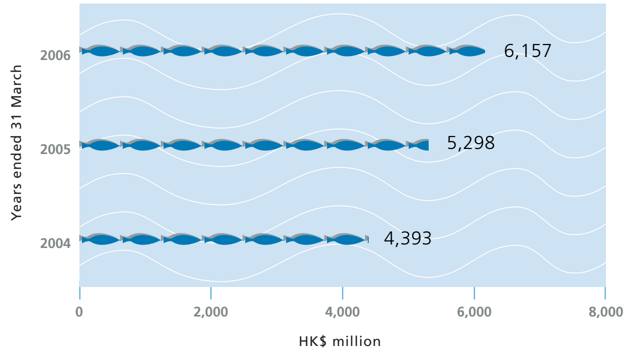
MANAGING DIRECTOR'S STATEMENT AND ANALYSIS

For the year ended 31 March 2006, Pacific Andes International Holdings Limited ("Pacific Andes" or the "Company") and its subsidiaries (the "Group") made significant progress in expanding into upstream industrial fishing activities, thus contributing to the optimization of its vertically-integrated supply chain management operation for frozen seafood products. Strong earnings growth and enhanced margin saw the Group's overall financial position improved.

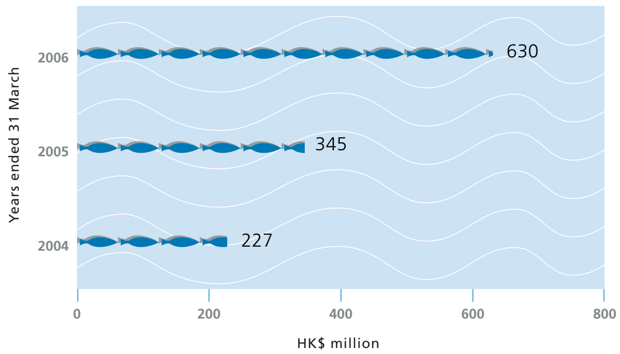
FINANCIAL HIGHLIGHTS

Turnover

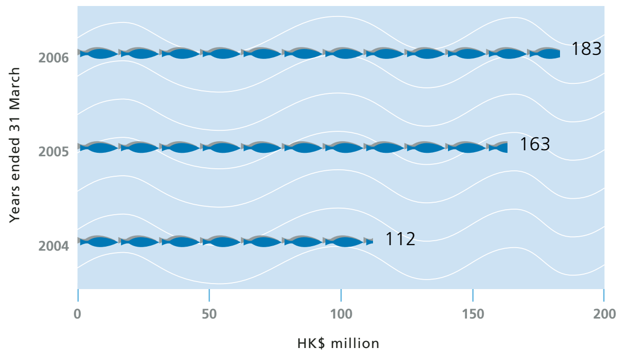
In FY2006, the Group recorded an increase of 16.2% in turnover to HK$6,157 million. The sales growth was primarily attributable to the increasing demand for frozen seafood in existing markets.



Operating Profit



Profit Attributable to Shareholders



MANAGING DIRECTOR'S STATEMENT AND ANALYSIS

Operating Profit and Profit Attributable to Shareholders

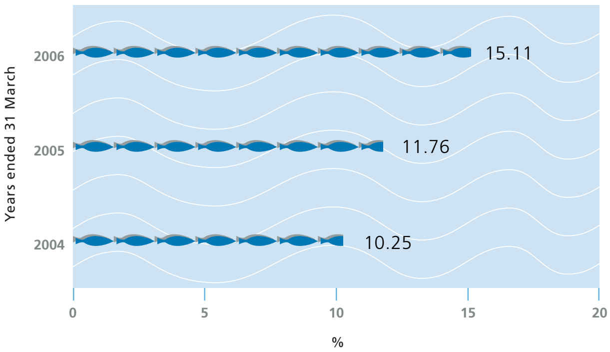
The improved profitability reflected the profit contribution from higher sales and the improved operational efficiency from integrating the upstream activities of China Fishery Group Limited ("China Fishery") into the Group's supply chain. Operating profit increased from HK$345 million in FY2005 to HK$630 million in FY2006, representing an increase of 82.8%.

Profit attributable to shareholders increased 12.1% from HK$163 million in FY2005 to HK$183 million in FY2006, taking into account the following exceptional items:

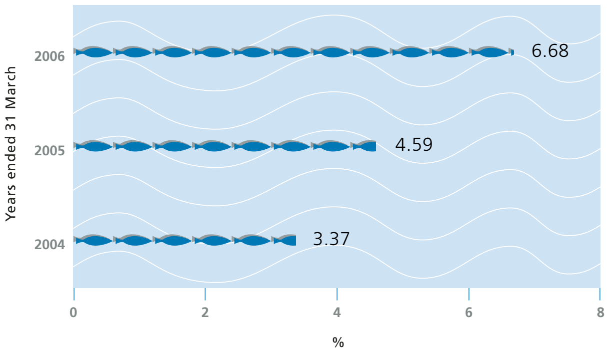
	FY2006 HK$'000	**FY2005** HK$'000	**Change** %
Profit attributable to shareholders	183,058	163,228	+12.1
Gain on dilution of interest resulting from China Fishery's Initial Public Offering ("IPO"), net of minority interest	(52,866)	–	NM
Loss on deemed disposal in interest resulting from the exercise of share warrant by the minority shareholders of Pacific Andes (Holdings) Limited ("PAH")	12,729	1,196	+964.3
Fixed assets and inventory written off of vegetable business in PAH, net of minority interest	7,469	–	NM
Goodwill impairment of Kyoshoku Co., Ltd ("Kyoshoku")	12,460	–	NM
Loss from Kyoshoku, net of minority interest	31,828	–	NM
Increase in depreciation of properties due to change in accounting estimates	8,961	–	NM
Increase in revaluation gain of properties due to change in accounting policies	(4,188)	–	NM
Profit attributable to shareholders, net of exceptional items	199,451	164,424	+21.3

MANAGING DIRECTOR'S STATEMENT AND ANALYSIS

Gross Profit Margin



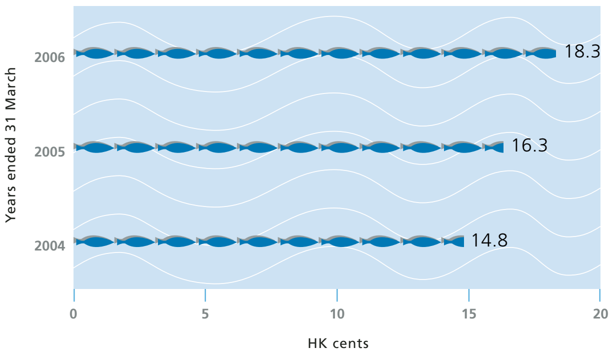
Net Profit Margin



The Group's gross profit margin improved from 11.76% in FY2005 to 15.11% in FY2006, also as a result of the integration of China Fishery's operations. Net profit margin increased from 4.59% last year to 6.68% this year.

Earnings Per Share

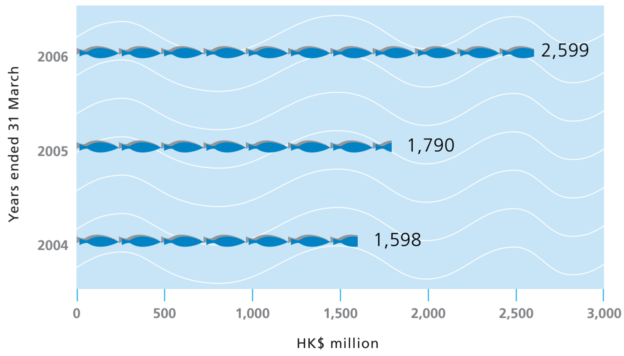
Reflecting the Group's enhanced profitability, earnings per share for the year increased from HK16.3 cents in FY2005 to HK18.3 cents in FY2006, up 12.3%.



MANAGING DIRECTOR'S STATEMENT AND ANALYSIS

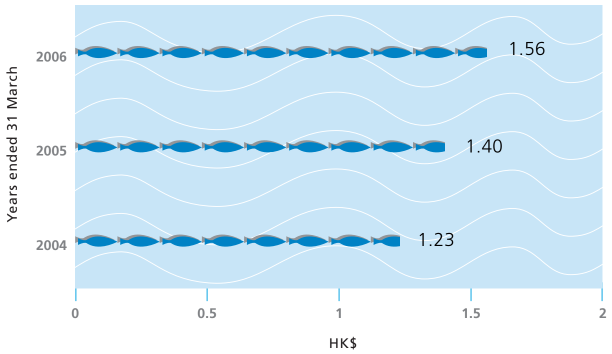
Shareholders' Fund

Shareholders' fund increased 45% to HK$2,599 million.



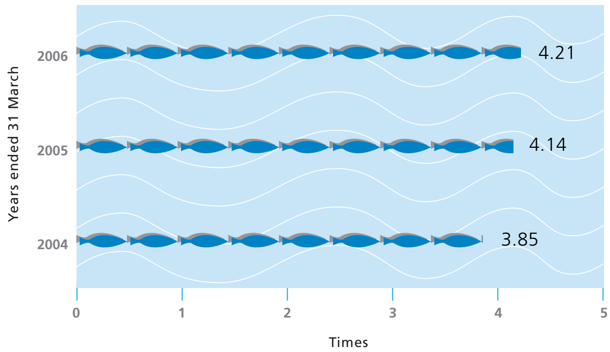
Net Assets Per Share

Net assets per share increased 11.4% to HK$1.56.



EBITDA/Net Interest Cover

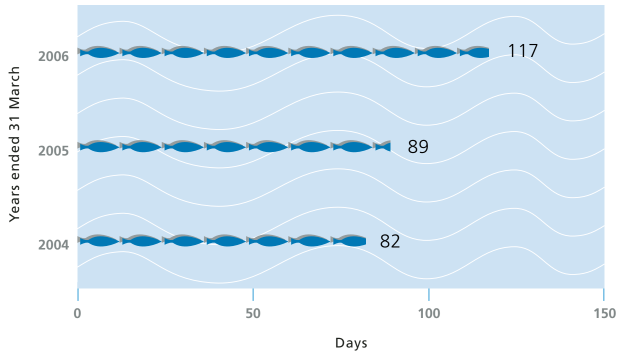
The EBITDA/net interest cover of 4.21 times in FY2006 remained fairly stable when compared with 4.14 times in FY2005.



MANAGING DIRECTOR'S STATEMENT AND ANALYSIS

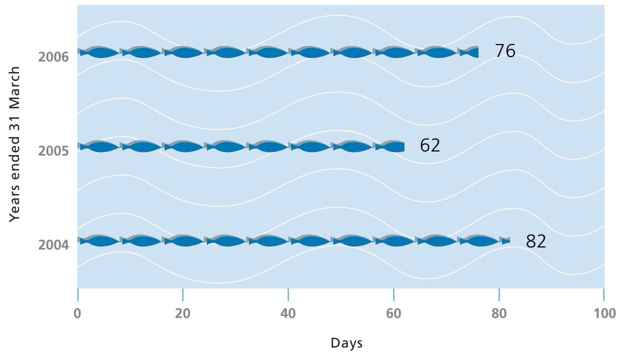
Stock Turnover

The late delivery of products to the Group's PRC customers due to the late start of the fishing activities in the North Pacific Ocean in the last quarter of FY2006 and the increase in raw material holdings to meet growing demand for processed seafood products in North American and European markets resulted in a temporary slow-down of inventory turnover from 89 days in FY2005 to 117 days in FY2006.



Net Debtors Turnover

The late delivery of products to the Group's PRC customers due to the late start of the fishing activities in the North Pacific Ocean in the last quarter of FY2006 also resulted in a temporary increase in the trade receivable balance at 31 March 2006. As a result, the debtor turnover, after excluding the advances drawn on insured trade receivable and bills receivable, increased from 62 days in FY2005 to 76 days in FY2006.



MANAGING DIRECTOR'S STATEMENT AND ANALYSIS

BUSINESS REVIEW

Consumers around the world, and especially those in the growingly affluent China, are becoming more health conscious, which explains the continuous surge in global demand for fish. Led by a highly experienced management team and supported by an enhanced supply chain infrastructure and strengthened fishing capabilities, we are poised to capitalize on the increasing market demand to sustain business growth.

The successful integration of the upstream operations of the deep-sea fishing specialist, China Fishery with the Group's downstream logistics, trading and distribution operations has created significant synergies and economies of scale in our supply chain management operation, enabling us to gain access to new markets and exploit new areas of growth. The Group has gained controlling share of China Fishery which gave it full control of the entire supply chain of its frozen seafood operations, which cover harvesting, transportation, processing, trading and distribution of a wide variety of frozen seafood products. In January 2006, China Fishery achieved a new milestone. It mounted an IPO of 57 million new shares and became listed on the Main Board of the Singapore Exchange. The IPO was warmly received by both institutional and individual investors and brought an exceptional gain of HK$81 million to the Group.

Since the world's ocean wild-catch resources are limited but the demand of which have been increasing continually, various forms of governmental control measure have been established to limit the growth of the ocean wide-catch quantities in order to preserve the resources. To cope with this industrial phenomenon, the Group has been actively exploring ways of securing additional sources of supply, especially through establishing long term alliances with those fishing companies which own or control fishing licenses and quota and using existing resources more efficiently. In February 2006, China Fishery signed a new vessel operating agreement ("VOA") resulting in the immediate doubling of its fishing capabilities in the Pacific Ocean. To expand our processing capacity and enhance the value adding of our processing operation, the Group is constructing a new processing plant in Hongdao, Qingdao which will focus on putting out high value-added, high-margin products and environmental-friendly waste-converted fishmeal products into its portfolio.

As the development of our vertically-integrated supply chain has come to fruition, Pacific Andes continues to stand out in the seafood industry by the scale and scope of our operations during the review period.

OPERATIONS REVIEW

Market Analysis

While ocean wild-catches have not been growing during the past two decades, global population growth and change of dietary habits has seen demand for fish rising persistently, translating into opportunities for the Group. All of the Group's markets contributed more revenue during the year when compared with the previous year.

China remained as Pacific Andes' major revenue contributor accounting for 49.9% of its total sales mix for FY2006. The Group recorded turnover of HK$6,157 million, 16.2% higher than last year's. The prospering Chinese economy and growing purchasing power of the people have resulted in the Chinese consumers' active pursuit of a more healthy and balanced food diet. This have braced the continuous rise of per capita consumption of fishery products in China. With a huge population, a 1 kg increase in per capita consumption of fishery products in China would add up in total to a jump in demand of 1.2 million metric tons or 1.5% of the total ocean wild-catch fishery products. Thus, a steady growth in demand for fish products in the market is expected in the coming years.

North America is the second largest market of the Group during the financial year, accounting for 19.6% of its total sales mix. Sales to the market totaled HK$1,205 million, a healthy 15.1% growth when compared with the previous year. Sales to Western Europe, which accounted for 19.5% to our total sales, increased by 9.6% to HK$1,200 million in the year. Ready-made meals using fishery products as the main ingredients continued to gain popularity worldwide. The Western European and North American markets with a strong craving for quality fish products have come to rely on imports and that has lifted the market prices of fishery products.

The Group's successful foray into the markets in Korea and Japan was reflected in the surge of sales to HK$210 million and HK$291 million respectively in FY2006, compared to HK$79 million and HK$178 million respectively in FY2005.

MANAGING DIRECTOR'S STATEMENT AND ANALYSIS

OPERATIONS REVIEW – Continued

Product Analysis

Seafood Division

The Group's seafood division, boasting a decade-long operation, is today one of the world's leading frozen seafood processors and suppliers. With a comprehensive and well-integrated supply chain management operation, it harvests and sources seafood products globally, transforms them into different forms of quality products, and distributes the products to consumers around the world. In FY2006, the Group recorded sales of approximately 355,000 metric tons, valuing HK$6,078 million, of frozen seafood products, representing to an increase of 16.0% when compared with the previous year.

Fishing

Aspiring to become a leading force in the seafood industry, the Group has sought to constantly strengthen its fishing capability. Its subsidiary China Fishery operates 41 trawlers and super trawlers to fish all year round in the Pacific, Atlantic and Indian Oceans. In FY2006, China Fishery harvested and processed approximately 68,000 metric tons of fish. It contributed HK$620 million in sales and net profit of HK$55.9 million to the Group.

A new VOA signed by China Fishery in February 2006 has enabled itself to utilise the requisite fishing quotas and licenses to fish in Russian economic waters in the North Pacific Ocean and equipped it with advanced technology and facilities to enhance yields and conduct at-sea processing of catches. This new VOA enabled China Fishery to double the size of its super-trawler fleet to 14 and accordingly its fishing capabilities. With powerful at-sea initial processing capability and extended operational cycles, the Group stands prime to capitalize on potential fishing grounds and introduce new fish species to markets, and in turn assure economic benefits for itself.

Sourcing and Trading

Frozen fish, sold predominantly to the PRC market, remained as the largest revenue contributor of the Group and accounted for 47.4% of total sales. Sales value jumped 7.0% to HK$2,921 million.

Processing & Distribution

Sales of fillets and portions increased 9.4% to HK$2,537 million and accounted for 41.2% of the Group's total sales mix. The sale growth was mainly supported by sustained demand for processed seafood from the markets in North America and Western Europe.

During the year under review, the Group's Japanese seafood processing subsidiary, Kyoshoku, reported a goodwill impairment of HK$12,460,000 and a loss of HK$53.0 million which the Group recognized 60% of this loss of HK$31.8 million in the current financial results. Heeding the general rise in operating cost in Japan, the Group is relocating production there to China to take advantage of the country competitive labour and production costs and improve profitability. Upon completion, the Group expects Kyoshoku will achieve breakeven in the second half of 2006.

Vegetable and Plantation Division

Difficulties in securing appropriate farmland in the PRC explains the insignificant contribution from vegetable business covering such operations as farming and processing of vegetable products. Thus, during the year under review, the Group ceased to cultivate and process vegetables and concentrated on sourcing and distribution of vegetable products. This resulted in a one-time impairment loss amounting to approximately HK$11.5 million from the write-down of related assets and inventories.

Liquidity and Financial Resources

As at 31 March 2006, our total bank borrowings increased 51.5%, from HK$2,029 million in FY2005 to HK$3,074 million in FY2006. The increased bank borrowing was used to finance the temporary increase of inventory and trade receivables due to the late start of the fishing activities in the North Pacific Ocean in the last quarter of FY2006 and the increase in raw material holdings to meet growing demand for processed seafood products in North American and European markets. Inventory and accounts receivable came down significantly in the first half of FY2007.

OPERATIONS REVIEW – Continued

Liquidity and Financial Resources – Continued

As at 31 March 2006, our cash on hand amounted to HK$337 million. Gearing ratio increased slightly to 53.8% in FY2006. Gearing ratio represents total debts to total assets.

As the Group does not maintain a significant open position in any foreign currency at any time, it has minimal exposure to currency risks. In view of the latest announcement of the revaluation of the RMB, the Group sees a slight increase for operating cost. However, since the PRC market for frozen fish accounts for half of the Group's total sales and the people's purchasing power is improving, the Group expects to see sales from frozen fish trading enhanced. The Group actively protects its foreign currency vulnerabilities through natural hedges and forward contracts. It does not engage in any speculative currency transactions.

Employees and Remuneration

As at 31 March 2006, the Group had a total of 6,300 employees. Remuneration packages offered to employees are in line with industry standards and reviewed annually. The award of bonuses is decided based on the performance of the individual employee as well as the Group's performance. Other staff benefits include medical allowance and mandatory provident fund. The Company and its non-wholly owned subsidiary, PAH, each has an employees' share option scheme to allow for granting of share options to selected eligible employees, depending on their contribution to the company.

Environmental Conservation

As a company whose business is sourcing and marketing fish and seafood products, Pacific Andes is keenly aware of its responsibilities to respect fishing quotas, conserve fishing grounds, and to take the lead in encouraging governments and fishing companies globally to protect the environment and marine resources. We see this as a long-term commitment to ensure the world has sustainable fishery resources. We are committed to supporting a responsible and efficient fishing industry dedicated to striking a balance between consumer demand and conservation of stock for the future. During the year, we made an industry-first move, which was to appoint our external auditors, Deloitte Touche Tohmatsu, to independently verify that all the Group's fish sourced are accompanied by the proper certification and documentation issued by the relevant governments or other appropriate authorities. This is to ensure that illegally caught fish does not enter our supply chain. The results of this audit will be published on our website on a quarterly basis. This is one way Pacific Andes, as a company can, contribute to conservation of the environment.

OUTLOOK

As consumers become more and more health conscious and their dietary habits shift towards healthy and balanced food diet, global demand for fishery products has been on the rise. Thus, the Group remains bullish on the overall market environment and its business development. With China Fishery integrated into its operation earlier this year, Pacific Andes now has better control of the entire supply chain of its frozen seafood operations – from harvesting and sourcing to processing and distribution of seafood products worldwide. Pacific Andes is in a prime position to take advantage of emerging opportunities to sustain continual growth in the coming years.

Access to more fish resources

According to a 2004 study by the United Nations' Food and Agriculture Organization ("FAO"), 3.6 billion people worldwide consume fish for at least 20% of their animal protein intake and potential global demand for fish is expected to grow by more than 35% from 133 million metric tons in 2001 to 183 million metric tons by 2015. The supply of wild catch, however, has remained steady in the past 10 years and increasing aquaculture production is not deemed sufficient to satisfy increasing demand. The imbalance between demand and supply has led and will continue to lead to price surge of fishery products.

To more effectively capture this tremendous potential, the Group has been forging ahead with assuming access to more fish resources by widening its vertically integrated supply chain. China Fishery's proposed US$100 million (approximately HK$780 million) acquisition of the Peruvian fishmeal manufacturer and global exporter Alexandra S.A.C. and its two subsidiaries is a step in that direction.

OUTLOOK – Continued

Access to more fish resources – Continued

Alexandra S.A.C. and its two subsidiaries own and operate a fleet of 13 fishing vessels with total storage capacity of approximately 4,000 metric tons and four licensed fishmeal processing plants. This acquisition, once completed, will allow the Group to gain immediate access to the fishing and fishmeal processing sectors in Peru, the world's largest producer of fishmeal. It will also enable the Group to extend and diversify its product mix to include Peruvian anchovy-based fishmeal and fish products. Ideally located, Peru will make a cost-effective base for the Group to expand its fishing grounds to one of the most productive fishing areas in the world and tap the largest fishmeal market in the world, i.e. the PRC. Should the acquisition be realized, the Group will have control of about 1 percent of the world's ocean fish resources.

Enhance processing capability

To meet increasing world demand, the other key strategy of the Group is to enhance its processing capability. The Group is building a new processing complex in Qingdao which will be equipped with advanced processing lines capable of producing up to a total of 60,000 metric tons of frozen fish fillets and portions a year. The expansion will not only significantly increase the Group's processing capability and economy of scale, but will also allow the Group to ensure efficient use of the world's limited wild-catch resources. Apart from employing advanced technology that can increase the value adding of the processing operations, the Group will be able to turn wastage generated from the processing operations into value-added products, such as fishmeal. The new complex is expected to markedly enhance the Group's production yields, profit margins and profitability in the long run.

Identify under-utilised fish species

Demand for fish products around the world, in particular in the growing affluent China, has been rising consistently. The PRC's fish consumption per capita was estimated at 25.6 kilograms ("kg") in 2003 against 11.5 kg in 1990, and according to FAO projection, potential fish consumption per capita in China will reach 34.3 kg by 2030. All figures are pointing to China being a high-growth market. As the PRC's largest frozen fish importer, the Group currently accounts for approximately a quarter of the country's total import value of frozen fish. To grow this share further, the Group has been actively diversifying its product mix by identifying underutilized fish species and introducing them into the PRC market. This strategy, which has been in place since 1990, has been successful. Fish products, for example, Alaska Pollock, Herring and Atlantic Cod have been well received by consumers.

Financing

To ensure it has sufficient funds to support its different growth initiatives, the Group signed an agreement with a group of 20 international and local banks for a US$160 million (approximately HK$1.25 billion) term loan facility. The proceeds will be used to finance the construction of the Group's new processing plant in Hongdao, Qingdao and to refinance and convert the Group's short term borrowings into long term borrowings. This debt refinancing or maturity conversion will also enable the Group to cut down its interest expenses of about HK$15 million per annum. Additionally, the share warrants, which will mature in July 2006, will provide the Group with an additional HK$262 million funding. The Group will have a strengthened equity base and liquidity resources. With additional capital, the Group is confident in achieving continuous rapid growth and fortifying its position as a world leading seafood producer, processor and supplier.

APPRECIATION

During the year, we had made critical milestones that we believe will allow us to take our business to new levels. On behalf of the Board, I would like to express my sincere gratitude to our customers, suppliers, bankers, business partners and shareholders for their support on which our prowess and success rest. My heartfelt appreciation also goes to the Board, the management team and staff, as well as the fishermen and farmers associated with our business for their contribution to our rewarding results this year. Pacific Andes is moving ahead with great confidence and momentum. Our collective commitment will see us closer to achieving our vision and bring in lucrative returns for our shareholders.

Ng Joo Siang
MANAGING DIRECTOR

26 July 2006