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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)*

**ANNOUNCEMENT OF INTERIM RESULTS**

**FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2020**

**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 2020, as follows:

*\* For identification purpose only*

# CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		Six months ended 30 September	
		2020	2019
		Unaudited	Unaudited
		HK\$'000	HK\$'000
	Notes		
<b>REVENUE</b>	3	<b>2,185,079</b>	1,505,607
Cost of sales		<u>(1,695,351)</u>	<u>(1,055,679)</u>
Gross profit		<b>489,728</b>	449,928
Other income and gains/(losses), net	3	<b>9,869</b>	6,990
Selling and distribution expenses		<b>(262,255)</b>	(251,577)
Administrative expenses		<b>(181,788)</b>	(147,914)
Other operating expenses		<b>(4,720)</b>	(5,041)
Finance costs	4	<b>(14,519)</b>	(14,210)
Share of profits and losses of associates		<u><b>6,568</b></u>	<u>3,764</u>
<b>PROFIT BEFORE TAX</b>	2 & 5	<b>42,883</b>	41,940
Income tax expense	6	<u><b>(11,703)</b></u>	<u>(14,383)</u>
<b>PROFIT FOR THE PERIOD</b>		<u><b>31,180</b></u>	<u>27,557</u>
Attributable to:			
Equity holders of the Company		<b>30,016</b>	18,885
Non-controlling interests		<u><b>1,164</b></u>	<u>8,672</u>
		<u><b>31,180</b></u>	<u>27,557</u>
<b>EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY</b>			
- Basic and diluted	8	<u><b>HK 7.8 cents</b></u>	<u>HK4.9 cents</u>

# CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 September	
	2020	2019
	Unaudited	Unaudited
	HK\$'000	HK\$'000
<b>PROFIT FOR THE PERIOD</b>	<b>31,180</b>	<b>27,557</b>
<b>OTHER COMPREHENSIVE INCOME/(LOSS)</b>		
<i>Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:</i>		
Exchange differences on translation of foreign operations	<b>31,422</b>	(54,033)
Share of other comprehensive income/(loss) of associates	<b>1,728</b>	(2,090)
<i>Net other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods</i>	<b>33,150</b>	(56,123)
<i>Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:</i>		
Financial assets at fair value through other comprehensive income:		
- Changes in fair value	<b>3,166</b>	-
- Income tax effect	<b>(950)</b>	-
Defined benefit obligation:		
- Gains on remeasurement	<b>1,240</b>	-
- Income tax effect	<b>(372)</b>	-
<i>Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods</i>	<b>3,084</b>	-
<b>OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX</b>	<b>36,234</b>	(56,123)
<b>TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD</b>	<b>67,414</b>	(28,566)
Attributable to:		
Equity holders of the Company	<b>64,705</b>	(35,921)
Non-controlling interests	<b>2,709</b>	7,355
	<b>67,414</b>	(28,566)

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 September 2020 Unaudited <i>HK\$'000</i>	31 March 2020 Audited <i>HK\$'000</i>
	<i>Note</i>		
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		1,108,475	937,966
Investment property		42,841	19,037
Goodwill		130,905	42,858
Other intangible assets		68,325	321
Investments in associates		168,214	155,107
Financial assets at fair value through profit or loss		34,066	33,340
Financial assets at fair value through other comprehensive income		14,242	1
Prepayments, deposits and other receivables		29,886	28,426
Deferred tax assets		27,493	7,996
		<hr/>	<hr/>
Total non-current assets		1,624,447	1,225,052
		<hr/>	<hr/>
<b>CURRENT ASSETS</b>			
Inventories		438,792	345,511
Trade receivables	9	836,911	528,382
Prepayments, deposits and other receivables		165,846	244,495
Tax recoverable		92	2,001
Financial assets at fair value through profit or loss		38,477	41,354
Cash and cash equivalents		717,807	506,981
		<hr/>	<hr/>
Total current assets		2,197,925	1,668,724
		<hr/>	<hr/>

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

		30 September 2020 Unaudited HK\$'000	31 March 2020 Audited HK\$'000
	Note		
<b>CURRENT LIABILITIES</b>			
Trade payables, other payables and accruals	10	587,925	330,391
Financial liabilities at fair value through profit or loss		9	-
Interest-bearing bank borrowings		1,046,220	699,424
Lease liabilities		121,175	133,074
Tax payable		16,197	7,543
		<hr/>	<hr/>
Total current liabilities		1,771,526	1,170,432
		<hr/>	<hr/>
<b>NET CURRENT ASSETS</b>		426,399	498,292
		<hr/>	<hr/>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		2,050,846	1,723,344
		<hr/>	<hr/>
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank borrowings		350,416	60,000
Lease liabilities		286,397	302,063
Other payables and accruals		5,150	-
Defined benefit obligations		6,945	-
Deferred tax liabilities		46,540	16,083
		<hr/>	<hr/>
Total non-current liabilities		695,448	378,146
		<hr/>	<hr/>
Net assets		1,355,398	1,345,198
		<hr/>	<hr/>
<b>EQUITY</b>			
<b>Equity attributable to equity holders of the Company</b>			
Issued capital		38,425	38,425
Reserves		1,307,279	1,268,904
		<hr/>	<hr/>
		1,345,704	1,307,329
<b>Non-controlling interests</b>		9,694	37,869
		<hr/>	<hr/>
Total equity		1,355,398	1,345,198
		<hr/>	<hr/>

# 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 2020.

In the current interim period, the Group has applied, for the first time, certain revised 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 2020.

Amendments to HKFRS 3	<i>Definition of a Business</i>
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	<i>Interest Rate Benchmark Reform</i>
Amendments to HKAS 1 and HKAS 8	<i>Definition of Material</i>

Except as described below, the adoption of the above revised HKFRSs has had no significant financial effect on the condensed consolidated interim financial statements of the Group.

Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The adoption of these amendments in the current period has had no financial impact on the condensed consolidated financial statements.

The Group has not adopted the new or revised HKFRSs that have been issued but are not yet effective for the current accounting period.

## 2. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on geographical areas and has three 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;
- (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; and
- (iii) the Japan segment is engaged in the wholesaling and distribution of snack foods and confectionery.

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), non-lease-related finance costs, share of profits and losses of associates and corporate and other unallocated expenses are excluded from such measurement.

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

Segment liabilities exclude interest-bearing bank borrowings, financial liabilities at fair value through profit or loss, 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)

### Six months ended 30 September 2020

	Hong Kong Unaudited HK\$'000	Mainland China Unaudited HK\$'000	Japan Unaudited HK\$'000	Total Unaudited HK\$'000
<b>Segment revenue:</b>				
Sales to external customers*	919,113	436,184	829,782	2,185,079
Intersegment sales	14,528	103,662	1,696	119,886
	<u>933,641</u>	<u>539,846</u>	<u>831,478</u>	<u>2,304,965</u>
<b><u>Reconciliation:</u></b>				
Elimination of intersegment sales				119,886
Revenue				<u>2,185,079</u>
<b>Segment results</b>	59,239	23,041	(10,600)	71,680
<b><u>Reconciliation:</u></b>				
Interest income				1,347
Dividend income and unallocated gains/(losses), net				(3,955)
Finance costs (other than interest on lease liabilities)				(9,141)
Share of profits and losses of associates				6,568
Corporate and other unallocated expenses				(23,616)
Profit before tax				<u>42,883</u>

### Six months ended 30 September 2019

	Hong Kong Unaudited HK\$'000	Mainland China Unaudited HK\$'000	Total Unaudited HK\$'000
<b>Segment revenue:</b>			
Sales to external customers*	976,182	529,425	1,505,607
Intersegment sales	13,309	84,932	98,241
	<u>989,491</u>	<u>614,357</u>	<u>1,603,848</u>
<b><u>Reconciliation:</u></b>			
Elimination of intersegment sales			(98,241)
Revenue			<u>1,505,607</u>
<b>Segment results</b>	42,127	17,033	59,160
<b><u>Reconciliation:</u></b>			
Interest income			3,376
Dividend income and unallocated gains/(losses), net			178
Finance costs (other than interest on lease liabilities)			(14,210)
Share of profits and losses of associates			3,764
Corporate and other unallocated expenses			(10,328)
Profit before tax			<u>41,940</u>

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



## 2. OPERATING SEGMENT INFORMATION (continued)

### As at 30 September 2020

	Hong Kong Unaudited HK\$'000	Mainland China Unaudited HK\$'000	Japan Unaudited HK\$'000	Total Unaudited HK\$'000
<b>Segment assets</b>	1,571,082	962,888	752,379	3,286,349
<i>Reconciliation:</i>				
Elimination of intersegment receivables				(464,368)
Investments in associates				168,214
Corporate and other unallocated assets				832,177
				<hr/>
Total assets				<b>3,822,372</b>
<b>Segment liabilities</b>	620,984	444,790	406,186	1,471,960
<i>Reconciliation:</i>				
Elimination of intersegment payables				(464,368)
Corporate and other unallocated liabilities				1,459,382
				<hr/>
Total liabilities				<b>2,466,974</b>

### As at 31 March 2020

	Hong Kong Audited HK\$'000	Mainland China Audited HK\$'000	Total Audited HK\$'000
<b>Segment assets</b>	1,674,757	880,860	2,555,617
<i>Reconciliation:</i>			
Elimination of intersegment receivables			(408,621)
Investments in associates			155,107
Corporate and other unallocated assets			591,673
			<hr/>
Total assets			<b>2,893,776</b>
<b>Segment liabilities</b>	661,387	512,762	1,174,149
<i>Reconciliation:</i>			
Elimination of intersegment payables			(408,621)
Corporate and other unallocated liabilities			783,050
			<hr/>
Total liabilities			<b>1,548,578</b>

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

An analysis of revenue is as follows:

	Six months ended 30 September	
	2020	2019
	Unaudited	Unaudited
	HK\$'000	HK\$'000
<b>Revenue from contracts with customers</b>		
(i) Disaggregated revenue information		
<i>Primary geographical markets:</i>		
Hong Kong	919,113	976,182
Mainland China	436,184	529,425
Japan	829,782	-
	<u>2,185,079</u>	<u>1,505,607</u>
<i>Timing of revenue recognition:</i>		
At a point in time	<u>2,185,079</u>	<u>1,505,607</u>

The amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period are as follows:

	Six months ended 30 September	
	2020	2019
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Sale of goods	<u>4,127</u>	<u>4,254</u>

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

An analysis of revenue is as follows: (continued)

#### (ii) Performance obligations

Information about the Group's performance obligations is summarised below:

##### *Sale of goods*

The performance obligation is satisfied upon delivery of the goods and payment is generally due within one to three months, extending up to four to five months for major customers, from delivery, except for new customers, where payment in advance is normally required.

The transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 30 September 2020 and 31 March 2020 are as follows:

	As at 30 September 2020 Unaudited HK\$'000	As at 31 March 2020 Audited HK\$'000
Within one year	<b>4,102</b>	4,127

All remaining performance obligations are expected to be recognised within one year.

An analysis of other income and gains/(losses), net is as follows:

	Six months ended 30 September 2020 Unaudited HK\$'000	2019 Unaudited HK\$'000
<b>Other income</b>		
Bank interest income	1,347	3,376
Government subsidies	6,469	-
Dividend income	2,001	4,678
Rental income from investment property operating leases:		
Other lease payments, including fixed payments	1,351	736
Others	4,639	2,700
	<b>15,807</b>	11,490
<b>Gains/(losses), net</b>		
Net fair value loss on an investment property	(145)	-
Net fair value loss on financial assets at fair value through profit or loss	(5,793)	(4,500)
	<b>(5,938)</b>	(4,500)
	<b>9,869</b>	6,990

#### 4. FINANCE COSTS

An analysis of finance costs is as follows:

	<b>Six months ended 30 September</b>	
	<b>2020</b>	<b>2019</b>
	<b>Unaudited</b>	<b>Unaudited</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Interest on bank and trust receipt loans	<b>9,141</b>	8,546
Interest on lease liabilities	<b>5,378</b>	5,664
	<b>14,519</b>	14,210

#### 5. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	<b>Six months ended 30 September</b>	
	<b>2020</b>	<b>2019</b>
	<b>Unaudited</b>	<b>Unaudited</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Cost of inventories sold	<b>1,693,854</b>	1,055,679
Government subsidies ( <i>note</i> )	<b>(32,398)</b>	-
Depreciation of items of property, plant and equipment (excluding right-of-use assets)	<b>34,668</b>	31,134
Depreciation of right-of-use assets	<b>76,440</b>	65,149
Amortisation of other intangible assets	<b>2,029</b>	109

*Note:*

The government subsidies represented mainly grants from the Employment Support Scheme of the Hong Kong Government, which aims to retain employment and combat COVID-19. There are no unfulfilled conditions or contingencies relating to these subsidies. During the current period, government subsidies of HK\$20,468,000, HK\$5,148,000 and HK\$6,782,000 are included in "Cost of sales", "Selling and distribution expenses" and "Administrative expenses", respectively, in the condensed consolidated statement of profit or loss.

## 6. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2019: 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.

	<b>Six months ended 30 September</b>	
	<b>2020</b>	<b>2019</b>
	<b>Unaudited</b>	<b>Unaudited</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Current – Hong Kong		
Charge for the period	<b>8,664</b>	9,611
Current – Elsewhere		
Charge for the period	<b>2,850</b>	4,794
Underprovision in prior years	<b>95</b>	58
Deferred	<b>94</b>	(80)
	<hr/>	<hr/>
Total tax charge for the period	<b>11,703</b>	14,383
	<hr/> <hr/>	<hr/> <hr/>

The share of tax attributable to associates amounting to HK\$1,754,000 (2019: HK\$999,000) is included in “Share of profits and losses of associates” in the unaudited condensed consolidated statement of profit or loss.

## 7. DIVIDEND

	<b>Six months ended 30 September</b>	
	<b>2020</b>	<b>2019</b>
	<b>Unaudited</b>	<b>Unaudited</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Interim – HK3.0 cents (2019: HK3.0 cents) per ordinary share	<b>11,528</b>	11,528
	<hr/> <hr/>	<hr/> <hr/>

## 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 2020 and 2019 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	
	2020	2019
	Unaudited	Unaudited
	HK\$'000	HK\$'000
<b>Earnings</b>		
Profit attributable to ordinary equity holders of the Company, used in the basic and diluted earnings per share calculation	<b>30,016</b>	18,885
	<b>Number of shares</b>	
	2020	2019
	Unaudited	Unaudited
<b>Shares</b>		
Weighted average number of ordinary shares in issue during the period used in the basic and diluted earnings per share calculation	<b>384,257,640</b>	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 2020 and 31 March 2020, based on the invoice date and net of provisions, is as follows:

	<b>30 September 2020 Unaudited HK\$'000</b>	<b>31 March 2020 Audited HK\$'000</b>
Within 1 month	<b>358,065</b>	180,692
1 to 2 months	<b>233,099</b>	98,978
2 to 3 months	<b>89,228</b>	84,474
Over 3 months	<b>156,519</b>	164,238
	<b>836,911</b>	<b>528,382</b>

## 10. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

Included in trade payables, other payables and accruals is trade payables balance of HK\$394,534,000 (31 March 2020: HK\$178,219,000). An ageing analysis of the trade payables as at 30 September 2020 and 31 March 2020 based on the invoice date, is as follows:

	<b>30 September 2020 Unaudited HK\$'000</b>	<b>31 March 2020 Audited HK\$'000</b>
Within 1 month	<b>252,735</b>	146,416
1 to 2 months	<b>81,013</b>	16,873
2 to 3 months	<b>24,999</b>	7,919
Over 3 months	<b>35,787</b>	7,011
	<b>394,534</b>	<b>178,219</b>

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

Included in the trade payables are amounts due to the Group's associates of HK\$41,751,000 (31 March 2020: HK\$45,616,000), and subsidiaries of Hong Kong Food Investment Holdings Limited, a substantial shareholder of the Company, of HK\$36,000 (31 March 2020: HK\$91,000), 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. BUSINESS COMBINATION**

On 16 April 2020, Four Seas (Japan) Holdings Company Limited ("Four Seas Japan"), an indirect wholly-owned subsidiary of the Group, acquired the option shares under the terms of the Share Sale Agreement dated 15 November 2019 (as supplemented by the Supplemental Agreement dated 31 March 2020), representing an additional 55% of the then issued share capital of Miyata Holding Co., Ltd. ("Miyata") at a cash consideration of approximately HK\$71. Upon completion of the acquisition of the option shares, the equity interest of Four Seas Japan in Miyata increased from 15% to 70%, and Miyata became a subsidiary of Four Seas Japan. Miyata Co., Ltd. ("MYC"), a renowned snack food and confectionery distributor in Japan specialised in the wholesaling and distribution of confectionery, is a wholly-owned subsidiary of Miyata. The acquisition was made as part of the Group's strategy to expand its confectionery distribution and product development business in Japan and create synergetic effects with the other businesses of the Group. The Group measures the non-controlling interest in Miyata at the non-controlling interest's proportionate share of Miyata's identifiable net assets.



**11. BUSINESS COMBINATION (continued)**

The fair value of the identifiable assets and liabilities of Miyata as at the date of acquisition based on provisional assessment were as follows:

	<b>Provisional fair value Unaudited HK\$'000</b>
Property, plant and equipment	207,986
Investment properties	22,699
Investments in associates	3,509
Financial assets at fair value through other comprehensive income	10,293
Financial assets at fair value through profit or loss	1,168
Prepayments, deposits and other receivables	4,196
Deferred tax assets	19,574
Other intangible assets	68,687
Inventories	82,133
Trade receivables	337,151
Prepayments, deposits and other receivables	35,631
Pledged bank deposits	54,939
Cash and cash equivalents	195,235
Trade payables, other payables and accruals	(320,282)
Interest-bearing bank borrowings	(655,755)
Lease liabilities	(25,543)
Loans from shareholder	(122,502)
Financial liabilities at fair value through profit or loss	(601)
Tax payable	(2,724)
Defined benefit obligations	(8,261)
Deferred tax liabilities	(30,024)
Total identifiable net liabilities at fair value	(122,491)
Non-controlling interests	36,748
	(85,743)
Goodwill on acquisition	85,744
Satisfied by cash	1

## **11. BUSINESS COMBINATION (continued)**

A provisional goodwill of HK\$85,744,000 arising from the acquisition is attributable mainly to the benefit of the integration of the MYC's products with those of the Group and the synergies arising thereof. The measurement of goodwill, identifiable assets acquired and liabilities assumed at the acquisition date will be subject to finalisation within one year from the acquisition date in accordance with HKFRS 3 *Business Combination*. Any adjustment to the provisional amount, if necessary, will be reflected in the upcoming consolidated financial statements of the Group.

Up to 30 September 2020, the Group incurred transaction costs of approximately HK\$13,486,000 for the acquisition. These transaction costs have been expensed and are included in administrative expenses in the consolidated statement of profit or loss.

Since the acquisition, Miyata contributed approximately HK\$829,782,000 to the Group's revenue and loss of HK\$7,405,000 to the consolidated profit for the period.

Had the combination taken place at the beginning of the year, the revenue and the profit of the Group for the period would have been approximately HK\$2,398,903,000 and HK\$29,795,000, respectively.

## **INTERIM DIVIDEND**

The Board has resolved to declare an interim dividend of HK3.0 cents (2019: HK3.0 cents) in cash per ordinary share for the six months ended 30 September 2020, payable to shareholders whose names appear in the register of members of the Company at the close of business on Friday, 18 December 2020. The said dividend will be paid on Monday, 18 January 2021.

## **CLOSURE OF REGISTER OF MEMBERS**

The register of members of the Company will be closed from Wednesday, 16 December 2020 to Friday, 18 December 2020, 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 2020, 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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 15 December 2020.

## **BUSINESS REVIEW AND PROSPECTS**

### **RESULTS**

For the six-month period ended 30 September 2020, the Group's consolidated revenue was HK\$2,185,079,000 (2019: HK\$1,505,607,000). The profit for the year attributable to equity holders of the Company stood at HK\$30,016,000 (2019: HK\$18,885,000). Sales derived from the Hong Kong segment amounted to HK\$919,113,000 (2019: HK\$976,182,000), accounting for 42% of the Group's total sales. Sales in Mainland China amounted to HK\$436,184,000 (2019: HK\$529,425,000), accounting for 20% of the Group's total sales. Sales in Japan amounted to HK\$829,782,000 (2019: Nil), accounting for 38% of the Group's total sales.

### **BUSINESS REVIEW**

During the period under review, the Group rose to the pandemic challenge and maintained a steady business growth. Notwithstanding tremendous market difficulties posed to the catering and retail businesses by the outbreak of COVID-19, the Group maintained its stability in its distribution and manufacturing businesses with its diversified development strategies and well-formulated sales promotion. The strong sales of everyday essentials in supermarkets during the outbreak, along with the various subsidies by the HKSAR Government related to COVID-19, helped to partially offset the impact and maintain the stability of the Group's overall performance.

The Group also continued to seek breakthroughs in its business. During the period under review, it has been dedicated to developing its Japanese ice-cream business and introducing famous Japanese products and brands such as Meiji, Lotte, Glico, Imuraya, SEIKA from Kagoshima, SEIHYO from Niigata, TAKESHITA and BLUE SEAL, a brand exclusive to Okinawa. With the exquisite design and unique taste, the Japanese ice-cream are very popular in Hong Kong. Points of sales have been expanded to cover convenience stores and supermarkets; many large supermarkets even set up sales counters dedicated to the Group's Japanese ice-creams. Robust sales were achieved to further expand market share and drive the Group's business growth.

## **BUSINESS REVIEW (continued)**

### **Distribution Business**

Being one of the Group's core businesses, food distribution performance saw a boost as consumers spent more time at home during the pandemic. The Group maintains an extensive distribution network encompassing department stores, supermarkets, markets, convenience stores, fast-food restaurants, wholesalers, retailers, Chinese restaurants, bars, hotels, airlines, etc. The Group also operates food specialty stores in Hong Kong that include Japanese snack store franchise "Okashi Land" and cookie store franchise "YOKU MOKU".

Collaborating with famous food manufacturers worldwide, the Group distributes a variety of quality food products from more than 20 countries and regions. Through a comprehensive distribution network and precise sales strategies, the sales team constantly sources high-quality food products such as ice-creams, snacks, powdered milk, health food, sauces, ham and sausages from Japan, Korea, Thailand, Indonesia, Malaysia, Singapore, United Kingdom, France, Germany, Netherlands, United States and Mainland China, providing consumers with diverse delicacies from around the world. Over the years the Group has also introduced many novel products to consumers. Apart from expanding the market for Japanese ice-cream in Hong Kong, the Group has recently become the sole distributor of the well-known Japanese plum wine brand CHOYA which was founded in 1914 and is Japan's largest plum wine producer as well as a popular plum wine brand. CHOYA Plum Wine is also famous in Hong Kong and will bring new contributions to the Group. The Group will continue to identify famous brands and bring them to consumers.

During the period under review, the Group acquired a cumulative interest of 70% of Miyata Co., Ltd. ("MYC"), which is a renowned snack food and confectionery distributor in Japan specialised in the wholesaling and distribution of confectionery. 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 famous retail chains such as AEON, Daiso 100-yen shop, Muji), regional retailers, wholesalers and exporter/overseas customers. On the supply side, MYC has a strongfold of suppliers for a vast variety of confectionery products. MYC also imports quality overseas products including those from PRC, United States, Malaysia and South Korea.

## **BUSINESS REVIEW (continued)**

### **Manufacturing Business**

With stringent quality control and precise scientific management, the Group ensures compliance with international standards in its production. It has received numerous accreditations such as HACCP, ISO 9001, ISO 22000 and GMP certifications, the Hong Kong Q-Mark License acknowledging participation in the Hong Kong Q-Mark Scheme for over 30 years, and the Hong Kong Cooking Oil Registration Scheme Companion Certification, awarded by the Hong Kong Quality Assurance Agency (HKQAA). All the certifications above prove the quality of the Group's food products and the standards it demands of itself.

The Group has 18 plants in Hong Kong and Mainland China manufacturing a wide range of distinctive food products. With its integrated production and sales strategies, the Group is able to offer products that meet various market needs, thereby securing its dominance in the food industry. The expansion of the Calbee Four Seas factory located in Tseung Kwan O Industrial Estate increased production efficiency and capacity substantially, affording the Group greater flexibility in fulfilling the growing demands of the market. Owing to COVID-19, more people stayed at home and took up home cooking, which fuelled the development of the food manufacturing business.

### **Retail and Catering Businesses**

The Group's retailing and catering businesses were inevitably impacted by COVID-19, but continued to maintain their high standards and innovative efforts. The Chinese and Japanese eateries of the Group are popular and highly regarded in both Guangdong and Hong Kong. The Shanghainese vegetarian restaurant "Kung Tak Lam" (Causeway Bay Branch) was awarded the Michelin Plate in the Michelin Guide 2020 and the Hong Kong branch of "Sushiyoshi" was listed with a Two-Star rating in the Osaka Michelin Guide, both gourmets' favourites. A new Kowloon Bay branch has been added to the Japanese restaurant "Shiki • Etsu" in Admiralty. In Guangzhou, "Panxi Restaurant" and kaiten sushi franchise "Sushi Oh", with sound management and excellent services, are popular among locals.

On the retail front, "Okashi Land" Japanese snack stores provide consumers with delicious and trendy Japanese snacks. The Group has set up Japanese ice-cream counters in many "Okashi Land" stores and convenience stores, which are extremely well received and allow consumers to enjoy Japanese ice-cream anytime, anywhere. "YOKU MOKU" cookie stores continue to be popular among consumers.

## **BUSINESS REVIEW (continued)**

### **BRAND DEVELOPMENT**

Founded in 1971, the Group has grown with the city of Hong Kong and will be celebrating its 50th anniversary next year. In nearly half a century, the Group has become a highly regarded household name in Hong Kong. The Group runs a diversified food business spanning distribution, production, retail, restaurants, and is building its own brand. Its wide array of businesses cater for the various needs of customers of all age groups and segments. The Group is actively expanding its market share in Mainland China and Japan as well as nurturing a wider customer base, which reflect the Group's vision and ambition, both essential to the Four Seas brand. The Group understands the importance of maintaining consumer confidence, reflected in its motto of "Eating Safety, Eating Happily". The Group has always been mindful of its obligation to maintain hygiene, safety and quality of food products and set up a sound monitoring system to ensure the products are safe, high-quality and delicious.

The Group successfully acquired additional 55% of the equity shares of Miyata Holding Co., Ltd., a renowned Japanese confectionery distributor, and its subsidiaries ("Miyata") in the review period. This has created a new area of growth, generating new opportunities and helping the Group to maintain its leadership in the food market. The acquisition will combine the strengths and advantages of both companies to create synergy in branding and sales, consolidating the Group's leadership in capital, management resources as well as the snack and confectionary retail and distribution market in Hong Kong. As a result of the acquisition, the Group will also benefit from strengthened sales capacities and a broadened customer base. Through the Group, top-notch Japanese confectionery products can be introduced to the markets of Hong Kong and Mainland China to cater to their high demands for quality food. Through Miyata, the Group will be able to access the Japanese consumer market and increase its investment and presence in the food distribution industry, creating a unique platform which covers Mainland China, Hong Kong and Japan.

## **BUSINESS REVIEW (continued)**

### **CORPORATE SOCIAL RESPONSIBILITY**

The Group is rooted in Hong Kong and firmly believes in giving back to society. It actively promotes and participates in social and community services in the city. Its contribution has been hailed by different segments of society and brought it numerous awards. For instance, the Group and Calbee Four Seas Co., Ltd. have received the honours of “Manpower Developer 2013-2021” and “Manpower Developer 2011-2021” awards respectively.

During the period under review, “Okashi Land” has been awarded the “Hong Kong Top Brand Mark (Top Mark)” by the Hong Kong Brand Development Council and the Chinese Manufacturers’ Association of Hong Kong. “Calbee” has received the “Most Favourite Brand of Convenience Stores Award 2019” from 7-Eleven Convenience Store and another 4 awards at PARKnSHOP Super Brands Award 2019: “Super Supermarket Brand”, “Star Supermarket Brand (Snacks)”, “Top Ten Excellence Brands”, and “Diamond Award”. Tsubu Tsubu Orange and Glico received the “Super Brands Award” while Four Seas ice-creams received the “Star Supermarket Brand (Ice-creams)”.

Furthermore, the Group has awarded “Asia’s Leading Snack Foods Innovator”, “Excellence in Manufacturing Quality Hygiene Measure and Customer Services” and “Asia’s Most Valuable Service Providers Awards 2020 –Asia Pacific’s Leader in Food Manufacturing” from Mediazone Publishing; the Chairman, Dr. Tai Tak Fung, Stephen, has been recognised as “Asia’s Leading Food Entrepreneur of the Year”.

### **PROSPECTS AND GROWTH**

Despite the global economic uncertainties brought by the pandemic, the Group maintains great confidence in the Hong Kong food market. With a wide range of products from well-known brands and the continuous introduction of new quality food, the Group will establish a food platform across Mainland, Hong Kong and Japan, pursuing its business development strategy of “Based in Hong Kong, Yearning for Mainland, Reaching Out to the World”.

## **PROSPECTS AND GROWTH (continued)**

### **Hong Kong Business**

The Group has a leading position, an extensive sales network and 49 years of experience in the Hong Kong food market and the acquisition of Miyata's equity shares has turned a new page for the company's future development. Leveraging the Group's expertise in capital, resource management, experience in Hong Kong food retail and distribution industry, and the manufacturing capabilities and distribution network in the Mainland, the Group will bring in more famous food around the world, creating cross-branding and sales synergy. In the meantime, through Miyata, the Group will be able to enter the Japanese consumer market and create a unique platform which covers Mainland China, Hong Kong and Japan.

### **Mainland China Business**

For years the Group has been striving to develop and explore the hugely promising Mainland China market and business has grown steadily. The Group's products are well known and popular among local consumers, and are currently available on a number of e-commerce platforms, such as Taobao, Tmall, Tmall Global and Jingdong, making them easily accessible to food lovers.

The rapid improvement of the COVID-19 situation in Mainland China has brought about a domestic economic recovery. Besides traditional retail, the Group has developed new channels to promote its products in recent years, establishing an extensive network of online and offline sales channels which successfully increased sales, expanded the Group's market share in Mainland China and created business opportunities. The love for food knows no borders and the Group aims to introduce Chinese food products to overseas consumers through proactive marketing strategies. The Group believes that the Mainland China market will bring more benefits to its business and hence will continue to be a focus of the Group's future development.

### **Japan Business**

The vast consumer market of Japan provides another opportunity for the growth of Group. With the acquisition of Miyata, the Group can strengthen its expansion into the Japanese market through its sales network. Apart from consolidating the current business of Miyata, the Group can leverage on its production capabilities in PRC to bring to its customers quality products of Four Seas Brand. This will strengthen the Group's presence in the Japanese confectionery market.



## **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 2020, the Group held cash and cash equivalents of HK\$717,807,000. As at 30 September 2020, the Group had banking facilities of HK\$2,952,575,000 of which 47% had been utilised. The Group had a gearing ratio of 104% as at 30 September 2020. 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 and the Interest-Bearing Bank Borrowings which are classified as non-current liabilities are repayable in the second to third year.

## **STAFF EMPLOYMENT AND REMUNERATION POLICIES**

The total number of employees of the Group as at 30 September 2020 was approximately 3,100. 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 2020.

## **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 2020, except for the following deviations:

### **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 appointments. 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 2020.

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 2020.

## **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 2020 and discussed with the management on the accounting principles and practices adopted by the Group, risk management, 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](http://www.hkexnews.hk) and the Company’s website at [www.fourseasgroup.com.hk](http://www.fourseasgroup.com.hk). The interim report of the Company for the six months ended 30 September 2020, containing information required by the Listing Rules, will be despatched to the shareholders of the Company and published on the above websites in due course.

## SUPPLEMENTAL INFORMATION ON OTHER OPERATING EXPENSES FOR THE YEARS ENDED 31 MARCH 2020 AND 2019

Reference is made to the Annual Report, the Company recorded Other Operating Expenses of HK\$27,501,000 for the year ended 31 March 2020 (31 March 2019: HK\$17,327,000). Set out below is the breakdown of the Other Operating Expenses for the years indicated:

	For the year ended 31 March	
	2020	2019
	<i>HK'000</i>	<i>HK'000</i>
Auditors' remuneration	4,589	4,546
Loss on disposal/write-off of items of property, plant and equipment, net	483	4,181
Impairment of items of property, plants and equipment (excluding right-of use assets)	3,459	-
Impairment of right-of use assets	3,393	-
Impairment of trade receivables	10,654	3,289
Bank charges	2,615	2,749
Others	2,308	2,562
	<u>27,501</u>	<u>17,327</u>

## APPRECIATION

The Board would like to express its sincere appreciation to the Group's 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, 30 November 2020