FOUR SEAS MERCANTILE HOLDINGS LIMITED
四洲集團有限公司*
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 374)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2018

INTERIM RESULTS

The board of directors (the "Board") of Four Seas Mercantile Holdings Limited (the "Company") announces the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30 September 2018, as follows:

* *For identification purpose only*

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		Six months ended 30 September	
		2018	2017
		Unaudited	Unaudited
	Notes	***HK$'000***	*HK$'000*
REVENUE	3	**1,488,714**	1,436,297
Cost of sales		**(995,651)**	(962,160)
Gross profit		**493,063**	474,137
Other income and gains/(losses), net	3	**2,187**	326,035
Selling and distribution expenses		**(292,429)**	(292,547)
Administrative expenses		**(144,257)**	(145,789)
Other operating expenses		**(6,423)**	(4,464)
Finance costs	4	**(8,138)**	(7,717)
Share of profits and losses of associates		**2,610**	5,996
PROFIT BEFORE TAX	2 & 5	**46,613**	355,651
Income tax expense	6	**(17,257)**	(20,820)
PROFIT FOR THE PERIOD		**29,356**	334,831
Attributable to:			
Equity holders of the Company		**23,105**	329,099
Non-controlling interests		**6,251**	5,732
		29,356	334,831
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
- Basic and diluted	8	**HK6.0 cents**	HK85.6 cents

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 September	
	2018	2017
	Unaudited	Unaudited
	HK$'000	*HK$'000*
PROFIT FOR THE PERIOD	**29,356**	334,831
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:		
Changes in fair value of available-for-sale investments	**-**	(14)
Exchange differences on translation of foreign operations	**(77,040)**	30,941
Share of other comprehensive income/(loss) of associates	**(3,847)**	1,532
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX	**(80,887)**	32,459
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD	**(51,531)**	367,290
Attributable to:		
Equity holders of the Company	**(55,490)**	360,886
Non-controlling interests	**3,959**	6,404
	(51,531)	367,290

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**30 September 2018 Unaudited** *HK$'000*	31 March 2018 Audited *HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**484,959**	524,555
Investment property		**19,372**	21,250
Prepaid land lease payments		**85,051**	94,849
Goodwill		**43,969**	46,674
Other intangible assets		**1,441**	2,351
Investments in associates		**168,513**	170,543
Financial assets at fair value through profit or loss		**30,357**	-
Available-for-sale investments		-	4,788
Deposits		**34,294**	29,359
Deferred tax assets		**8,410**	8,442
Total non-current assets		**876,366**	902,811
CURRENT ASSETS			
Inventories		**355,292**	356,913
Trade receivables	9	**610,907**	587,270
Prepayments, deposits and other receivables		**130,630**	115,291
Tax recoverable		**285**	427
Financial assets at fair value through profit or loss		**45,036**	49,545
Cash and cash equivalents		**570,842**	802,085
Total current assets		**1,712,992**	1,911,531
CURRENT LIABILITIES			
Trade payables, other payables and accruals	10	**360,575**	364,236
Interest-bearing bank borrowings		**713,482**	766,092
Tax payable		**32,604**	18,040
Total current liabilities		**1,106,661**	1,148,368
NET CURRENT ASSETS		**606,331**	763,163
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,482,697**	1,665,974

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

	30 September 2018 Unaudited ***HK$'000***	31 March 2018 Audited *HK$'000*
NON-CURRENT LIABILITIES		
Interest-bearing bank borrowings	**-**	9,141
Deferred tax liabilities	**15,976**	18,700
Total non-current liabilities	**15,976**	27,841
Net assets	**1,466,721**	1,638,133
EQUITY		
Equity attributable to equity holders of the Company		
Issued capital	**38,425**	38,425
Reserves	**1,387,480**	1,564,011
	1,425,905	1,602,436
Non-controlling interests	**40,816**	35,697
Total equity	**1,466,721**	1,638,133

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements are prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities ("Listing Rules") on The Stock Exchange of Hong Kong Limited and the Hong Kong Accounting Standard ("HKAS") 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The accounting policies and basis of preparation adopted in the preparation of the unaudited condensed consolidated interim financial statements are consistent with those adopted in the preparation of the annual financial statements for the year ended 31 March 2018, except as described below.

In the current interim period, the Group has applied, for the first time, certain new and amended Hong Kong Financial Reporting Standards ("HKFRSs") and Interpretations issued by the HKICPA that are mandatorily effective for the Group's financial years beginning on or after 1 April 2018. Other than explained below regarding the impact of HKFRS 9, HKFRS 15 and Amendments to HKFRS 15, the application of the amendments to HKFRSs and Interpretations in the current interim period has had no material effect on the amounts reported and/or disclosure set out in these condensed consolidated financial statements.

1. ACCOUNTING POLICIES (continued)

HKFRS 9 *Financial Instruments*

The Group has adopted HKFRS 9 on 1 April 2018. HKFRS 9 introduces new requirements for classification and measurement, impairment and hedge accounting which have resulted in the following significant changes in accounting policies.

The Group has not restated comparative information for the year ended 31 March 2018 for financial instruments in the scope of HKFRS 9. Therefore, the comparative information for the year ended 31 March 2018 is reported under HKAS 39 and is not comparable to the information presented for the period ended 30 September 2018. Differences arising from the adoption of HKFRS 9 have been recognised directly in statement of financial position as of 1 April 2018.

(i) Classification and measurement

Except for certain trade receivables, under HKFRS 9, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

Under HKFRS 9, debt financial instruments are subsequently measured at fair value through profit or loss ("FVPL"), amortised cost, or fair value through other comprehensive income ("FVOCI"). The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent "solely payments of principal and interest" on the principal amount outstanding (the "SPPI criterion").

The new classification and measurement of the Group's financial assets are as follows:

(a) Equity investments at FVOCI – with no recycling of gains or losses to profit or loss on derecognition. This category only includes equity investments, which the Group intends to hold for the foreseeable future and which the Group has irrevocably elected to so classify upon initial recognition or transition. Equity investments at FVOCI are not subject to the impairment model under HKFRS 9.

1. ACCOUNTING POLICIES (continued)

HKFRS 9 *Financial Instruments* (continued)

(i) Classification and measurement (continued)

(b) Financial assets at FVPL – include derivative instruments and debt instruments of which the cash flow characteristics fail the SPPI criterion or are not held within a business model with objective either to collect contractual cash flows, or to both collect contractual cash flows and sell; and equity investments which the Group has not irrevocably elected, at initial recognition or transition, to classify as FVOCI. This category includes equity investments and school and club debentures held by the Group.

The assessment of the Group's business model was made as of the date of initial application, i.e. 1 April 2018, and then applied retrospectively to those financial assets that were not derecognised before 1 April 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The accounting for the Group's financial liabilities remains largely the same as it was under HKAS 39. Similar to the requirements of HKAS 39, HKFRS 9 requires contingent consideration liabilities to be treated as financial instruments measured at fair value, with the changes in fair value recognised in the statement of profit or loss.

The main effects resulting from application of HKFRS 9 are as follows:

	Available-for-sale investments	Financial assets at FVPL (Non-current)	Available-for-sale investment revaluation reserve	Retained profits
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Opening balance – HKAS 39	4,788	-	126	1,250,088
Reclassify non-trading investments from available-for-sale investments to financial assets at FVPL (Non-current)	(4,788)	4,788	-	-
Adjustment under HKFRS 9	-	-	(126)	126
Opening balance – HKFRS 9	-	4,788	-	1,250,214

1. ACCOUNTING POLICIES (continued)

HKFRS 9 *Financial Instruments* (continued)

(ii) Impairment of financial assets

HKFRS 9 replaces the "incurred loss" impairment model in HKAS 39 with a forward-looking "expected credit loss" model. HKFRS 9 requires the Group to record an allowance for expected credit loss for all loans and other debt financial assets not held at FVPL. The Group applies simplified approach to recognise lifetime expected losses that were estimated based on the present value of all cash shortfalls over the remaining life of all debtors and other receivables. The credit losses calculated pursuant to the new requirements are not significantly different from the amount recognised under the current practices. Therefore, the Group considered no adjustment is necessary.

HKFRS 15 *Revenue from Contracts with Customers*

HKFRS 15 supersedes HKAS 18 *Revenue* and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. The adoption of HKFRS 15 does not have any material impact on the Group's condensed consolidated financial statements.

2. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on geographical areas and has two reportable operating segments as follows:

(i) the Hong Kong segment is engaged in the manufacturing and trading of snack foods, confectionery, beverages, frozen food products, ham and ham-related products, noodles and the retailing of snack foods, confectionery and beverages, provision of catering services, and the operations of restaurants; and

(ii) the Mainland China segment is engaged in the manufacturing and trading of snack foods, confectionery, beverages, frozen food products, ham and ham-related products, noodles, and the operations of restaurants.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/loss, which is a measure of adjusted profit/loss before tax. The adjusted profit/loss before tax is measured consistently with the Group's profit before tax except that interest income, dividend income and unallocated gains/(losses), net, finance costs, share of profits and losses of associates and corporate and other unallocated expenses are excluded from such measurement.

Segment assets exclude available-for-sale investments, deferred tax assets, tax recoverable, investments in associates, financial assets at fair value through profit or loss and cash and cash equivalents as these assets are managed on a group basis.

Segment liabilities exclude interest-bearing bank borrowings, tax payable and deferred tax liabilities as these liabilities are managed on a group basis.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

2. OPERATING SEGMENT INFORMATION (continued)

	Hong Kong Six months ended 30 September		Mainland China Six months ended 30 September		Total Six months ended 30 September	
	2018	2017	**2018**	2017	**2018**	2017
	Unaudited	Unaudited	**Unaudited**	Unaudited	**Unaudited**	Unaudited
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue:						
Sales to external customers*	**967,878**	956,256	**520,836**	480,041	**1,488,714**	1,436,297
Intersegment sales	**8,324**	6,019	**86,045**	85,861	**94,369**	91,880
	976,202	962,275	**606,881**	565,902	**1,583,083**	1,528,177
Reconciliation:						
Elimination of intersegment sales					**(94,369)**	(91,880)
Revenue					**1,488,714**	1,436,297
Segment results	**56,136**	360,567	**6,752**	(6,295)	**62,888**	354,272
Reconciliation:						
Interest income					**3,705**	3,073
Dividend income and unallocated gains/(losses), net					**(5,857)**	11,033
Finance costs					**(8,138)**	(7,717)
Share of profits and losses of associates					**2,610**	5,996
Corporate and other unallocated expenses					**(8,595)**	(11,006)
Profit before tax					**46,613**	355,651

	Hong Kong		Mainland China		Total	
	30 September 2018	31 March 2018	**30 September 2018**	31 March 2018	**30 September 2018**	31 March 2018
	Unaudited	Audited	**Unaudited**	Audited	**Unaudited**	Audited
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment assets	**1,140,936**	1,113,959	**973,232**	1,006,728	**2,114,168**	2,120,687
Reconciliation:						
Elimination of intersegment receivables					**(348,253)**	(342,175)
Investments in associates					**168,513**	170,543
Corporate and other unallocated assets					**654,930**	865,287
Total assets					**2,589,358**	2,814,342
Segment liabilities	**330,638**	370,188	**378,190**	336,223	**708,828**	706,411
Reconciliation:						
Elimination of intersegment payables					**(348,253)**	(342,175)
Corporate and other unallocated liabilities					**762,062**	811,973
Total liabilities					**1,122,637**	1,176,209

* The revenue information above is based on the locations of the customers.

3. REVENUE, OTHER INCOME AND GAINS/(LOSSES), NET

Revenue represents the invoiced value of goods sold, net of discounts and returns. An analysis of revenue, other income and gains/(losses), net is as follows:

		Six months ended 30 September	
		2018	2017
		Unaudited	Unaudited
	Note	***HK$'000***	*HK$'000*
Revenue		**1,488,714**	1,436,297
Other income			
Bank interest income		**3,705**	3,073
Commission income		**-**	40
Dividend income		**1,014**	1,194
Rental income		**647**	626
Others		**1,276**	2,355
		6,642	7,288
Gains/(losses), net			
Gain on disposal of assets held for sale	11	**-**	302,300
Amortisation of deferred gain	11	**2,416**	6,608
Net fair value gain/(loss) on financial assets at fair value through profit or loss		**(6,871)**	9,839
		(4,455)	318,747
		2,187	326,035

4. FINANCE COSTS

An analysis of finance costs is as follows:

	Six months ended 30 September	
	2018	2017
	Unaudited	Unaudited
	HK$'000	*HK$'000*
Interest on bank and trust receipt loans	**8,138**	7,717

5. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

	Six months ended 30 September	
	2018	2017
	Unaudited	Unaudited
	HK$'000	*HK$'000*
Cost of inventories sold	**995,651**	962,160
Depreciation	**33,540**	32,246
Amortisation of prepaid land lease payments	**1,477**	1,430
Amortisation of other intangible assets	**910**	910

6. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries/jurisdictions in which the Group operates.

	Six months ended 30 September	
	2018	2017
	Unaudited	Unaudited
	HK$'000	*HK$'000*
Current – Hong Kong		
Charge for the period	**11,764**	17,709
Current – Elsewhere		
Charge for the period	**6,814**	5,108
Underprovision/(overprovision) in prior years	**109**	(21)
Deferred	**(1,430)**	(1,976)
Total tax charge for the period	**17,257**	20,820

The share of tax attributable to associates amounting to HK$436,000 (2017: HK$1,519,000) is included in "Share of profits and losses of associates" in the unaudited condensed consolidated statement of profit or loss.

7. DIVIDEND

	Six months ended 30 September	
	2018	2017
	Unaudited	Unaudited
	HK$'000	*HK$'000*
Interim – HK3.0 cents (2017: HK3.0 cents) per ordinary share	**11,528**	11,528

8. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings per share amounts is based on the profit for the period attributable to ordinary equity holders of the Company and the weighted average number of ordinary shares in issue during the period.

No adjustment has been made to the basic earnings per share amounts presented for the six months ended 30 September 2018 and 2017 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during these periods.

The calculations of basic and diluted earnings per share are based on:

	Six months ended 30 September	
	2018	2017
	Unaudited	Unaudited
	HK$'000	*HK$'000*
Earnings		
Profit attributable to ordinary equity holders of the Company, used in the basic and diluted earnings per share calculation	**23,105**	329,099

	Number of shares	
	2018	2017
	Unaudited	Unaudited
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic and diluted earnings per share calculation	**384,257,640**	384,257,640

9. TRADE RECEIVABLES

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally for a period of one to three months, extending up to four to five months for major customers.

An ageing analysis of trade receivables as at 30 September 2018 and 31 March 2018, based on the invoice date and net of provisions, is as follows:

	30 September 2018	31 March 2018
	Unaudited	Audited
	HK$'000	*HK$'000*
Within 1 month	**262,567**	246,535
1 to 2 months	**121,745**	101,038
2 to 3 months	**77,025**	94,254
Over 3 months	**149,570**	145,443
	610,907	587,270

10. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

Included in trade payables, other payables and accruals is trade payables balance of HK$197,749,000 (31 March 2018: HK$197,619,000). An ageing analysis of the trade payables as at 30 September 2018 and 31 March 2018 based on the invoice date, is as follows:

	30 September 2018	31 March 2018
	Unaudited	Audited
	HK$'000	*HK$'000*
Within 1 month	**154,129**	135,062
1 to 2 months	**33,782**	35,633
2 to 3 months	**5,113**	11,031
Over 3 months	**4,725**	15,893
	197,749	197,619

10. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS (continued)

Included in the trade payables are amounts due to the Group's associates of HK$42,214,000 (31 March 2018: HK$42,085,000), and a subsidiary of Hong Kong Food Investment Holdings Limited, a substantial shareholder of the Company, of HK$124,000 (31 March 2018: HK$256,000), which are normally settled on 30-day to 60-day terms.

The trade payables are non-interest-bearing and are normally settled on 30-day to 60-day terms. Other payables are non-interest-bearing and have an average term of three months.

11. GAIN ON DISPOSAL OF ASSETS HELD FOR SALE AND AMORTISATION OF DEFERRED GAIN

On 20 March 2017, the Group entered into a sale and leaseback agreement with an independent third party to dispose of a property situated in Hong Kong (the "Property") for a cash consideration of HK$368,000,000 (the "Property Disposal"). The transaction was completed on 19 May 2017 (the "Completion Date").

Upon completion of the Property Disposal, the Group and the purchaser entered into a tenancy agreement, whereby the Group leased the Property from the purchaser for its own use for 1 year commencing on the Completion Date. The fair value of the Property near the Completion Date was determined by DTZ Cushman & Wakefield Limited, independent professionally qualified valuer. The excess of consideration over fair value of the Property has been deferred and amortised over the lease period, resulting in the recognition of a deferred gain amounting to HK$2,416,000 in the audited consolidated statement of financial position as at 31 March 2018 and amortisation of the deferred gain amounting to HK$2,416,000 (2017: HK$6,608,000) in the unaudited condensed consolidated statement of profit or loss for the six months ended 30 September 2018.

A gain before tax on disposal of assets held for sale before tax of HK$302,300,000 had been recognised in the unaudited condensed consolidated statement of profit or loss for the six months ended 30 September 2017.

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK3.0 cents (2017: HK3.0 cents) in cash per ordinary share for the six months ended 30 September 2018, payable to shareholders whose names appear in the register of members of the Company at the close of business on Wednesday, 19 December 2018. The said dividend will be paid on Friday, 18 January 2019.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 17 December 2018 to Wednesday, 19 December 2018, both dates inclusive, during such period no transfer of shares will be registered. In order to qualify for the interim dividend for the six months ended 30 September 2018, all share transfer documents accompanied by the relevant share certificates must be lodged with the Company’s branch share registrar in Hong Kong, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong for registration not later than 4:30 p.m. on Friday, 14 December 2018.

BUSINESS REVIEW AND PROSPECTS

RESULTS

The Group’s consolidated revenue was HK$1,488,714,000 (2017: HK$1,436,297,000) for the six months ended 30 September 2018, representing an increase of 3.6%. The profit for the period attributable to equity holders of the Company was HK$23,105,000 (2017: HK$329,099,000). Compared with the corresponding period of last year, both the revenue for Hong Kong and Mainland China have increased, in particular the revenue for Mainland China. The revenue derived from Hong Kong amounted to HK$967,878,000 (2017: HK$956,256,000) accounting for approximately 65% of the Group’s total revenue. The revenue in Mainland China amounted to HK$520,836,000 (2017: HK$480,041,000) corresponding to approximately 35% of the Group’s total revenue. The profit attributable to equity holders of the Company of HK$329,099,000 in the corresponding period of last year included an one-off gain derived from the completion of disposal of a property.

BUSINESS REVIEW

The Group continued its steady development and growth during the review period. In a “survival of the fittest” market atmosphere, the Group has been able to maintain its leading position by striving for innovation and seeking breakthroughs with its solid foundation. The Group’s general operational performance was strengthened by its excellent brand image, exquisite product quality and comprehensive sales network. The gain before tax derived from the completion of disposal of a property of HK$302,300,000 was recorded in the corresponding period of last year, while the profit attributable to equity holders of the Company for the period under review did not have such one-off gain and therefore the profit for the period decreased correspondingly. On the external front, the exchange rate for the Japanese yen remained stable in the period under review, which serves as a positive factor for the business by minimising the impact of exchange rate fluctuations on the Group.

Distribution Business

The distribution business is a primary focus of the Group. With its effective marketing strategies and experienced procurement team, the Group is able to source food of supreme quality from all around the world, such as Japan, China, Korea, the Netherlands, Belgium, South Africa and the United States. A wide variety of products, including biscuits, cakes, candies, chocolates, instant noodles, ice cream, milk powder, milk, sauces, condiments, hams and sausages, are provided via department stores, supermarkets, convenience store chains, fast food chains, wholesalers, retailers, restaurants, hotels and airways, which are well-received by customers across Hong Kong and Mainland China.

Manufacturing Business

The Group’s manufacturing business has established a reputation for producing quality food products throughout the years. The Group has 18 food manufacturing and processing plants in Hong Kong and Mainland China, producing a myriad of food products with stringent quality controls and modern monitoring systems. The Group has strengthened customers’ trust by complying with international standards and receiving numerous accreditations such as “HACCP”, “ISO 9001”, “ISO 22000” and “Hong Kong Q-Mark Product Scheme Certification”. This year, the Tseung Kwan O factory has undergone expansion for additional manufacturing equipment. In line with its one-stop sales platform, the food production serves to accommodate the diverse needs of customers and markets.

BUSINESS REVIEW (continued)

Retail and Catering Businesses

In the retail sector, the Group has an extensive sales network across Hong Kong. Japanese snack store “Okashi Land” and cookie store “YOKU MOKU” continue to prove popular with customers. The “Calbee PLUS” concept store keeps on offering exclusive snacks to satisfy customers’ desires.

In its catering business, the Group has introduced the renowned “Sushiyoshi”, a Michelin 2-star top class sushi restaurant to Hong Kong, which is its first overseas branch outside Japan. This Japanese traditional culinary art has been widely acclaimed by customers, with the chef creating unique dishes from fresh and seasonal ingredients. In general, the retailing and catering businesses have developed steadily. Japanese brand “Qjiki”, Japanese restaurant “Shiki・Etsu”, and the Shanghai vegetarian cuisine “Kung Tak Lam” in Hong Kong, as well as the traditional Chinese “Panxi Restaurant”, Japanese restaurant “Mori Café” and sushi restaurant chain “Sushi Oh” in Mainland China, have received much praise from the public.

BRAND DEVELOPMENT

The Group is committed to maintaining the high standard of its products, living by the motto “Eating Safely, Eating Happily” for the past 47 years by complying with principles of safety, quality and taste to become a well-respected Hong Kong brand. The Group focused on the Japanese snacks distribution business during its early stages. The foundation of the brand name of the Group was established later with its expansion into the food manufacturing, retailing and catering businesses. As the businesses have grown, along with the variety of products, the brand image has become a part of every neighborhood it enters.

Rooted in Hong Kong, the Group has set its sights on Mainland China and the rest of the world, with its continuous market development being assisted by the advancement of technology. This year, the Group pioneered the opening of the first unmanned “Okashi Land” snack store in Mongkok, a Hong Kong’s busy district, for a specified period in September. In a partnership with EasyGo, cutting-edge technology was used to simplify the process of shopping through electronic payment methods. The outlet provided an unprecedented retailing experience for customers.

For future development, the Group will continue expanding its Mainland business, and linking the Mainland to the rest of the world by offering an abundant choice of quality food to the customers of the Mainland. At the same time, the Group will also introduce Chinese food to the international market for the benefit of the overseas customers.

CORPORATE SOCIAL RESPONSIBILITY

"Receiving from and giving back to society" has always been the social commitment of the Group. As an eminent Hong Kong enterprise, the Group plays an active role in various communities to fulfill social responsibilities through promoting care and harmony. It is devoted to serving the community by sponsoring Four Seas products for Junior Police Call, schools, elderly and women's organisations, Kaifong welfare associations and other federations, and sharing the spirit of "Eating Happily" with all members of society.

The Group's various businesses have been highly appreciated and widely recognised. Calbee Four Seas Company Limited received the "Supreme Supermarket Brand" and "Star Supermarket Brand (Snack)" in the "PARKnSHOP Super Brands Awards". The specialty store "Okashi Land" and the Group were given the "Caring Company Award 10 Years Plus" and the "Caring Company Award 15 Years Plus", respectively, by the Hong Kong Council of Social Services. The Group also received the "Most Valuable Service Award in Hong Kong 2018" from Mediazone Publishing. It has been recognised as the "Hong Kong Outstanding Enterprise" and received the "Hong Kong Excellent Enterprise Award" presented by the Economic Digest as well.

PROSPECTS AND GROWTH

"Based in Hong Kong, Reaching for the Mainland" is the approach for the future of the Group. With its base in Hong Kong, the Group will put effort to sustain its market leadership. At the same time, building on its good foundation, the Group will expand its presence in the vast Mainland proactively.

Hong Kong Business

By regularly examining the changes in consumer environment and behaviour, the Group is constantly on the lookout for development opportunities to increase the number of its customers and expand the diversity of its products. The Group believes that top-quality food equates with the quality of life. Therefore, the more delicacies it provides, the happier the consumers. The Group will continue to follow this course of sourcing high quality, tasty food to sustain its market leadership in Hong Kong.

PROSPECTS AND GROWTH (continued)

Hong Kong Business (continued)

In light of the Group's development, it has followed the electronic payment trend and made a new attempt. Murray Catering Company Limited ("Murray Catering"), a subsidiary of the Company, is a lunch box and tuck shop services provider offering delicious, healthy and nutritious meals to the schools of Hong Kong. Since joining the Group in 2015, the business of Murray Catering has been enjoying much progress and is now collaborating with over 90 primary and secondary schools. With the launch of the Faster Payment System ("FPS"), Murray has cooperated with Bank of China (Hong Kong) to be one of the first enterprises using FPS and will incorporate the system in daily transactions. The savings made from reduced operational costs through using e-services can be allocated for further development of the Group's quality food business.

Mainland China Business

The Group has been striving to expand in the Mainland by taking advantage of self-owned food manufacturing plants there to further increase the sales of products of its own brand in the Mainland market. The Group is also developing the import, export and e-commerce of international food products. A focal point of these developments is the Nansha District in the China (Guangdong) Pilot Free Trade Zone, which is regarded as the Group's bridgehead for importing products to the Mainland market. The geographical advantage of the Nansha District encourages effective business development, providing a stable platform for the Group's Mainland food trading performance. Meanwhile, the sales in the Mainland derived from a Hong Kong's famous branded mooncakes carried by the Group have grown steadily. The Mainland customers' growing demand for quality food is also satisfied by purchasing their favorite Four Seas products through electronic trade platforms such as Taobao, Tmall, Tmall Global and JD.com. As a Hong Kong top brand, the Group will continue promoting its own products as well as those under other brands carried by the Group in Mainland China to enhance market share through effective marketing strategies and providing delicious food.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operations with internally generated cash flows and facilities granted by its principal bankers. As at 30 September 2018, the Group held cash and cash equivalents of HK$570,842,000. As at 30 September 2018, the Group had banking facilities of HK$2,348,896,000 of which 30% had been utilised. The Group had a gearing ratio of 50% as at 30 September 2018. This is expressed as the total bank borrowings to equity attributable to equity holders of the Company. Bank borrowings of the Group, denominated in Hong Kong dollars, Japanese yen and Renminbi, mainly comprise trust receipt loans and bank loans (the "Interest-Bearing Bank Borrowings") at prevailing market interest rates. The Interest-Bearing Bank Borrowings which are classified as current liabilities are repayable on demand or within one year.

STAFF EMPLOYMENT AND REMUNERATION POLICIES

The total number of employees of the Group as at 30 September 2018 was approximately 3,600. Remuneration packages are generally structured by reference to market terms and individual qualifications. Salaries and wages are normally reviewed annually based on performance appraisals and other relevant factors.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 September 2018.

CORPORATE GOVERNANCE

The Group strives to maintain high standards of corporate governance to enhance shareholders' value and safeguard shareholders' interests. The Company's directors are of the view that the Company has met the code provisions listed in the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules for the six months ended 30 September 2018, except for the following deviations:

CORPORATE GOVERNANCE (continued)

Code Provision A.4.1

Under the code provision A.4.1, non-executive directors should be appointed for a specific term, subject to re-election.

Currently, all independent non-executive directors of the Company are not appointed for a specific term but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the articles of association of the Company (the "Articles of Association"). As such, the Board considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the CG Code.

Code Provision A.4.2

Under the code provision A.4.2, all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. Every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

In accordance with the Articles of Association, any director appointed to fill a casual vacancy shall hold office only until the next following annual general meeting and shall then be eligible for re-election. The Board considers that such a deviation is not material as casual vacancy seldom appears and interval between the appointment made to fill casual vacancy and the immediate following annual general meeting is short.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as the Company's code of conduct regarding securities transactions by directors of the Company (the "Code of Conduct"). Having made specific enquiry of all directors of the Company, the directors have confirmed that they have complied with the required standard of dealings as set out in the Code of Conduct throughout the six months ended 30 September 2018.

The Company has also established the Code for Securities Transactions by Relevant Employees (the "Employees Code") on no less exacting terms than the Model Code for securities transactions by the employees who are likely to be in possession of inside information of the Company. No incident of non-compliance of the Employees Code by the employees was noted by the Company throughout the six months ended 30 September 2018.

AUDIT COMMITTEE

The Audit Committee of the Company comprises all the three independent non-executive directors, namely Ms. LEUNG Mei Han (Chairperson of the Audit Committee), Mr. CHAN Yuk Sang, Peter and Mr. Tsunao KIJIMA. The Audit Committee has reviewed the unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 September 2018 and discussed with the management on the accounting principles and practices adopted by the Group, internal controls and financial reporting matters.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This announcement is published on the website of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk and the Company's website at www.fourseasgroup.com.hk. The interim report of the Company for the six months ended 30 September 2018, containing information required by the Listing Rules, will be despatched to shareholders of the Company and published on the above websites in due course.

APPRECIATION

The Board would like to express its sincere appreciation to the shareholders, business partners and staff for giving their continuous support to the Group.

THE BOARD

As at the date of this announcement, the directors of the Company are Mr. TAI Tak Fung, Stephen, Ms. WU Mei Yung, Quinly, Mr. TAI Chun Kit, Mr. MAN Wing Cheung, Ellis, Mr. WU Wing Biu and Mr. NAM Chi Ming, Gibson as executive directors, Ms. LEUNG Mei Han, Mr. CHAN Yuk Sang, Peter and Mr. Tsunao KIJIMA as independent non-executive directors.

On behalf of the Board
Four Seas Mercantile Holdings Limited
TAI Tak Fung, Stephen, *GBM, GBS, SBS, JP*
Chairman

Hong Kong, 29 November 2018