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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 2023

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 2023, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		Six months ended 30 September	
		2023	2022
		Unaudited	Unaudited
		HK\$'000	HK\$'000
	Notes		
REVENUE	3	1,954,785	2,112,609
Cost of sales		<u>(1,494,985)</u>	<u>(1,623,367)</u>
Gross profit		459,800	489,242
Other income and gains, net	3	6,499	17,885
Selling and distribution expenses		(226,829)	(257,226)
Administrative expenses		(176,015)	(187,637)
Other operating expenses		(8,055)	(7,489)
Finance costs	4	(22,483)	(11,285)
Share of profits and losses of associates		<u>5,110</u>	<u>3,102</u>
PROFIT BEFORE TAX	2 & 5	38,027	46,592
Income tax credit/(expense)	6	<u>(10,021)</u>	<u>14,081</u>
PROFIT FOR THE PERIOD		<u>28,006</u>	<u>60,673</u>
Attributable to:			
Equity holders of the Company		30,269	58,381
Non-controlling interests		<u>(2,263)</u>	<u>2,292</u>
		<u>28,006</u>	<u>60,673</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
- Basic and diluted	8	<u>HK7.9 cents</u>	<u>HK15.2 cents</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 September	
	2023	2022
	Unaudited	Unaudited
	<i>HK\$'000</i>	<i>HK\$'000</i>
PROFIT FOR THE PERIOD	28,006	60,673
OTHER COMPREHENSIVE LOSS		
<i>Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:</i>		
Exchange differences on translation of foreign operations	(58,984)	(104,636)
Share of other comprehensive loss of associates	(2,669)	(5,347)
<i>Net other comprehensive loss that may be reclassified to profit or loss in subsequent periods</i>	(61,653)	(109,983)
<i>Other comprehensive income/(loss) 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	2,811	(1,412)
- Income tax effect	(963)	484
Defined benefit obligations:		
- Gains on remeasurement	-	196
- Income tax effect	-	(67)
<i>Net other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods</i>	1,848	(799)
OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX	(59,805)	(110,782)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	(31,799)	(50,109)
Attributable to:		
Equity holders of the Company	(28,740)	(51,166)
Non-controlling interests	(3,059)	1,057
	(31,799)	(50,109)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	30 September	31 March
	2023	2023
	Unaudited	Audited
<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
NON-CURRENT ASSETS		
Property, plant and equipment	767,092	823,666
Investment properties	34,840	38,158
Goodwill	102,247	111,648
Other intangible assets	45,523	53,559
Investments in associates	177,664	175,782
Financial assets at fair value through profit or loss	31,456	32,304
Financial assets at fair value through other comprehensive income	12,780	11,102
Prepayments, deposits and other receivables	34,452	23,695
Tax recoverable	26,287	30,218
Deferred tax assets	8,877	8,768
	1,241,218	1,308,900
CURRENT ASSETS		
Inventories	320,068	337,850
Trade receivables	661,934	661,136
Prepayments, deposits and other receivables	137,043	146,760
Tax recoverable	1,269	2,188
Financial assets at fair value through profit or loss	55,519	52,056
Cash and cash equivalents	591,092	735,180
	1,766,925	1,935,170

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

		30 September 2023 Unaudited HK\$'000	31 March 2023 Audited HK\$'000
	<i>Note</i>		
CURRENT LIABILITIES			
Trade payables, other payables and accruals	10	505,690	530,326
Interest-bearing bank borrowings		900,932	1,096,174
Lease liabilities		112,885	107,781
Tax payable		21,425	17,805
		1,540,932	1,752,086
TOTAL CURRENT LIABILITIES		1,540,932	1,752,086
NET CURRENT ASSETS		225,993	183,084
TOTAL ASSETS LESS CURRENT LIABILITIES		1,467,211	1,491,984
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings		52,811	-
Lease liabilities		140,046	155,839
Other payables and accruals		2,190	2,676
Defined benefit obligations		6,108	6,740
Deferred tax liabilities		19,447	21,847
		220,602	187,102
Total non-current liabilities		220,602	187,102
Net assets		1,246,609	1,304,882
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital		38,422	38,422
Reserves		1,183,080	1,236,794
		1,221,502	1,275,216
Non-controlling interests		25,107	29,666
Total equity		1,246,609	1,304,882

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 2023.

In the current interim period, the Group has applied, for the first time, certain new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA that are mandatorily effective for the Group’s financial years beginning on or after 1 April 2023.

HKFRS 17	<i>Insurance Contracts</i>
Amendments to HKFRS 17	<i>Insurance Contracts</i>
Amendment to HKFRS 17	<i>Initial Application of HKFRS 17 and HKFRS 9 – Comparative Information</i>
Amendments to HKAS 1 and HKFRS Practice Statement 2	<i>Disclosure of Accounting Policies</i>
Amendments to HKAS 8	<i>Definition of Accounting Estimates</i>
Amendments to HKAS 12	<i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i>
Amendments to HKAS 12	<i>International Tax Reform – Pillar Two Model Rules</i>

The adoption of the above new and revised HKFRSs has had no significant financial effect on these financial statements.

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, 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 2023

	Hong Kong Unaudited HK\$'000	Mainland China Unaudited HK\$'000	Japan Unaudited HK\$'000	Total Unaudited HK\$'000
Segment revenue:				
Sales to external customers*	914,183	356,972	683,630	1,954,785
Intersegment sales	23,914	95,703	27,857	147,474
	<u>938,097</u>	<u>452,675</u>	<u>711,487</u>	<u>2,102,259</u>
<i>Reconciliation:</i>				
Elimination of intersegment sales				(147,474)
Revenue				<u>1,954,785</u>
Segment results	46,862	15,890	3,741	66,493
<i>Reconciliation:</i>				
Interest income				5,689
Dividend income and unallocated gains/(losses), net				(4,032)
Finance costs (other than interest on lease liabilities)				(19,152)
Share of profits and losses of associates				5,110
Corporate and other unallocated expenses				(16,081)
Profit before tax				<u>38,027</u>
Other segment information:				
Write-down of slow-moving inventories	20	1,251	-	1,271
Impairment of trade receivables	409	-	117	526
Loss on disposal/write-off of items of property, plant and equipment	365	397	2	764
Depreciation and amortisation, except right-of-use assets	11,197	21,389	6,114	38,700
Depreciation of right-of-use assets	<u>47,935</u>	<u>8,413</u>	<u>3,511</u>	<u>59,859</u>

2. OPERATING SEGMENT INFORMATION (continued)

Six months ended 30 September 2022

	Hong Kong Unaudited HK\$'000	Mainland China Unaudited HK\$'000	Japan Unaudited HK\$'000	Total Unaudited HK\$'000
Segment revenue:				
Sales to external customers*	928,500	420,386	763,723	2,112,609
Intersegment sales	21,071	113,921	41,196	176,188
	949,571	534,307	804,919	2,288,797
<i>Reconciliation:</i>				
Elimination of intersegment sales				(176,188)
Revenue				2,112,609
Segment results	59,329	5,692	1,681	66,702
<i>Reconciliation:</i>				
Interest income				1,094
Dividend income and unallocated gains, net				1,189
Finance costs (other than interest on lease liabilities)				(8,637)
Share of profits and losses of associates				3,102
Corporate and other unallocated expenses				(16,858)
Profit before tax				46,592
Other segment information:				
Write-down of slow-moving inventories	13	1,135	102	1,250
Impairment of trade receivables	72	-	-	72
Loss on disposal/write-off of items of property, plant and equipment	1,340	39	206	1,585
Depreciation and amortisation, except right-of-use assets	11,928	21,770	6,934	40,632
Depreciation of right-of-use assets	51,765	11,539	3,773	67,077
Refund of consumption tax	-	-	(11,108)	(11,108)
Professional fee incurred in relation to refund of consumption tax and income tax	-	-	4,336	4,336
	-	-	4,336	4,336

* The revenue information above is based on the locations of the customers, except for a subsidiary within the Japan segment whose sales to external customers of HK\$42,715,000 (2022: HK\$26,804,000) arising from Mainland China.

2. OPERATING SEGMENT INFORMATION (continued)

As at 30 September 2023

	Hong Kong Unaudited <i>HK\$'000</i>	Mainland China Unaudited <i>HK\$'000</i>	Japan Unaudited <i>HK\$'000</i>	Total Unaudited <i>HK\$'000</i>
Segment assets	1,297,046	714,255	494,676	2,505,977
<i>Reconciliation:</i>				
Elimination of intersegment receivables				(402,778)
Investments in associates				177,664
Corporate and other unallocated assets				727,280
Total assets				<u>3,008,143</u>
Segment liabilities	556,826	307,394	305,477	1,169,697
<i>Reconciliation:</i>				
Elimination of intersegment payables				(402,778)
Corporate and other unallocated liabilities				994,615
Total liabilities				<u>1,761,534</u>

As at 31 March 2023

	Hong Kong Audited <i>HK\$'000</i>	Mainland China Audited <i>HK\$'000</i>	Japan Audited <i>HK\$'000</i>	Total Audited <i>HK\$'000</i>
Segment assets	1,261,818	735,328	583,339	2,580,485
<i>Reconciliation:</i>				
Elimination of intersegment receivables				(384,013)
Investments in associates				175,782
Corporate and other unallocated assets				871,816
Total assets				<u>3,244,070</u>
Segment liabilities	556,106	280,985	350,284	1,187,375
<i>Reconciliation:</i>				
Elimination of intersegment payables				(384,013)
Corporate and other unallocated liabilities				1,135,826
Total liabilities				<u>1,939,188</u>

3. REVENUE, OTHER INCOME AND GAINS, NET

An analysis of revenue is as follows:

	Six months ended	
	30 September	
	2023	2022
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Revenue from contracts with customers		
(i) Disaggregated revenue information		
<i>Primary geographical markets:</i>		
Hong Kong	914,183	928,500
Mainland China	356,972	420,386
Japan*	683,630	763,723
	<u>1,954,785</u>	<u>2,112,609</u>
<i>Timing of revenue recognition:</i>		
At a point in time	<u>1,954,785</u>	<u>2,112,609</u>

* Including revenue from contracts with customers of HK\$42,715,000 (2022: HK\$26,804,000) arising from Mainland China.

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	
	2023	2022
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Sale of goods	<u>2,090</u>	<u>2,397</u>

3. REVENUE, OTHER INCOME AND GAINS, 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 amounts of transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 30 September 2023 and 31 March 2023 are as follows:

	As at 30 September 2023 Unaudited HK\$'000	As at 31 March 2023 Audited HK\$'000
Amounts expected to be recognised as revenue:		
Within one year	<u>3,773</u>	<u>2,090</u>

The amounts of transaction prices allocated to remaining performance obligations are expected to be recognised as revenue within one year.

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

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

	Six months ended	
	30 September	
	2023	2022
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Other income		
Bank interest income	4,199	1,094
Government subsidies*	-	75
Dividend income	615	2,037
Rental income from investment property operating leases:		
Other lease payments, including fixed payments	1,365	1,499
Interest income	1,490	-
Refund of consumption tax	-	11,108
Others	3,477	2,920
	11,146	18,733
Gains/(losses), net		
Net fair value loss on financial assets at		
fair value through profit or loss	(4,647)	(2,177)
Net fair value changes of derivative financial instruments	-	1,329
	(4,647)	(848)
	6,499	17,885

- * In the prior year, government subsidies included in “Other income” above were subsidies granted by the Hong Kong Government under the Anti-Epidemic Fund, but excluding grants from the Employment Support Scheme of HK\$20,782,000 which were included in “Cost of sales”, “Selling and distribution expenses” and “Administrative expenses” in the unaudited condensed consolidated statement of profit or loss, as detailed in note 5 in the unaudited condensed consolidated financial statements. As at the end of the reporting period, there were no unfulfilled conditions and contingencies relating to these subsidies.

4. FINANCE COSTS

An analysis of finance costs is as follows:

	Six months ended	
	30 September	
	2023	2022
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Interest on bank and trust receipt loans	19,152	8,637
Interest on lease liabilities	3,331	2,648
	22,483	11,285

5. PROFIT BEFORE TAX

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

	Six months ended	
	30 September	
	2023	2022
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Cost of inventories sold	1,493,714	1,622,117
Government subsidies #	-	(20,857)
Depreciation of items of property, plant and equipment (excluding right-of-use assets)	36,615	38,434
Depreciation of right-of-use assets	59,859	67,077
Amortisation of other intangible assets	2,085	2,198
Loss on disposal/write-off of items of property, plant and equipment *	764	1,585
Impairment of trade receivables*	526	72

In the prior year, government subsidies were subsidies granted by the Hong Kong Government under the Anti-Epidemic Fund, including grants from the Employment Support Scheme of HK\$20,782,000 and other subsidies of HK\$75,000, which aims to retain employment and combat COVID-19. There were no unfulfilled conditions or contingencies relating to these subsidies. For the six months ended 30 September 2022, government subsidies from the Employment Support Scheme of HK\$11,975,000, HK\$3,936,000 and HK\$4,871,000 were included in "Cost of sales", "Selling and distribution expenses" and "Administrative expenses", respectively, and other subsidies of HK\$75,000 were included in "Other income and gains, net", in the unaudited condensed consolidated statement of profit or loss.

* These items are included in "Other operating expenses" in the unaudited condensed consolidated statement of profit or loss.

6. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2022: 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	
	2023	2022
	Unaudited	Unaudited
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current – Hong Kong		
Charge for the period	8,134	12,300
Current – Elsewhere		
Charge for the period	3,346	7,760
Underprovision/(overprovision) in prior years	161	(32,771)
Deferred	(1,620)	(1,370)
	<hr/>	<hr/>
Total tax charge/(credit) for the period	10,021	(14,081)
	<hr/> <hr/>	<hr/> <hr/>

The share of tax attributable to associates amounting to HK\$335,000 (2022: HK\$429,000) 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	
	2023	2022
	Unaudited	Unaudited
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interim – HK3.0 cents (2022: HK3.0 cents) per ordinary share	11,527	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 amount 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.

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

	Six months ended 30 September	
	2023	2022
	Unaudited	Unaudited
	<i>HK\$'000</i>	<i>HK\$'000</i>
Earnings		
Profit attributable to ordinary equity holders of the Company, used in the basic and diluted earnings per share calculation	<u>30,269</u>	<u>58,381</u>
	Number of shares	
	2023	2022
	Unaudited	Unaudited
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic and diluted earnings per share calculation	<u>384,221,640</u>	<u>384,257,640</u>

The Group had no potentially dilutive ordinary shares in issue during the six months ended 30 September 2023 and 2022.

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 2023 and 31 March 2023, based on the invoice date and net of provisions, is as follows:

	30 September 2023 Unaudited HK\$'000	31 March 2023 Audited HK\$'000
Within 1 month	276,516	340,685
1 to 2 months	160,332	129,874
2 to 3 months	81,685	63,394
Over 3 months	<u>143,401</u>	<u>127,183</u>
	<u>661,934</u>	<u>661,136</u>

Included in the trade receivables are amounts due from subsidiaries of Hong Kong Food Investment Holdings Limited, a substantial shareholder of the Company, of HK\$64,000 (31 March 2023: HK\$109,000), which is repayable on credit terms similar to those offered to the major customers of the Group.

10. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

Included in trade payables, other payables and accruals is trade payables balance of HK\$286,778,000 (31 March 2023: HK\$312,370,000). An ageing analysis of the trade payables as at 30 September 2023 and 31 March 2023 based on the invoice date, is as follows:

	30 September 2023 Unaudited HK\$'000	31 March 2023 Audited HK\$'000
Within 1 month	203,341	238,336
1 to 2 months	66,705	58,473
2 to 3 months	12,324	10,489
Over 3 months	<u>4,408</u>	<u>5,072</u>
	<u>286,778</u>	<u>312,370</u>

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

Included in the trade payables are amounts due to the Group's associates of HK\$47,621,000 (31 March 2023: HK\$44,559,000), and subsidiaries of Hong Kong Food Investment Holdings Limited, a substantial shareholder of the Company, of HK\$1,041,000 (31 March 2023: HK\$523,000), 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.

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK3.0 cents (2022: HK3.0 cents) in cash per ordinary share for the six months ended 30 September 2023, payable to shareholders whose names appear in the register of members of the Company at the close of business on Tuesday, 19 December 2023. The said dividend will be paid on Thursday, 18 January 2024.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Friday, 15 December 2023 to Tuesday, 19 December 2023, 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 2023, 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 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration not later than 4:30 p.m. on Thursday, 14 December 2023.

BUSINESS REVIEW AND PROSPECTS

RESULTS

For the six-month period ended 30 September 2023, the Group's consolidated revenue was HK\$1,954,785,000 (2022: HK\$2,112,609,000). The profit for the period attributable to equity holders of the Company stood at HK\$30,269,000 (2022: HK\$58,381,000). Sales derived from the Hong Kong segment amounted to HK\$914,183,000 (2022: HK\$928,500,000), accounting for 47% of the Group's total sales. Sales in Mainland China amounted to HK\$356,972,000 (2022: HK\$420,386,000), accounting for 18% of the Group's total sales. In terms of Renminbi, sales in Mainland China was RMB324,815,000 (2022: RMB360,228,000). Sales in Japan amounted to HK\$683,630,000 (2022: HK\$763,723,000), accounting for 35% of the Group's total sales. In terms of Japanese yen, sales in Japan was JPY12,296 million (2022: JPY13,033 million). During the period under review, sales revenue in terms of Hong Kong dollars generated from Mainland China and Japan markets recorded a decline compared to the corresponding period of the previous year. This decrease was attributed in part to the depreciation of the exchange rates between the Renminbi and Japanese yen against the Hong Kong dollar.

BUSINESS REVIEW

During the period under review, the profit attributable to equity holders of the Company, excluding tax refunds and the Hong Kong government's pandemic relief subsidies, recorded an increase in compare to that of the corresponding period last year. Despite the overall weak consumer markets during the review period, which led to a decline in the Group's revenue, the Group has successfully offset the negative impact of the external operating environment on profitability by managing its operations effectively and leveraged the efficiency of sales and operating expenses. This demonstrated the resilience of the Group to withstand external challenges. Miyata Co., Ltd. ("Miyata"), a subsidiary of the Company, received income tax and consumption tax refunds in the net amount of approximately HK\$39 million, after deducting the professional fees incurred, for tax over-payments in previous years during the corresponding period last year. In addition, the Group received pandemic relief subsidies from the Hong Kong government, amounting to approximately HK\$21 million in the corresponding period last year. During the review period, despite the absence of the two abovementioned sources of income, the profit attributable to equity holders of the Company still recorded a net profit of HK\$30,269,000. Therefore, the Group's profit excluding tax refunds and subsidies attributable to the Company's shareholders derived from the operation of the Group itself has actually increased.

BUSINESS REVIEW (continued)

Since the acquisition of Miyata in 2020, the Group has expanded its product range by incorporating high-quality Japanese staple food items sourced through Miyata, in addition to selling the confectionery and snack items inherited from Miyata. This strategic move has created positive synergies within the Group. Despite the continued weakness in the consumer market, the Group has been benefited by Miyata's extensive product network, supplying high-quality Japanese staple food products to the Hong Kong market, such as Japanese rice, Japanese eggs, and Japanese dairy products, which have provided growth momentum for the business. Among them, Miyata Ice Cream, under the umbrella of the Group's brand, has gained a considerable market share in the Hong Kong ice cream market since its launch last year and has been well-received by consumers. During the review period, the Group successfully introduced Miyata Ice Cream to the Mainland China market through its various distribution channels.

Distribution Business

Food distribution is the core business of the Group, which has been continuously deepening its partnerships with renowned food producers from around the world. With an experienced team, the Group acts as an agent for a diverse range of high-quality food products from various countries and regions. The Group sources top-notch food products from Japan, Korea, Thailand, Indonesia, Malaysia, Singapore, France, Germany, the Netherlands, the US, and Mainland China, providing consumers with a wide array of choices. During the period under review, the Group's sales spanned an extensive range of products, including Japanese ice cream, snacks, candies, infant formula, soy sauce, ham and sausages, Japanese eggs, Japanese rice, Japanese plum wine, and Japanese tofu. With a well-established distribution network, clientele of the Group includes department stores, supermarkets, wet markets, convenience stores, fast-food chains, wholesalers, retailers, specialty shops for Japanese snacks, restaurants, bars, hotels, and airlines. Additionally, the Group operates specialised food stores that cater to specific tastes. These include "Okashi Land", a chain of stores dedicated to selling Japanese snacks, "Japanese Ice Cream House", which offers Japanese-style ice cream and snacks, and "YOKU MOKU", a chain of specialty stores for Japanese cookies. Through these establishments, the Group introduces novel flavors and provides consumers with distinctive experiences. Notably, this year marks the 10th anniversary of the establishment of "YOKU MOKU" in Hong Kong. The Japanese trendy delicacies offered by the stores have been well-received by consumers, evident from its remarkable achievements and thanks to their exquisite packaging and the successful creation of a strong brand value.

BUSINESS REVIEW (continued)

Manufacturing Business

The Group upholds the principle of providing consumers with safe and trustworthy food. It maintains strict monitoring of food quality and implements stringent and scientific management to ensure its production standards meet international levels. The Group has obtained certifications such as “HACCP”, “ISO 9001”, “ISO 22000”, and “GMP”. It has also received the Hong Kong Q-Mark License given to participants of the “Hong Kong Q-Mark Scheme for over 30 years”, and the “HKQAA - Cooking Oil Registration Scheme Companion”, awarded by the Hong Kong Quality Assurance Agency. With numerous awards, the Group guarantees the quality of its food products.

The Group operates 17 food processing factories in both Mainland China and Hong Kong, manufacturing various types of specialty food items. Through its integrated production and sales strategy, the Group has solidified its leading position in the industry by catering to different market needs. For example, the Group has launched a crossover between two of its renowned brands, “Calbee” and “Maid Brand”, to launch ham-flavored potato chips, presenting a popular taste in an innovative way. This crossover product has gained popularity and is available in major supermarkets, convenience stores, and retail outlets across Hong Kong. The Group’s high-quality food products manufactured in its Mainland China factories, such as shrimp crackers and cuttlefish crackers, introduced in recent years, have also gained popularity among consumers.

Retail and Catering Businesses

The Group’s catering and retail businesses continue to innovate and cater to market tastes. The end of the pandemic has contributed to the improvement of the catering business. In Mainland China, the Group’s “Panxi” Garden Restaurant in Guangzhou has seen significant growth after a renovation, thanks to the customer enthusiasm for its enhanced dining environment. Additionally, the “Sushi Oh” sushi restaurant has gained popularity among local consumers. In Hong Kong, the “Kung Tak Lam” Shanghai vegetarian restaurants in Tsim Sha Tsui and Causeway Bay, and the “Shiki • Etsu” Japanese cuisine in Admiralty and Kowloon Bay, have all been well-received by diners.

The Group’s flagship brands in the retail market, including the “Okashi Land” Japanese snack specialty store, “Japanese Ice Cream House” specialising in Japanese ice cream and snacks, and “YOKU MOKU” cookie shop, are widely popular among consumers. Despite the slow recovery of the global economy after the pandemic and subdued consumer spending, the Group has achieved optimal promotional effectiveness through its marketing strategies, including advertising campaigns on social media and public transportation platforms.

BUSINESS REVIEW (continued)

BRAND DEVELOPMENT

Since its establishment over half a century ago, Four Seas Group has made Hong Kong its home and has become a popular brand in the snack market. To meet the needs of different age groups and market segments, the Group actively develops its business, expands its footprint, covering food distribution, manufacturing, retail, and catering, and the development of its own brands. The Group keeps up with the times and upholds its principle of “Eating Safely, Eating Happily”. It is stringent in maintaining food hygiene, safety, and quality, and has established a comprehensive monitoring system to ensure product safety, quality, and deliciousness. Four Seas brand gives the Group a strong foundation for its long-term development. The Group is actively expanding its market presence in Mainland China and Japan, especially following the successful acquisition of Miyata, creating a unique food sales platform that covers Mainland China, Hong Kong, and Japan. This not only creates a new growth momentum for the Group but also strengthens its sales capabilities and expands its customer base. It also brings synergistic benefits through cross-brand sales by integrating the expertise and advantages of Miyata with other units within the Group, including introducing high-quality Japanese candy and snack products to the markets of Hong Kong and Mainland China, and utilising Miyata’s network to enter the Japanese consumer market. This has expanded the Group’s involvement and presence in the food distribution industry. Looking ahead, the Group will continue to play the role of “Snack Diplomat” as a bridge, introducing overseas delicacies to Mainland China and promoting Mainland Chinese cuisine overseas, facilitating the exchange of food cultures among Mainland China, Hong Kong, and Japan.

CORPORATE SOCIAL RESPONSIBILITY

During the pandemic, the Group made special efforts to fulfill its social responsibility and adhere to the spirit of “Taking from Society, Giving Back to Society”. It actively participated in community services, voluntary work, and youth programmes. Since the pandemic ended, the Group has continued to shoulder its corporate social responsibility by integrating sustainable development into its daily operations, striving to work to its motto of “Virtue Brings Happiness and Happiness Leads to Sustainability”. It has sponsored different parties, including schools, elderly and women organisations, youth organisations, welfare organisations and federations of associations.

The Group has received recognitions for its activities. To name a few, Okashi Land was awarded “QTS Merchant” of the Quality Tourism Services Scheme by the Hong Kong Tourism Board while “Four Seas” was recognised as one of the Top Favourite Brands (snacks) by Wellcome Supermarket.

PROSPECTS AND GROWTH

The Group maintains a positive outlook for the future and will continue to actively expand its business. Despite the complex and volatile global economic landscape, along with fluctuations in financial markets and persistent inflation concerns, the Group remains confident in its ability to maintain its position as a market leader. With its exceptional brand reputation and the strategic advantages it has gained through the full acquisition of Miyata, particularly in the supply and provision of high-quality food products, the Group possesses a significant competitive edge. As the market returns to normalcy after the pandemic, and the economy regains momentum, the Group will take appropriate measures to adapt to market changes. For example, it may adjust product prices to offset the negative impact of rising costs.

Hong Kong Business

The Group will adhere to its business development strategy of “Rooted in Hong Kong, Oriented towards Mainland China, Reaching Out to the World”. It will seek steady progress while optimising its food product sales platforms spanning across Hong Kong, Mainland China, and Japan. In terms of product offerings, the Group will continue to leverage the synergies gained from the acquisition of Miyata to introduce high-quality staple food items from Miyata, such as Japanese rice, eggs, and milk, creating new stable sources of income for the Group. The Group will also source premium products from Mainland China, the United States, Malaysia, South Korea, and other areas, seeking renowned brands to bring new flavors to local consumers in Hong Kong. In expanding its network, the Group will collaborate with various brands to increase sales channels, including department stores, large supermarkets, and specialty stores.

PROSPECTS AND GROWTH (continued)

Mainland China Business

The Mainland economy is steadily growing, and the Group is confident of its development prospects in the Mainland. With a population of over 80 million in the Guangdong-Hong Kong-Macao Greater Bay Area, the region shares similar food cultures and tastes with Hong Kong and also has a fondness for Japanese food products. The Group will continue to introduce premium delicacies from Miyata and around the world to the Mainland market. The Group will make good use of the resources from its factories located in Mainland China and tap into the huge market demand to expand its own brand and create greater business benefits. As one of the focus areas for the Group's future business development, it will actively expand the Mainland market by utilising its various advantages. This includes adopting a dual-track approach of online and offline operations, going beyond traditional retail channels, and promoting international food e-commerce and import-export businesses in the Mainland. This will be achieved through platforms such as Taobao, Tmall, Tmall International, JD.com, as well as leveraging strategies like influencer marketing to stimulate sales and explore new opportunities in the Mainland market. The Group's business in membership stores in the Mainland has also become a new growth point, encompassing renowned retailers such as Walmart and Costco. By capitalising on the inherent flexibility of its own factories, the Group can offer distinctive packaging and flavors tailored specifically for these membership stores, resulting in an expanded range of choices for consumers.

Japan Business

Japan possesses a vast market for confectionery and snacks, and the Group will respond to changes in the market by formulating strategies to expand business opportunities. The Japanese market has been affected by rising oil prices and inflation, resulting in increased product costs. In light of this, the Group will not only adjust the selling price of its products but also capitalise on Miyata's extensive snack and confectionery supply and distribution networks in Japan. Miyata serves a wide range of customers, including renowned supermarket chains and convenience stores throughout Japan, such as Aeon, Daiso 100 Yen Shops, Muji, as well as regional retailers and wholesalers. Miyata's distribution network in Japan can also facilitate synergies among the Group's various businesses, allowing for the entry of the Group's food items produced in Mainland China into the Japanese market and strengthening the Group's presence in Japan.

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 2023, the Group held cash and cash equivalents of HK\$591,092,000. As at 30 September 2023, the Group had banking facilities of HK\$2,715,755,000 of which 35% had been utilised. The Group had a gearing ratio of 78% as at 30 September 2023. 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 2023 was approximately 2,800. 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 2023.

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 2023.

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 2023.

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 2023.

AUDIT COMMITTEE

The Audit Committee of the Company comprises all the three independent non-executive directors, namely Mr. CHEUNG Wing Choi (Chairman 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 2023 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 and the Company's website at www.fourseasgroup.com.hk. The interim report of the Company for the six months ended 30 September 2023, 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.

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. WU Wing Biu and Mr. WONG Fu Hang, Derek as executive directors, Mr. CHAN Yuk Sang, Peter, Mr. Tsunao KIJIMA and Mr. CHEUNG Wing Choi 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 2023