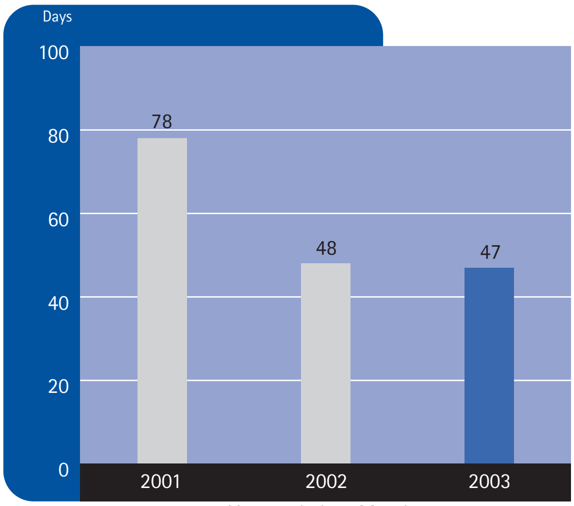
Interest Cover

As the Group's operating margin improved, interest cover improved to 2.70 times, compared to last year's 2.30 times.



Stock Turnover

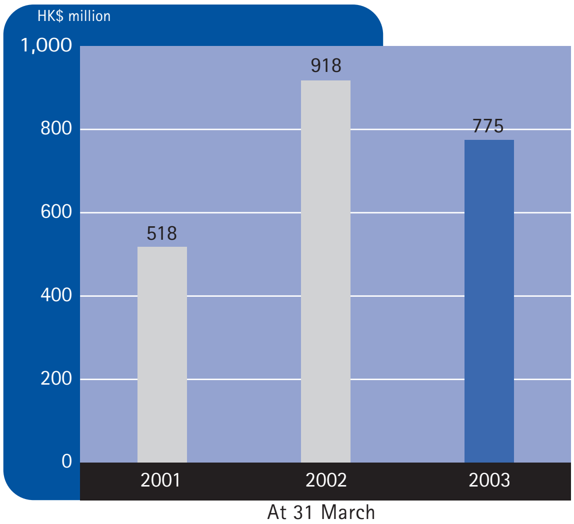
Stock turnover decreased from 92 days to 72 days. During FY2002, there was an import ban of animal-origin products from the PRC into the EU, as well as the delay and shortening in the fishing season of one of the Group's core species, Alaskan pollock, due to the reduction of fishing quota by the Russian government. This resulted in the temporary increase in inventory holdings. As the import ban has now been lifted and the Alaskan pollock fishing quota has increased this year, our inventory holdings have been reduced by 14.7% to HK$685 million.



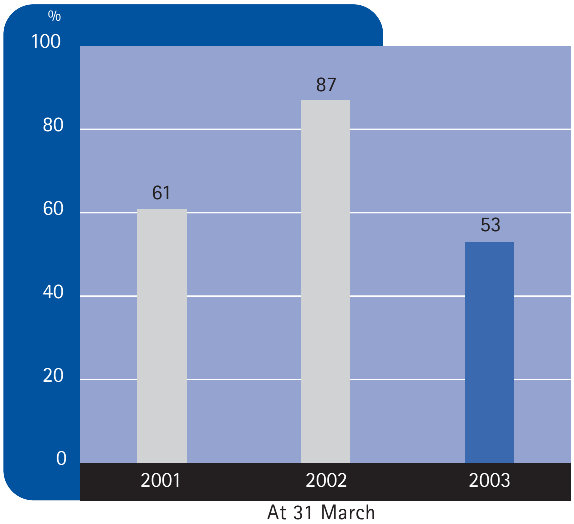
Debtor Turnover

The debtor turnover period was 47 days, remaining in line with the 48 days recorded last year.

Total Borrowings



Debt-to-Equity Ratio



As of 31 March 2003, total borrowings were reduced by 16%, from HK$918 million in 2002, to HK$775 million in 2003. Net debt to shareholders' equity ratio was reduced from 87% in 2002, to 53% in 2003. As of 31 March 2003, cash on hand increased to HK$222 million, compared to HK$100 million in 2002. This strengthened liquidity position and the financial resources of the Group provides a strong foundation for further expansion. Net 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.

Appropriations

In line with the Group's dividend policy, the board of directors proposes to distribute one-third of the Group's net profit for payment to shareholders as dividends once a year. As such, a final dividend of HK4.5 cents per ordinary share has been proposed to shareholders.

Review of Business

The volatile and uncertain business environment in FY2003 created many challenges for the Group. Changing government policies and the rising credit risks caused by the economic slow down put to test the Group's capabilities and resilience. The continued slowing of the global economy hit our Western European market and North American market. The rising unemployment in Western Europe and the introduction of the Euro led to widespread uncertainty among consumers in many European countries. The increase in oil prices also led to an increase in the Group's freight cost by 20% in general.

The import ban on all animal-origin products from the PRC by the EU affected our sales to Western Europe in the first half of FY2003. During the ban period, the PRC government implemented a series of measures to ensure food safety, including inspecting every processing factory. Although the import ban was lifted in July 2002, the Group's export to the EU was only fully resumed by October 2002.

Review of Business – continued

Towards the second half of FY2003, the Group saw rapid legislative and regulatory changes in the PRC, particularly pertaining to the import of foodstuffs into the country. Whereas there were no restrictions in the past, the PRC authorities tightened their regulations to ensure the quality and traceability of imported foodstuffs. As at the end of 2002, the purchase of imported fish now requires an import permit to be issued by the Commodity Inspection and Quarantine Bureau ("CIQ") before purchase orders can be issued to suppliers. The introduction of these changes meant our sales to the PRC market were temporarily delayed as our customers took more time to get the necessary import permits.

Despite the difficult business conditions during the year, the overall frozen seafood consumption in our markets continued to increase. This is in part due to our broader sales strategy, as well as our policy to continue to enhance our processing capabilities. Pacific Andes not only continued its good performance, but we also have a stronger financial position.

Operations Review

Market Analysis

The PRC remains the Group's main revenue source, accounting for 50% of the Group's total sales mix for the year. The growing trend of improving living standards and pursuing better quality and nutritious food products in the PRC, has continued to provide a robust demand for our diversified seafood products. Sales in the PRC market increased 6.2% to HK$1.93 billion, against HK$1.82 billion in FY2002.

The introduction of sales through bonded warehouses in November 2001 effectively shortened delivery lead-times and expanded the elasticity and flexibility of our operations. At the same time, it also enabled us to expand our customer base by allowing us to encompass buyers who purchase on a smaller scale. However, the introduction of these innovative distribution arrangements created a temporary setback in our PRC sales. The Group posted a decline in sales of 8.1% in the first half of FY2003 compared to the same period FY2002. This was attributable to the change in customers' purchasing habits which shifted from advanced orders and bulk-buying patterns, to just-in-time purchases. By the second half of FY2003, as purchasing schedules adjusted and normalised, the Group saw corresponding increase in our sales activities.

By the end of 2002, the PRC government tightened the import permit issuance procedures for frozen fish. As a result, our customers now have to apply for the import permit before any purchase contracts can be entered into. This meant our sales to the PRC market were delayed as our customers took more time to get the necessary import documents. Nevertheless, our distribution arrangements and the development of a broader customer base helped improve our sales figures. Pleasingly, overall, sales to the PRC increased 15% from HK$1.14 billion in the second half of FY2002, to HK$1.28 billion in the second half of FY2003.

Sales to Western Europe showed a dramatic and remarkable recovery following the repeal of the import ban imposed by the European Commission on products of animal-origin intended for human or animal consumption that had derived from the PRC. After the lifting of the ban in July 2002, sales to Western Europe soared by 110%, from HK$237.5 million in the second half of FY2002, to HK$499.4 million in the second half of FY2003. As a result, sales during FY2003 showed an increase of 20.5% from HK$656.8 million in FY2002, to HK$791.2 million. This accounted for 20.6% of total sales.

Operations Review – continued

Market Analysis – *continued*

North America continued to be a strong market for the Group, accounting for 23.5% of total sales. During FY2003, sales increased by 4.4%, from HK$867.8 million in FY2002, to HK$905.8 million. Due to the weakened economy, as well as an increase in bankruptcy cases in the US, the Group took extra precautions to carefully deal with its customers, even though all sales to the US have been covered by credit insurance. To minimise risk, as well as to satisfy a more robust demand in our Western Europe market, we shifted some of our sales distribution of fillets and portion destined for North America to Europe. Reflecting these changes, sales to North America in the second half of FY2003 therefore, decreased to HK$490 million, compared to HK$651 million in the second half of FY2002.

Sales to Japan showed a steady growth of 11.6% from HK$154.3 million in FY2002, to HK$172.3 million in FY2003. Although not a significant market for the Group, accounting for 4.5% of total sales, Japan remains a steadily developing market year-on-year.

Product Analysis

Seafood Division

The seafood division of Pacific Andes has matured to become one of the world's leading processor and supplier's of frozen seafood. With an integrated, sophisticated operation, we are able to source, process and distribute seafood products globally.

Trading

During FY2003, the Group sold approximately 168,000 metric tonnes of seafood products. Whilst this was a decrease in volume from the 198,000 metric tones handled in FY2002, sales value increased by 3.6% to HK$2.11 billion. Frozen fish, which primarily sold to the PRC market, remained the largest contributor to the Group's turnover, accounting for 55% of total sales.

The Group initially saw a decrease in sales of 1.4% in the first half of FY2003 compared to the same period in FY2002. This was due to the decline in sales to the PRC market because of the temporary adjustment in orders from customers. By the second half of the year, sales had returned to normal levels as purchasing schedules became adjusted.

As the PRC government tightened the import permit issuance procedure in December 2002, this prolonged the process for our customers to obtain their import licenses. As a result, our sales to PRC customers were delayed. Despite of these two situations, an increase in revenue was achieved because of an increase in sales of higher value products.

Processing

Sales of fillets and portions increased by 15.9%, from HK$1.45 billion in FY2002, to HK$1.69 billion in FY2003. During the first half of FY2003, sales of fillets and portions increased by 4.7% to HK$678 million. In the second half of FY2003, sales of fillets and portions increased by 24.9% to HK$1,007 million. This surge in sales in the second half of FY2003 was due to the repeal of the ban imposed by the European Union Commission, which allowed us to resume shipments to Western Europe. The strong growth in sales in general is attributed to the continual relocation of fillet and portion processing from different parts of the world to the PRC where the processing environment is more competitive than most other locations.

Operations Review – continued

Product Analysis – *continued*

Processing – continued

The high demand for fillets and portions during FY2003 meant that all of our processing factories were working at high capacity. During FY2003, the Group sold 75,000 metric tonnes of fillets and portions, an increase of 7.2%, as compared to 70,000 metric tonnes in FY2002.

Vegetable and Plantation Division

Sale of vegetables recorded a turnover of HK$40 million, representing an increase of 14.5% over FY2002. The Western European market has been key in the development of the vegetable business, accounting for 70% of total sales. The most popular products are spinach, broccoli and onions. These products require specialist skilled labour which is employed at low-cost in the PRC. Although vegetable sales remain insignificant by comparison to the Group's seafood business, we are confident that, with the continued expansion in the scale of our operations, this business segment will steadily contribute to our future growth.

Liquidity and Financial Resources

As of 31 March 2003, total bank borrowings were reduced by 16%, from HK$918 million in 2002, to HK$775 million in 2003. Net debt to shareholders' equity ratio was reduced from 87% in FY2002, to 53% in FY2003. As of 31 March 2003, cash on hand increased 121% to HK$222 million. Our strengthened liquidity position and the financial resources of the Group provide a strong foundation for further expansion.

The Group's exposure to currency risk is minimal, as the Group does not maintain a significant open position in any foreign currency at any time. The Group actively protects its foreign currency vulnerabilities through natural hedges, forward contracts and options.

As at 31 March 2003, the Group has pledged land and buildings and investment properties with aggregate carrying values of approximately HK$162 million and HK$18 million respectively, as collateral for property mortgage loans granted to the Group by certain banks.

Trade receivables with credit insurance coverage of HK$7 million were pledged as security for the receivable discounting facilities obtained from banks.

In addition, shares in certain subsidiaries were pledged as securities for the revolving inventory financing obtained from banks.

As at 31 March 2003, bills discounted with recourse were HK$421 million.

Employees and Remuneration

As at 31 March 2003, the Group had a total number of approximately 5,000 employees.

The Group recognises the importance of its employees who contribute to the business and offers remuneration packages in line with industry standards. These are subject to annual review. Bonuses may be awarded to employees based on individual performance, and the Group's performance. Other staff benefits include medical allowance and mandatory provident fund. The Company and its non-wholly owned subsidiary, Pacific Andes (Holdings) Limited, each has an employees' share option scheme to allow the granting of share options to selected eligible employees depending on their contribution to the company.

Outlook

Pacific Andes' strong commitment to quality and to operational effectiveness will continue to enhance our competitive advantage in the coming year. We will continue to implement new business strategies, improve our logistics service and rationalize our operational costs in a concerted effort towards enhancing our profit margins. At the same time, we will continue to strengthen our relationships and forge closer ties with both our customers and our suppliers. The consistency of delivery and the quality of our seafood and vegetable products have allowed us to secure broad market share around the world. We are now considered one of the leading frozen food suppliers distributing from the PRC to North America, Western Europe, Japan and other foreign markets, as well as distributing within the PRC.

Food Safety

To underpin our expansion strategies, the Group recently established a sophisticated trace residue analysis laboratory in the PRC. This facility, unique in China, is equipped with the most advanced analytical instruments. It is using internationally accredited methods developed in conjunction with the Central Science Laboratory ("CSL"), a United Kingdom government agency. The facility has exclusive rights in China to utilise CSL's wealth of experience. CSL is committed to providing the latest updates of analytical methods and technical procedures. Consequently, the laboratory will have access to the latest techniques thereby ensuring our products are able to conform to any foreseeable international legislation. To capitalise on this unique resource in China, the Group operates services for other food manufacturers so that they can also test their products at the centre.

Sourcing

The PRC will remain a major growth driver for Pacific Andes. Growing GDP per capita and improved living standards means consumers are seeking an increase in the quality of products they purchase. In order to continue to meet demand, we will be developing further integration in our sourcing activities. We are currently evaluating the feasibility of participation in fishing activities in different places in the world.

Processing

With growing demands from our customers, the Group will increase its processing capacity by constructing a new plant. The new processing facility is currently undergoing construction and is expected to commence operations by late 2004. This centre will boost our productivity, enhance our capacity, and provide us with further flexibility in producing value-added products. The Group will also increase the processing volume of value-added products and expand the variety of the product types. At the same time, we plan to increase the extent of our processing through processing agreements within the PRC. The Group has increased the number of its processing factories from 17 to 20 since April 2003. With these improved operational efficiencies our position in the global market place will be further strengthened.

Outlook – continued

Marketing

The various Just-In-Time ("JIT") programmes implemented by the Group for customers in the EU and North America have proved to provide better logistic services to them. Most importantly, the JIT programmes foster a close companion relationship with our customers. We plan to implement more JIT programmes in the coming year.

Vegetables

From April 2003, the Group has secured greater control on its sources of vegetable raw material by increasing the scale of contract farming in China. With its vegetable products increasingly finding favour with customers all over the Northern Hemisphere, the Group is evaluating the possibility of moving its vegetable processing operation to a larger facility.

Financing

The Group lowered the net debt to equity ratio during this year. We intend to implement new inventory and control measures in order to shorten the average inventory-holding period for fillets and portions thereby reducing short-term bank borrowings. The management is committed to strengthening the liquidity of the Group to meet its operational and investment needs.

Appreciation

On behalf of the Board, I would like to take this opportunity to thank all our customers, suppliers, our bankers, business partners, shareholders and employees for their support during the year. It is with your commitment and help that Pacific Andes is able to deliver our performance today. To all the fishermen with whom we work, we would like to thank you for all your endurance and dedication in ensuring that Pacific Andes will always deliver quality fish and seafood products to consumers globally.

Reflecting retrospectively on the performance of the Group over the years, we are proud to say that we have consistently delivered the promises that we have made to our shareholders. These include ensuring that Pacific Andes remains a profitable business and ensuring a constant annual dividend payout to our shareholders. With the exception of the 1999 financial year when our business was affected by external factors beyond our control, the Group has succeeded in achieving double-digit growth in our net profits year after year and consistently rewarded our shareholders with dividend payout that correspond to the Group's performance. While the Group's performance this year has been good especially in consideration of the volatile operating conditions, we are not stopping here. The new financial year will bring new challenges and, as in the past, we will be consistently looking for ways to deliver and grow our shareholders' value in Pacific Andes.

Very truly yours,

Ng Joo Siang
Managing Director

17 July 2003