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## **FOUR SEAS MERCANTILE HOLDINGS LIMITED**

**四洲集團有限公司\***

*(Incorporated in the Cayman Islands with limited liability)*

(Stock Code: 374)

### **MAJOR TRANSACTION EXERCISE OF OPTION IN RELATION TO SHARES IN MIYATA HOLDING CO., LTD.**

#### **THE SUPPLEMENTAL AGREEMENT**

On 31 March 2020, the Purchaser, the Vendor and Mrs. Miyata entered into a supplemental agreement to the Share Sale Agreement under which the parties agreed to amend certain terms of the Share Sale Agreement.

#### **EXERCISE OF OPTION**

Under the terms of the Share Sale Agreement (as supplemented by the Supplemental Agreement), the Purchaser has been granted the Option to require the Vendor to sell the Option Shares to the Purchaser at the Option Shares Purchase Price of JPY1,000 (equivalent to approximately HK\$71).

On 31 March 2020, the Purchaser exercised the Option.

Upon completion of the acquisition of the Option Shares, which is expected to take place on or before 16 April 2020, the equity interest of the Purchaser in the Target Company will increase from 15% to 70%, and the Target Company will become a subsidiary of the Company.

#### **LISTING RULES IMPLICATIONS**

As the applicable percentage ratios under Rule 14.07 of the Listing Rules in respect of the acquisition of the Option Shares under the Option are more than 25% but less than 100%, the acquisition of the Option Shares upon the exercise of the Option constitutes a major transaction for the Company and is subject to notification, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

\* *For identification purpose only*

## **WRITTEN APPROVAL PURSUANT TO RULE 14.44 OF THE LISTING RULES**

No shareholder is interested in the transactions contemplated for the acquisition of the Option Shares and therefore is required to abstain from voting at the general meeting convened for the approval of the acquisition of the Option Shares upon the exercise of the Option. The Company has obtained approval of the transaction pursuant to Rule 14.44 of the Listing Rules by way of written approvals of Careful Guide Limited, Special Access Limited and Capital Season Investments Limited, which together hold approximately 67.52% of the issued share capital of the Company as at the date of this announcement. The aforesaid three companies are a closely allied group of corporate shareholders directly or indirectly controlled by Dr. the Honourable Tai Tak Fung, Stephen (the Chairman of the Company) and Dr. Wu Mei Yung, Quinly (the Vice-Chairman of the Company and spouse of Dr. Tai), both of whom are executive Directors.

By reason of the travel ban and/or quarantine requirements imposed recently in Japan and the PRC (where the principal business operations of the Target Group are based) as well as in Hong Kong respectively, the Company's reporting accountants' team is yet to commence field work on the accountants' report on the Target Group for the three financial years ended 30 September 2019. The Company therefore expects that it will require more than 15 business days to prepare the necessary information, including the accountants' report on the Target Group, for the purpose of the circular to be despatched to the Shareholders in respect of the acquisition of the Option Shares. The Company will apply to the Stock Exchange for a waiver from strict compliance with Rule 14.41(a) of the Listing Rules and delay the despatch of the circular on or before 31 August 2020.

Reference is made to the announcement of the Company dated 18 November 2019 in relation to the Group's acquisition of a 15% interest in the Target Company and the provision of an interest-free loan in the amount of JPY 800 million (equivalent to approximately HK\$56,978,000) to MYC, a subsidiary of the Target Company. Reference is also made to the announcement of the Company dated 18 December 2019 in relation to the provision by the Purchaser of a second interest-free loan in the amount of JPY 900 million (equivalent to approximately HK\$64,101,000) to MYC.

## **THE SUPPLEMENTAL AGREEMENT**

On 31 March 2020, the Purchaser, a wholly-owned subsidiary of the Company, the Vendor and Mrs. Miyata entered into a supplemental agreement to the Share Sale Agreement under which the parties agreed to amend certain terms of the Share Sale Agreement. The major amendments under the Supplemental Agreement are summarised below:

- (i) the exercise period of the Option under the Share Sale Agreement has been extended to on or before 6 April 2020 from within five business days after the earlier of (1) 23 March 2020 and (2) completion of the due diligence being conducted by the Purchaser on the Target Group;
- (ii) completion of the transfer of the Option Shares has been extended to ten business days from one business day from the exercise of the Option;
- (iii) the Vendor and Mrs. Miyata agreed to capitalise JPY1,200 million of indebtedness owed by the Target Company to the Vendor and Mrs. Miyata by the Target Company issuing new shares to the Vendor and Mrs. Miyata (the “Converted Shares”). Fifteen percent (15%) of the Converted Shares are to be transferred to the Purchaser on or before the date of Option closing without consideration; and
- (iv) the number of shares in the Target Company to be transferred to the Purchaser under the Option shall be changed to (1) such number of shares equal to fifty-five percent (55%) of the Converted Shares, and (2) 55 ordinary shares in the Target Company (collectively, the “Option Shares”) such that upon completion of the sale and purchase of the Option Shares, the Purchaser will hold shares representing seventy percent (70%) of the total issued outstanding shares of the Target Company.

## **EXERCISE OF THE OPTION**

Under the terms of the Share Sale Agreement (as supplemented by the Supplemental Agreement), the Purchaser has been granted the Option to require the Vendor to sell the Option Shares to it at the Option Shares Purchase Price.

The Option is exercisable by the Purchaser at its discretion on or before 6 April 2020.

On 31 March 2020, the Purchaser exercised the Option.

**Option Shares Purchase Price**

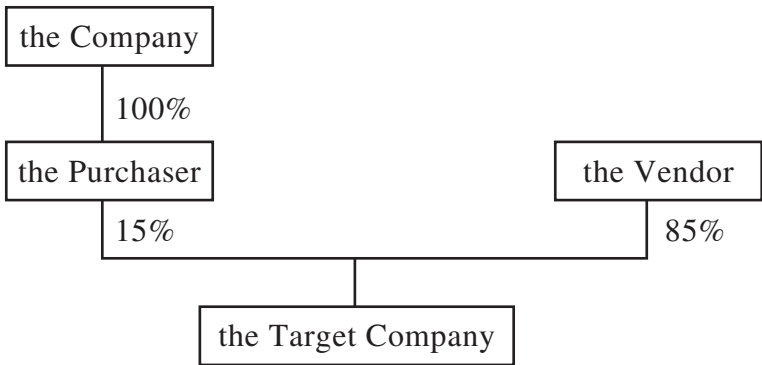
The Option Shares Purchase Price is JPY1,000 (equivalent to approximately HK\$71) in aggregate, which has been agreed by the parties under the Share Sale Agreement.

The Option Shares Purchase Price will be satisfied by the internal resources of the Group.

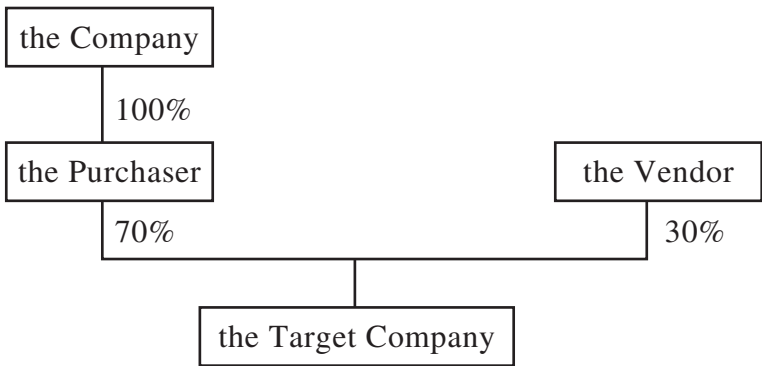
**Shareholding structure of the Target Company**

The following charts show the shareholding structure of the Target Company before and after the acquisition of the Option Shares:

**Before the acquisition**



**After the acquisition**



Upon the Option closing, the interest of the Purchaser in the Target Company will increase from 15% to 70%, and the Target Company will be accounted for as a subsidiary of the Company, and the results of the Target Group will be consolidated into the financial results of the Group.

## **INFORMATION ON THE TARGET COMPANY**

### **Business and background**

The Target Company is a company incorporated in Japan and is a special purpose vehicle established for the purpose of holding the investment in its principal subsidiary, Miyata Co., Ltd. (宮田株式会社) and other subsidiaries. Established in 1955, MYC is a renowned snack food and confectionery distributor in Japan specialised in the wholesaling and distribution of confectionery. In about 2008, MYC expanded its business to nut products. MYC currently has seven sales offices and seven distribution centers in Japan. MYC also sells its own brand-named products by other OEM manufacturers in Japan. Sales of snack and confectionery products now account for over 85% of the Target Group's sales. In 2014, Miyata (Tianjin) International Trading Co., Ltd., a member of the Target Group, was established in Tianjin, the PRC, the principal activity of which is the procurement of OEM products in the PRC for the related companies of the customers of MYC in the PRC market.

MYC has a strong sales and distribution network and broad customer base in Japan. Its customers span from established nationwide supermarket chains and convenience stores (including but not limited to AEON, Daiso 100-yen shop, Muji), regional retailers, wholesalers and exporters/overseas customers. The Group has been one of its customers for over 20 years. On the supply side, MYC has a strongfold of over 600 suppliers for a vast variety of confectionery and nuts products. To ensure prime quality of its products, MYC not only procures products locally in Japan, but also from overseas including United States and the PRC. Further, MYC also procures finished products from overseas suppliers including from Malaysia, South Korea, Turkey, France and Ukraine.

MYC's corporate philosophy is to preserve and promote traditional Japanese culture via Japanese confectionery. With the "Quality First" strategy, MYC provides a full range of high quality confectionery products to consumers in Japan. MYC's vast market and customers base is built on its strengths in planning and developing products, which is in turn backed by its market research, trends analysis, and development capabilities for new products, manufacturing know-how and stringent quality control and food safety measures. This, coupled with its products marketing and promotion strength, enables MYC to maintain a vast base of customers in Japan nationwide.

In around 2008, the Target Group started a new business segment (the "Nut Business") to procure, sale, market and distribute bean and nuts products in Japan, under the lead of a newly recruit personnel who was well experienced in this segment business in Japan. The Nut Business had recorded strong business growth in last few years. However, in or around July 2019, the Vendor uncovered certain irregular transactions with eight customers in the Nut Business.

The Target Group has since engaged an independent professional firm to conduct financial investigation on the matter, which revealed that irregular sales, inventory and payment transactions had occurred with the Nut Business, while business transactions of the traditional core confectionery business of the Target Group has remained intact and not involved in the said irregular transactions of the Nut Business. With the findings of the independent financial investigation, the Target Group has made related adjustments to its unaudited consolidated management accounts for each of the years ended 30 September 2017, 30 September 2018 and 30 September 2019 respectively, accounting for the fact that certain sales, accounts receivables and inventory of the Nut Business for the relevant years had been overstated in its management accounts, and loss of inventory previously recorded in the management accounts of the Target Group as at 30 September 2017, 30 September 2018 and 30 September 2019 respectively. The Company is informed by the Vendor that the management accounts of the Target Group for the year ended 30 September 2017, 30 September 2018 and 30 September 2019 respectively provided to the Purchaser during its due diligence have reflected adjustments made to correct the irregular transactions, subject to audit.

### Financial Information

All the subsidiaries of the Target Company were incorporated under the laws of Japan, except for Tianjin Miyata, which was incorporated under the laws of the PRC. The applicable requirements of Japan do not require companies of the Target Group, which were incorporated under the laws of Japan as private companies to prepare statutory audited financial statements. Based on the unaudited consolidated management accounts of the Target Group as provided to the Company by the Vendor, and which have been prepared with reference to the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, the unaudited consolidated results of the Target Group for the two years ended 30 September 2018 and 2019 were as follows:

	For the year ended 30 September			
	2018		2019	
	<i>equivalent to</i>	<i>equivalent to</i>		
	<i>JPY'000</i>	<i>HK\$'000</i>	<i>JPY'000</i>	<i>HK\$'000</i>
	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>
Revenue	37,715,475	2,686,209	<b>38,691,838</b>	<b>2,755,748</b>
Net loss before tax	390,957	27,845	<b>352,320</b>	<b>25,093</b>
Net loss after tax	692,293	49,307	<b>385,016</b>	<b>27,422</b>

The unaudited consolidated net asset deficiency of the Target Group attributable to the owners of Target Company as at 30 September 2019 was approximately JPY4,856,856,000 (equivalent to approximately HK\$345,920,000).

## **REASONS FOR AND BENEFITS OF THE TRANSACTION**

The principal activity of the Company is investment holding. The Group is principally engaged in manufacturing, trading, distributing and retailing of snacks foods, confectionery, beverages, ice-cream products, frozen food products, noodles, ham and ham-related products, the operation of catering and restaurants business, and investment holding, with PRC and Hong Kong as its two main geographical markets.

The Target Group is a renowned snacks and confectionery distributor in Japan. By having the Target Group becoming its subsidiary, the Group could combine its strengths in (i) capital; (ii) management resources; (iii) market leadership in the confectionery retailing and distribution industry in Hong Kong; and (iv) manufacturing capabilities and distribution network in the PRC; with the strengths of the Target Group in the confectionery distribution and product development business in Japan.

It is envisaged that the enlarged Group will not only benefit from the synergies of cross-branding and sales between the Hong Kong/PRC subsidiaries on one hand and MYC in Japan on the other, but also the strengthening of sales capabilities and the broadening of combined customers base for the enlarged Group. The Group has a good competitive edge in the confectionery and food distribution market in Hong Kong and the PRC. It will leverage on its market distribution network and strengths to procure the premier Japanese confectionery products of the Target Group into these two markets.

In the meantime, the Group will also through the acquisition of the Target Group make a foray into the Japanese consumer market for the food products of the Group by having direct access to the existing customer base of the Target Group. It is intended that the Company will implement a series of financial and management control measures and corporate governance system to enhance the internal control of the Target Group, with a view to preventing future occurrence of irregular activities and to improving the operational efficiency and profitability of the Target Group.

The Directors (including the independent non-executive Directors) consider that the exercise of the Option and the acquisition of the Option Shares pursuant thereto are on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

## **LISTING RULES IMPLICATIONS**

### **Chapter 14 of the Listing Rules**

As the applicable percentage ratios under Rule 14.07 of the Listing Rules in respect of the acquisition of the Option Shares under the Option are more than 25% but less than 100%, the acquisition of the Option Shares upon the exercise of the Option constitutes a major transaction for the Company and is subject to notification, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules.



### **Rule 14.44 of the Listing Rules**

No shareholder is interested in the transactions contemplated for the acquisition of the Option Shares and therefore is required to abstain from voting at the general meeting convened for the approval of the acquisition of the Option Shares upon the exercise of the Option. The Company has obtained approval of the transaction pursuant to Rule 14.44 of the Listing Rules by way of written approvals of Careful Guide Limited, Special Access Limited and Capital Season Investments Limited, which together hold approximately 67.52% of the issued share capital of the Company as at the date of this announcement. The aforesaid three companies are a closely allied group of corporate shareholders directly or indirectly controlled by Dr. the Honourable Tai Tak Fung, Stephen (the Chairman of the Company) and Dr. Wu Mei Yung, Quinly (the Vice-Chairman of the Company and spouse of Dr. Tai), both of whom are executive Directors.

### **DESPATCH OF CIRCULAR**

By reason of the travel ban and/or quarantine requirements imposed recently in Japan and the PRC (where the principal business operations of the Target Group are based) as well as in Hong Kong respectively, the Company's reporting accountants' team is yet to commence field work on the accountants' report on the Target Group for the three financial years ended 30 September 2019. The Company therefore expects that it will require more than 15 business days to prepare the necessary information, including the accountants' report on the Target Group, for the purpose of the circular to be despatched to the Shareholders in respect of the acquisition of the Option Shares. The Company will apply to the Stock Exchange for a waiver from strict compliance with Rule 14.41(a) of the Listing Rules and delay the despatch of the circular on or before 31 August 2020.

### **DEFINITIONS**

In this announcement, the following expressions shall have the meanings set out below unless the context requires otherwise:

“Board”	the board of directors of the Company;
“Company”	Four Seas Mercantile Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange;
“Director(s)”	the director(s) of the Company;
“Group”	the Company and its subsidiaries;
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong;



“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China;
“JPY”	Japanese Yen, the lawful currency of Japan;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Mrs. Miyata”	Mrs. Yayoi Miyata, the spouse of the Vendor;
“MYC”	Miyata Co., Ltd. (宮田株式会社), a company incorporated in Japan, a wholly-owned subsidiary of the Target Company;
“Option”	the option exercisable by the Purchaser to require the Vendor to sell the Option Shares to the Purchaser at the aggregate consideration of JPY1,000;
“Option Shares”	such number of shares of the Target Company to be transferred to the Purchaser under the Option, representing 55% of the then issued share capital of the Target Company;
“Option Shares Purchase Price”	JPY1,000, the price payable by the Purchaser to acquire the Option Shares under the Option;
“PRC”	the People’s Republic of China;
“Purchaser”	Four Seas (Japan) Holdings Company Limited, a company incorporated in Hong Kong with limited liability, a wholly-owned subsidiary of the Company;
“Shareholder(s)”	shareholder(s) of the Company;
“Share Sale Agreement”	the share sale agreement dated 15 November 2019 between the Vendor and the Purchaser in relation to the acquisition of the 15% of the issued share capital of the Target Company by the Purchaser as supplemented by the Supplemental Agreement;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Supplemental Agreement”	the supplemental agreement to the Share Sale Agreement dated 31 March 2020 entered into between the Purchaser, the Vendor and Mrs. Miyata;

“Target Company”	Miyata Holding Co., Ltd., a company incorporated in Japan;
“Target Group”	the Target Company and its subsidiaries;
“Tianjin Miyata”	Miyata (Tianjin) International Trading Co., Ltd. (宮田世佳國際貿易(天津)有限公司), a company established in the PRC, a wholly-owned subsidiary of the Target Company;
“Vendor”	Mr. Osamu Miyata; and
“%”	per cent.

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

Hong Kong, 31 March 2020

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

*For illustration purpose only, JPY has been translated into HK\$ in this announcement at the exchange rate of JPY1.00 = HK\$0.071223*