



**PACIFIC ANDES INTERNATIONAL HOLDINGS LIMITED**

*(Incorporated in Bermuda with limited liability)*

**INTERIM REPORT**

**For the six months ended 30 September 2003**

## UNAUDITED INTERIM RESULTS

The directors of Pacific Andes International Holdings Limited (the “Company”) are pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 September 2003 together with the unaudited comparative figures for the corresponding period in 2002 as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENT

*For the six months ended 30 September 2003*

		<b>Six months ended</b>	
	<i>Notes</i>	<b>30.9.2003</b>	30.9.2002
		<b>HK\$'000</b>	HK\$'000
		<b>(unaudited)</b>	(unaudited)
Turnover	3	<b>1,695,213</b>	1,453,105
Cost of sales		<b>(1,497,710)</b>	(1,279,000)
Gross profit		<b>197,503</b>	174,105
Other operating income		<b>9,378</b>	6,847
Selling and distribution expenses		<b>(42,348)</b>	(31,067)
Administrative expenses		<b>(63,310)</b>	(55,333)
Profit from operations	4	<b>101,223</b>	94,552
Interest expenses		<b>(35,359)</b>	(39,553)
		<b>65,864</b>	54,999
Share of results of associates		<b>94</b>	141
Profit before taxation		<b>65,958</b>	55,140
Taxation	5	<b>(2,865)</b>	(1,821)
Profit before minority interests		<b>63,093</b>	53,319
Minority interests		<b>(14,235)</b>	(12,244)
Net profit for the period		<b>48,858</b>	41,075
Dividend	6	<b>—</b>	—
Earnings per share	7		
Basic		<b>6.8 cents</b>	6.1 cents
Diluted		<b>6.5 cents</b>	5.9 cents

# CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 September 2003

	Notes	30.9.2003 HK\$'000 (unaudited)	31.3.2003 HK\$'000 (audited)
<b>NON CURRENT ASSETS</b>			
Property, plant and equipment	8	331,822	310,415
Investment properties		55,930	55,930
Goodwill	9	17,314	–
Negative goodwill		(2,944)	(2,549)
Interests in associates		1,829	435
Investment in securities		45,587	27,767
		<b>449,538</b>	<b>391,998</b>
<b>CURRENT ASSETS</b>			
Inventories		660,407	685,168
Trade and other receivables	10	691,552	731,143
Trade receivables with insurance coverage	11	217,659	204,828
Advances to suppliers		17,719	5,115
Amount due from associates		7,331	5,113
Trade receivables from an associate		29,586	137,309
Tax recoverable		933	1,494
Pledged deposits		12,169	11,167
Bank balances and cash		251,837	210,434
		<b>1,889,193</b>	<b>1,991,771</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	12	175,949	372,146
Discounting advances drawn on trade receivables with insurance coverage		147,037	178,597
Taxation		3,410	2,461
Bank borrowings	13	745,884	704,200
		<b>1,072,280</b>	<b>1,257,404</b>
<b>NET CURRENT ASSETS</b>			
		<b>816,913</b>	<b>734,367</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			
		<b>1,266,451</b>	<b>1,126,365</b>
<b>NON CURRENT LIABILITY</b>			
Bank borrowings	13	66,716	70,499
<b>MINORITY INTERESTS</b>			
		<b>344,192</b>	<b>268,616</b>
<b>DEFERRED TAXATION</b>			
		<b>16,446</b>	<b>15,992</b>
<b>NET ASSETS</b>			
		<b>839,097</b>	<b>771,258</b>
<b>CAPITAL AND RESERVES</b>			
Share capital	14	72,610	71,089
Share premium and reserves		766,487	700,169
<b>SHAREHOLDERS' FUNDS</b>			
		<b>839,097</b>	<b>771,258</b>

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
*For the six months ended 30 September 2003*

	Share capital	Share premium	Investment revaluation reserve	Asset revaluation reserve	Goodwill reserve	Special reserve	Translation reserve	Retained profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2002									
– as originally stated	65,691	281,390	(7,462)	28,162	(109,611)	9,800	–	425,209	693,179
– prior period adjustment	–	–	–	(7,363)	(5,458)	–	–	(108)	(12,929)
	<u>65,691</u>	<u>281,390</u>	<u>(7,462)</u>	<u>20,799</u>	<u>(115,069)</u>	<u>9,800</u>	<u>–</u>	<u>425,101</u>	<u>680,250</u>
– as restated	65,691	281,390	(7,462)	20,799	(115,069)	9,800	–	425,101	680,250
Share issued at a premium	5,010	11,703	–	–	–	–	–	–	16,713
Net revaluation increase not recognised in the income statement	–	–	494	–	–	–	–	–	494
Net profit for the period	–	–	–	–	–	–	–	41,075	41,075
	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>41,075</u>	<u>41,075</u>
At 30 September 2002	<u>70,701</u>	<u>293,093</u>	<u>(6,968)</u>	<u>20,799</u>	<u>(115,069)</u>	<u>9,800</u>	<u>–</u>	<u>466,176</u>	<u>738,532</u>
At 1 April 2003									
– as originally stated	71,089	296,061	(3,756)	26,698	(109,611)	9,800	2,539	491,280	784,100
– prior period adjustment	–	–	–	(7,639)	(5,458)	–	–	255	(12,842)
	<u>71,089</u>	<u>296,061</u>	<u>(3,756)</u>	<u>19,059</u>	<u>(115,069)</u>	<u>9,800</u>	<u>2,539</u>	<u>491,535</u>	<u>771,258</u>
– as restated	71,089	296,061	(3,756)	19,059	(115,069)	9,800	2,539	491,535	771,258
Share issued at a premium	1,521	11,503	–	–	–	–	–	–	13,024
Net revaluation increase not recognised in the income statement	–	–	8,820	–	–	–	–	–	8,820
Deferred tax liability attributable to change in tax rate	–	–	–	(393)	–	–	–	–	(393)
Goodwill reserve realised on deemed disposal of interest in a non-wholly owned subsidiary	–	–	–	–	(2,470)	–	–	–	(2,470)
Net profit for the period	–	–	–	–	–	–	–	48,858	48,858
	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>48,858</u>	<u>48,858</u>
At 30 September 2003	<u>72,610</u>	<u>307,564</u>	<u>5,064</u>	<u>18,666</u>	<u>(117,539)</u>	<u>9,800</u>	<u>2,539</u>	<u>540,393</u>	<u>839,097</u>

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT***For the six months ended 30 September 2003*

	<b>Six months ended</b>	
	<b>30.9.2003</b>	30.9.2002
	<b>HK\$'000</b>	HK\$'000
	<b>(unaudited)</b>	(unaudited)
Net cash (used in) from operating activities	<b>(52,208)</b>	293,511
Net cash used in investing activities	<b>(61,255)</b>	(5,360)
Net cash from (used in) financing	<b>162,479</b>	(308,781)
Net increase (decrease) in cash and cash equivalents	<b>49,016</b>	(20,630)
Cash and cash equivalents at beginning of the period	<b>193,680</b>	83,900
Cash and cash equivalents at end of the period	<b>242,696</b>	63,270
Represented by:		
Bank balances and cash	<b>251,837</b>	65,610
Bank overdrafts	<b>(9,141)</b>	(2,340)
	<b>242,696</b>	63,270

*Notes:*

**1. Basis of Preparation**

The unaudited condensed financial statements have been prepared in accordance with Statement of Standard Accounting Practice (“SSAP”) 25 “Interim financial reporting” issued by the Hong Kong Society of Accountants, and with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

**2. Principal Accounting Policies**

The unaudited condensed consolidated financial statements have been prepared under the historical cost convention, as modified for the revaluation of land and buildings, investment properties and certain investments in securities.

The accounting policies adopted are consistent with those adopted in the preparation of the Group’s annual financial statements for the year ended 31 March 2003, except as described below.

In the current period, the Group has adopted SSAP 12 (Revised) “Income Taxes”. The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. Comparative amounts have been restated accordingly.

As a result of this change in policy, the opening balance on retained profits at 1 April 2003 has been increased by HK\$255,000 (1 April 2002: decreased by HK\$108,000). The balances on the Group’s goodwill reserve and asset revaluation reserve at 1 April 2003 have been decreased by HK\$5,458,000 and HK\$7,639,000 respectively (1 April 2002: decreased by HK\$5,458,000 and HK\$7,363,000 respectively). The profit for the six months ended 30 September 2003 have been decreased by HK\$61,000 (six months ended 30 September 2002: HK\$Nil). The asset revaluation reserve at 30 September 2003 has been decreased by HK\$393,000 (six months ended 30 September 2002: HK\$Nil).

### 3. Turnover and Segment Information

The turnover and segment results of the Group for the six months ended 30 September 2003, analysed by principal activity and geographical market are as follows:

#### *Business Segment*

For management purposes, the Group is currently organised into four operating divisions – frozen fish, fillets and portions, shipping services and vegetables. These divisions are the basis on which the Group reports its primary segment information.

#### **For the six months ended 30 September 2003**

	<b>Frozen fish</b>	<b>Fillets and</b>	<b>Shipping</b>	<b>Vegetables</b>	<b>Total</b>
	<b>HK\$'000</b>	<b>portions</b>	<b>services</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>	<b>(unaudited)</b>	<b>(unaudited)</b>	<b>(unaudited)</b>
<b>TURNOVER</b>					
External sales ( <i>Note</i> )	<u>871,241</u>	<u>800,402</u>	<u>6,970</u>	<u>16,600</u>	<u>1,695,213</u>
<b>RESULT</b>					
Segment result	<u>69,395</u>	<u>84,243</u>	<u>(93)</u>	<u>1,610</u>	155,155
Unallocated corporate expenses					(53,932)
Profit from operations					101,223
Interest expenses					(35,359)
Share of results of associates	–	94	–	–	94
Profit before taxation					65,958
Taxation					(2,865)
Profit before minority interests					<u>63,093</u>

#### **For the six months ended 30 September 2002**

	<b>Frozen fish</b>	<b>Fillets and</b>	<b>Shipping</b>	<b>Vegetables</b>	<b>Total</b>
	<b>HK\$'000</b>	<b>portions</b>	<b>services</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>	<b>(unaudited)</b>	<b>(unaudited)</b>	<b>(unaudited)</b>
<b>TURNOVER</b>					
External sales ( <i>Note</i> )	<u>758,378</u>	<u>678,015</u>	<u>3,988</u>	<u>12,724</u>	<u>1,453,105</u>
<b>RESULT</b>					
Segment result	<u>68,239</u>	<u>70,563</u>	<u>157</u>	<u>4,080</u>	143,039
Unallocated corporate expenses					(48,487)
Profit from operations					94,552
Interest expenses					(39,553)
Share of results of associates	–	141	–	–	141
Profit before taxation					55,140
Taxation					(1,821)
Profit before minority interests					<u>53,319</u>

*Note:* There is no inter-segment sales between different business segments for the six months ended 30 September 2003 and 30 September 2002.

### *Geographical Segment*

The Group's operations are located in the People's Republic of China (the "PRC"), North America, Western Europe and Japan.

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods/services:

	<b>Six months ended</b>	
	<b>30.9.2003</b>	<b>30.9.2002</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
PRC	<b>807,813</b>	645,056
North America	<b>419,325</b>	415,579
Western Europe	<b>367,294</b>	291,743
Japan	<b>76,529</b>	83,525
Others	<b>24,252</b>	17,202
	<b><u>1,695,213</u></b>	<b><u>1,453,105</u></b>

#### **4. Profit from Operations**

Profit from operations has been arrived at after charging (crediting):

	<b>Six months ended</b>	
	<b>30.9.2003</b>	<b>30.9.2002</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
Depreciation	<b>11,728</b>	15,923
Gain on deemed disposal of interest in a non-wholly owned subsidiary	<b>(377)</b>	—
	<b><u>(377)</u></b>	<b><u>—</u></b>

#### **5. Taxation**

	<b>Six months ended</b>	
	<b>30.9.2003</b>	<b>30.9.2002</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
The charge comprises:		
Current tax		
Hong Kong	<b>2,694</b>	1,821
Other jurisdictions	<b>110</b>	—
	<b><u>2,804</u></b>	<b><u>1,821</u></b>
Deferred tax		
Attributable to change in tax rate in Hong Kong	<b>61</b>	—
	<b><u>2,865</u></b>	<b><u>1,821</u></b>

Hong Kong Profits Tax is calculated at 17.5% (six months ended 30.9.2002: 16%) of the estimated assessable profit for the year.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

A substantial portion of the Group's profit neither arose in, nor is derived from Hong Kong and accordingly it is not subject to Hong Kong Profits Tax.



## 6. Dividend

The directors do not recommend the payment of an interim dividend for the six months ended 30 September 2003 (2002: HK\$Nil).

On 8 October 2003, a dividend of HK4.5 cents (2002: HK4.0 cents) was paid to shareholders as the final dividend for the year ended 31 March 2003.

## 7. Earnings per Share

The calculation of basic and diluted earnings per share is based on the following data:

	Six months ended 30.9.2003 HK\$'000 (unaudited)	30.9.2002 HK\$'000 (unaudited)
Earnings for the purposes of basic and diluted earnings per share	<u>48,858</u>	<u>41,075</u>
Weighted average number of ordinary shares for the purposes of basic earnings per share	713,888,351	677,730,403
Effect of dilutive potential ordinary shares in respect of:		
Share options	3,207,942	19,246,833
Warrants	<u>34,016,987</u>	<u>—</u>
	<u>751,113,280</u>	<u>696,977,236</u>

## 8. Movements in property, plant and equipment

During the period, the Group spent HK\$15,075,000 on the acquisition of plant and equipment and incurred HK\$11,213,000 for construction in progress in order to facilitate its processing capabilities.

## 9. Goodwill

During the period, the Group spent HK\$21,340,000 on the acquisition of a seafood processing and distribution business. The amount of goodwill arising as a result of the acquisition was HK\$17,314,000.

## 10. Trade and other receivables

Included in trade and other receivables are trade receivables of HK\$391,647,000 (31.3.2003: HK\$498,829,000) and bills receivables of HK\$89,705,000 (31.3.2003: HK\$55,617,000). The Group maintains a defined credit policy. For sales of goods, the Group allows an average credit period of 30 days to 120 days to its trade customers.

The aging analysis of trade receivables and bills receivables at the balance sheet date is as follows:

	30.9.2003 HK\$'000 (unaudited)	31.3.2003 HK\$'000 (audited)
Less than 30 days	237,139	492,717
31–60 days	125,144	39,195
61–90 days	38,730	12,480
91–120 days	51,472	8,722
Over 120 days	<u>28,867</u>	<u>1,332</u>
	<u>481,352</u>	<u>554,446</u>

#### 11. Trade receivables with insurance coverage

Included in the trade receivables with insurance coverage are discounted trade receivables of HK\$142,699,000 (31.3.2003: HK\$145,451,000) which have been discounted to certain banks under the receivables discounting advance facilities.

The aging analysis of trade receivables with insurance coverage at the balance sheet date is as follows:

	30.9.2003 HK\$'000 (unaudited)	31.3.2003 HK\$'000 (audited)
Less than 30 days	117,517	108,118
31–60 days	37,583	83,282
61–90 days	60,890	8,729
91–120 days	889	3,920
Over 120 days	780	779
	<u>217,659</u>	<u>204,828</u>

#### 12. Trade and other payables

Included in trade and other payables are trade payables of HK\$98,030,000 (31.3.2003: HK\$312,470,000). The aging analysis of trade payables at the balance sheet is as follows:

	30.9.2003 HK\$'000 (unaudited)	31.3.2003 HK\$'000 (audited)
Less than 30 days	69,564	122,295
31–60 days	3,852	110,209
61–90 days	15,915	60,515
Over 90 days	8,699	19,451
	<u>98,030</u>	<u>312,470</u>

Included in trade and other payables are advances from third parties of HK\$42,961,000 (31.3.2003: HK\$ Nil) which bear interest at prevailing market rate and secured by inventories of HK\$57,675,000 (31.3.2003: HK\$ Nil).

#### 13. Bank Borrowings

The borrowings bear interest at market rates. During the period, the Group obtained approximately HK\$406,600,000 new banking facilities. The banking facilities were obtained to finance the working capital of the Group and acquisition of the seafood processing and distribution business.

#### 14. Share capital

During the period, 1,000,000 share options were exercised by the holders to subscribe for 1,000,000 ordinary shares in the Company at an exercise price of HK\$0.944 per share. Besides, 14,212,348 warrants were exercised to subscribe for 14,212,348 ordinary shares in the Company at a subscription price of HK\$0.85 per share.

#### 15. Capital commitments

At 30 September 2003, the Group had capital expenditure in respect of the acquisition of property, plant and equipment and a land use right located at Qingdao in the Mainland China contracted for but not provided in the financial statements amounted to HK\$4,019,000 (31.3.2003: HK\$8,469,000).

## 16. Contingent liabilities

At 30 September 2003, the Group had contingent liabilities in respect of bills discounted with recourse of approximately HK\$388,815,000 (31.3.2003: HK\$420,900,000).

## 17. Pledge of assets

At 30 September 2003, the Group has pledged land and buildings and investment properties with aggregate carrying values of approximately HK\$160,380,000 (31.3.2003: HK\$161,747,000) and HK\$18,300,000 (31.3.2003: HK\$18,300,000) respectively, as collateral for mortgage loans granted to the Group by certain banks.

In addition to trade receivables with insurance coverage of HK\$4,574,000 (31.3.2003: HK\$6,980,000) mentioned in note 11 above, inventories of HK\$248,377,000 (31.3.2003: HK\$338,691,000) were also pledged as security for the revolving inventory financing facilities obtained from banks and as security for advances from third parties.

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

## 18. Related party transaction

- (a) During the period, the Group entered into following significant transactions with an associate of the Group.

	30.9.2003 HK\$'000 (unaudited)	30.9.2002 HK\$'000 (unaudited)
Sales of frozen seafood ( <i>note i</i> )	153,719	168,658
Administrative income ( <i>note ii</i> )	3,467	6,000

*Notes:*

- (i) Sales and purchases of frozen seafood were carried out at market price or, where no market price was available, at cost plus a percentage profit mark-up
- (ii) Administrative income was charged to an associate on a cost allocation basis.
- (b) The associate also provides inventories and trade receivables as part of the security to a bank to secure the banking facilities of HK\$39,000,000 (31.3.2003: HK\$39,000,000) granted to the Group. No facilities were utilised by the Group at 30 September 2003 and 31 March 2003. Including in the discounting advances drawn on trade receivables with insurance coverage is an amount of HK\$18,608,000 (31.3.2003: HK\$47,691,000) which were drawn from discounting trade receivables with insurance coverage of an associate of HK\$20,676,000 (31.3.2003: HK\$52,990,000).

## **DIVIDEND**

Since 2001, the Board of Directors has declared a dividend pay-out policy of one third of net profits once every year as a final dividend. As such, the directors do not declare any interim dividend for the six months ended 30 September 2003.

## **BUSINESS REVIEW**

Pacific Andes recorded a very solid performance in the first half of FY2004, with turnover increasing 16.7% over the corresponding period last year, to HK\$1,695.0 million, and net profits rising by 18.9%, to HK\$48.9 million. Earnings per share were HK6.8 cents, increasing 11.5% against last year's HK6.1 cents.

During the six months under review, the economy slowdown in United States and European Union, the outbreak of the Severe Acute Respiratory Syndrome ("SARS") and the War in Iraq, affected the confidence of consumers worldwide. Despite this, we are able to overcome. This is attributed to continual relocation of fillet and portion processing from different parts of the world to the PRC.

Sales were driven by good performances across all our existing product sectors, all of which recorded a double-digit growth. Frozen seafood consumption in the PRC continues to rise, as consumers around the country develop a more varied diet and there is improved cold storage and domestic distribution from the coastal regions to both the country's heartland, and its more isolated areas. At the same time, consumption of fillet and portions in western countries continues to increase in line with the increasing demand for light meals and convenience products.

Driven by our corporate goal for market expansion and product diversification, the Group has been looking for lucrative and potential opportunities to further expand our existing market and product range. We acquired the American leading stuffed clam producer, Matlaw's Frozen Seafood Product Line ("Matlaw"), from Frozen Specialties, Inc., through our 60%-owned US subsidiary, National Fish & Seafood, Inc. ("NFS"), in August 2003. The acquisition includes the Matlaw's brands for stuffed clam, crab and scallop products, formulae, production equipment and inventory.

## **OPERATIONS REVIEW**

### **Market Analysis**

The PRC remains the single largest and most significant market for the Group, recording the highest growth rate. During the review period, sales to the PRC rose 25.2%, from HK\$645.1 million, to HK\$807.8 million, accounting for 48% of the Group's total sales. This promising growth was mainly due to the increasing popularity of white fish in the local diet. In addition, the logistical arrangements, supported via warehouses in different locations and inland transportation, facilitated effective domestic distribution to both the country's heartland and its more isolated areas. These arrangements have been well received by our customers, allowing them to reduce their inventory holdings and enhance their cash flow. Likewise for Pacific Andes, these arrangements have not only expanded our customer base, they have allowed us to serve customers whose orders are smaller. We believe that this system will continue to generate promising returns for the Group, further increasing customers' dependence on Pacific Andes, and enhancing our penetration into this huge and promising market.

During the period under review, in a move to ensure the quality and traceability of the origins of imported foodstuff into the country, the PRC government implemented a new regulation for foodstuff imports. Under the new rule, all imported foodstuffs are required to carry labels in the Chinese language. Consequently, in compliance with this new regulation, the Group had to relabel all of its cargo. This incurred additional relabelling costs. Goods delivery to customers was also temporarily delayed. Distribution activities have now returned to normal.

Sales to Western Europe surged by 25.9%, to HK\$367.3 million, during the review period. The increase resulted primarily from the increasing demand for light meals and convenience products in the EU countries. The European market accounts for 22% of the Group's total sales, consisting of a sales mix of fish fillets and portions and vegetable products.

Sales to the U.S. market increased 0.9%, to HK\$419.3 million, accounting for 25% of the Group's total sales. Meanwhile, the Group continued to explore growth potential in the U.S. market via the acquisition, in August of this year, of Matlaw, a leading stuffed clam producer, with an established business foundation of 40 years in the U.S. By integrating this established business and utilizing its clientele and distribution network, Pacific Andes is looking forward to supplementing our existing frozen fish fillets and portions business in the U.S. As the acquisition of Matlaw was only completed by end of August 2003, the contribution from the Matlaw was insignificant during the review period.

The Japanese market recorded sales of HK\$76.5 million, compared with last year's HK\$83.5 million.

## **Product Analysis**

Frozen fish, primarily sold in the PRC market, remained the single largest product, accounting for 51% of the Group's total sales. Owing to the increasing popularity of our frozen fish products, together with our dedicated efforts to extend our distribution network in the territory, sales of frozen fish rose 14.9%, to HK\$871.2 million, during the review period.

Sales of fillets and portions increased 18.1%, to HK\$800.4 million, compared to last year's HK\$678.0 million. The growth primarily came from the Western Europe market, where there is a booming demand for fillets and portions. The Group has dedicated efforts to strengthen the processing capacity, increasing the number of processing factories from 18 to 20 factories, since April 2003.

Sales of vegetables continued to grow steadily, delivering a sales contribution of HK\$16.6 million, which represents an increase of 30.5% on a year-on-year basis.

## **FINANCIAL REVIEW**

The Group had centralized funding for all its operations at the Group level. This policy achieves better control of treasury operations and lower average cost of funds. The Group's major borrowings are in US Dollars and HK Dollars. Borrowings are based on LIBOR or HK Best Lending rates. As the Group's revenue is mainly in US Dollars and major payments are either in US Dollars or HK Dollars, currency risk is relatively low.

As at 30 September 2003, total borrowings of the Group amounted to HK\$960 million, most of which was used for trade financing. This 23% increase is at a similar rate to the Group's turnover growth. Cash on hand amounted to HK\$252 million, resulting in a net debt to equity ratio of 47%. The Group continues its policy of maintaining a prudent gearing ratio. 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.

As at 30 September 2003, the Group has pledged land and buildings and investment properties with aggregate carrying values of approximately HK\$160 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\$4.6 million and inventories of HK\$248 million were pledged as security for the revolving inventory financing facilities obtained from banks.

In addition, shares of certain subsidiaries were pledged as securities for revolving inventory financing facilities from banks.

As at 30 September 2003, bills discounted with recourse were HK\$389 million.

## **Employees and Remuneration**

As at 30 September 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.

## **PROSPECTS**

The PRC will continue to be our sales focus. Demand there for frozen fish and seafood products is expected to continue to grow and, therefore, the Group will continue to expand operations there, with a primary objective of profit margin enhancement and expansion of marketing activities.

Leveraging Matlaw's established fundamentals, its well-received brand names, and its nation-wide distribution network with mega supermarket chains and food distributors in the U.S., synergies will be achieved by sharing production, marketing, distribution and logistics resources. We are confident we will translate Matlaw's strengths into both sustainable profitability and an ability to offer additional new products. This will further extend Pacific Andes' reach within this market.

With growing demand from our customers for our fillets and portions, the Group will continue its endeavors to increase processing volume. Plans for the construction of the new processing plant in China have encountered some delay in obtaining land title document. However, we expect to obtain land title document in two to three months time. Once land title is approved, major construction can start immediately. It is expected that building work can be completed within twelve months.

In addition to organic growth, we will be exploring opportunities, through joint venture or acquisition, to expand our business portfolio to deep-sea fishing operations. This will enable us to more fully integrate our business operation.

In summary, we confidently see our business well positioned to deliver even better results in the second half of the year.

## DIRECTORS' INTERESTS AND SHORT POSITION IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

At 30 September 2003, the interests and short positions of the directors and chief executives and their associates in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the “SFO”)), which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which any such director or chief executive or any associated corporation is taken or deemed to have under such provisions of the SFO), or which were required to be entered in the register maintained by the Company pursuant to section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by directors of listed companies, were as follows:

### (i) Shares and warrants

Name of Director	Number of ordinary shares				Number of underlying ordinary shares held under warrants <sup>4</sup>	Total	Percentage of aggregate interests to total issued share capital
	Personal interests	Family interests	Corporate interests	Other interests			
Ng Swee Hong	-	-	421,487,865 <sup>1</sup>	-	84,297,573 <sup>1</sup>	505,785,438	69.66%
Ng Joo Siang	-	422,000 <sup>2</sup>	-	-	84,400 <sup>2</sup>	506,400	0.07%
Ng Puay Yee, Jessie	480,000 <sup>3</sup>	-	-	-	96,000 <sup>3</sup>	576,000	0.08%
Cheng Nai Ming	1,854,400 <sup>3</sup>	-	-	-	290,880 <sup>3</sup>	2,145,280	0.30%

#### Notes:

- These shares and warrants are registered in the name of N. S. Hong Investment (BVI) Limited and Ng Swee Hong is deemed to be interested in these shares by virtue of the fact that N. S. Hong Investment (BVI) Limited, a corporation, is accustomed to act in accordance with his directions.
- These shares and warrants are held under the name of the spouse of Ng Joo Siang.
- This represents interests held by the relevant director as beneficial owner.
- This represents interests in the warrant to subscribe for the relevant underlying ordinary shares in respect of the bonus issue of 141,401,053 warrant (“2004 Warrants”) made on 16 September 2002.



**(ii) Share options scheme**

The following table discloses directors' personal interests and employees' interest in share options to subscribe for shares in the Company:

	Period during which option are exercisable	Subscription price per share HK\$	Date of grant	Outstanding at 1.4.2003	Number of share options held		Outstanding at 30.9.2003
					Exercised during the period	Lapsed during the period	
Category 1:							
Directors							
Ng Puay Yee	11.7.1999 to 10.7.2004	1.1168	10.7.1997	600,000	–	–	600,000
Cheng Nai Ming	25.10.1998 to 24.10.2003	0.9440	24.10.1996	2,000,000	(400,000)	–	1,600,000
	21.8.2000 to 20.8.2005	0.3336	21.2.2000	4,000,000	–	–	4,000,000
Total number of share options held by directors				6,600,000	(400,000)		6,200,000
Category 2:							
Employees							
	25.10.1998 to 24.10.2003	0.9440	24.10.1996	600,000	(600,000)	–	–
Total number of share options held by employees				600,000	(600,000)	–	–
Total number of share options granted				7,200,000	(1,000,000)	–	6,200,000

During the six months ended 30 September 2003, 1,000,000 share options to subscribe for 1,000,000 shares in the Company at an exercise prices of HK\$0.944 per share were exercised.

Other than as disclosed above, none of the directors or chief executives or their respective associates had any personal, family, corporate or other interests or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required notification to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which any such director or chief executive is taken or deemed to have taken under such provisions of the SFO); or which were required pursuant to Section 352 of the SFO to be entered into the register maintained by the Company; or which were required, pursuant to Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, to be notified the Company or the Stock Exchange.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES OF THE COMPANY

As at 30 September 2003, the interests and short positions of any substantial shareholders in the shares or underlying shares of the Company which have been disclosed to the Company pursuant to Divisions 2 and 3 Part XV of the SFO and have been recorded in the register required to be kept by the Company pursuant to section 336 of the SFO were as follows:

Name	Capacity	Direct Interest	Percentage of total issued shares
N.S. Hong Investment (BVI) Limited	Beneficial owner	505,785,438 (note a)	69.66%
Value Partners Limited	Trustee	63,328,000 (note b)	8.72%

*Notes:*

- (a) These share are registered in the name of N.S. Hong Investment (BVI) Limited and Ng Swee Hong is deemed to be interested in these shares by virtue of the fact that N.S. Hong Investment (BVI) Limited, a corporation, is accustomed to act in accordance with his directions.
- (b) The shares are registered in the name of Value Partners Limited and Cheah Cheng Hye is deemed to be interested in these shares by virtue of the fact that Cheah Cheng Hye held more than 30% of Value Partners Limited.

Other than as disclosed above, the Company has not been notified of any persons who had interests or short position in the shares or underlying shares of the Company, which were required to be recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

## PURCHASE, SALE OR REDEMPTION

During the six months ended 30 September 2003, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of its listed securities of the Company during the period.

## AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial matters including the review of the unaudited interim financial statements for the six months ended 30 September 2003.

The interim financial reports have been reviewed by the Company's auditors, in accordance with Statement of Audit Standards No. 700 "Engagements to review interim financial reports".

The members of the Audit Committee are Mr. Lew V. Robert (chairman) and Mr. Kwok Lam Kwong, Larry, the two independent non-executive directors of the Company.

## CODE OF BEST PRACTICE

None of the directors of the Company is aware of information that would reasonably indicate that the Company is not in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Code of Best Practice") except that its non-executive directors are not appointed for a specific term. Pursuant to the bye-laws of the Company, directors, including non-executive directors, of the Company will retire by rotation on an average of three years and their appointments will be reviewed when they are due for re-election which in the opinion of the Company meets the same objective as the guideline set out in the Code of Best Practice.

By Order of the Board

**Ng Joo Siang**

*Managing Director*

Hong Kong, 17 December 2003

## INDEPENDENT REVIEW REPORT

### 德勤·關黃陳方會計師行

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**Deloitte  
Touche  
Tohmatsu**

## TO THE BOARD OF DIRECTORS OF PACIFIC ANDES INTERNATIONAL HOLDINGS LIMITED

太平洋恩利國際控股有限公司

### INTRODUCTION

We have been instructed by the Company to review the interim financial report set out on pages 1 to 10.

### DIRECTORS' RESPONSIBILITIES

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with Statement of Standard Accounting Practice No. 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the Directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### REVIEW WORK PERFORMED

We conducted our review in accordance with Statement of Auditing Standards No. 700 "Engagements to Review Interim Financial Reports" issued by the Hong Kong Society of Accountants. A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the interim financial report.

## **REVIEW CONCLUSION**

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 September 2003.

**Deloitte Touche Tohmatsu**

*Certified Public Accountants*

Hong Kong, 17 December 2003