



FOUR SEAS MERCANTILE
HOLDINGS LIMITED
INTERIM REPORT 2000



The board of directors (the “Board”) of Four Seas Mercantile Holdings Limited (the “Company”) is pleased to announce the unaudited condensed consolidated balance sheet as at 30 September 2000 of the Company and its subsidiaries (the “Group”) and the unaudited condensed consolidated profit and loss account and unaudited condensed consolidated cash flow statement for the six months ended 30 September 2000 as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

		Six months ended	
		30 September	
		2000	1999
		Unaudited	Unaudited
		HK\$'000	HK\$'000
		(Restated)	
	<i>Notes</i>		
TURNOVER	2	534,737	463,217
Cost of sales		(362,278)	(336,681)
Gross profit		172,459	126,536
Other revenue	3	5,854	4,028
Selling and distribution expenses		(104,085)	(63,871)
Administrative expenses		(38,302)	(31,929)
Other operating expenses		(1,145)	(5,166)
PROFIT FROM OPERATING ACTIVITIES	2 & 4	34,781	29,598
Finance costs		(5,976)	(3,380)
Share of profits less losses of associates		4,517	11,028
PROFIT BEFORE TAX		33,322	37,246
Tax	5	(6,257)	(6,170)
PROFIT BEFORE MINORITY INTERESTS		27,065	31,076
Minority interests		853	(132)
NET PROFIT FROM ORDINARY ACTIVITIES			
ATTRIBUTABLE TO SHAREHOLDERS		<u>27,918</u>	<u>30,944</u>
DIVIDENDS	6	<u>118,673</u>	<u>7,196</u>
EARNINGS PER SHARE – Basic	7	<u>7.5 cents</u>	<u>9.9 cents</u>

CONDENSED CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES

	Six months ended 30 September 2000 Unaudited <i>HK\$'000</i>
Exchange differences on translation of the financial statements of foreign entities	(22)
Deficit on revaluation of long term investment	<u>(7,779)</u>
Losses not recognised in the condensed consolidated profit and loss account	(7,801)
Profit for the period	27,918
Investment revaluation reserve released to the condensed consolidated profit and loss account on disposal of long term investments by an associate	<u>(1,372)</u>
Total recognised gains and losses	18,745
Capital reserve on acquisition of interest in an associate	2,378
Goodwill eliminated directly against reserves	(142,734)
Goodwill/negative goodwill, net, released on distribution of an associate	<u>(231)</u>
	<u><u>(121,842)</u></u>

CONDENSED CONSOLIDATED BALANCE SHEET

		30 September 2000 Unaudited HK\$'000	31 March 2000 Audited HK\$'000
	<i>Notes</i>		
NON-CURRENT ASSETS			
Fixed assets	8	166,017	117,219
Interests in associates		118,885	213,009
Long term investments		16,577	24,178
		301,479	354,406
CURRENT ASSETS			
Inventories		97,869	68,609
Trade receivables	9	252,085	351,476
Prepayments, deposits and other receivables		38,320	11,809
Tax recoverable		24	104
Cash and cash equivalents		114,830	81,132
		503,128	513,130
CURRENT LIABILITIES			
Dividend payable		18,380	11,987
Tax payable		5,262	1,506
Due to associates		14,332	14,714
Trade payables and accrued liabilities	10	81,569	51,925
Interest-bearing bank borrowings		265,527	265,210
		385,070	345,342
NET CURRENT ASSETS		118,058	167,788
TOTAL ASSETS LESS CURRENT LIABILITIES		419,537	522,194
NON-CURRENT LIABILITIES			
Deferred tax		(1,607)	(1,585)
Minority interests		(24,618)	(12,691)
		(26,225)	(14,276)
		393,312	507,918
CAPITAL AND RESERVES			
Share capital	11	39,957	31,285
Reserves		353,355	476,633
		393,312	507,918

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30 September 2000 Unaudited <i>HK\$'000</i>
NET CASH INFLOW FROM OPERATING ACTIVITIES	50,783
Returns on investments and servicing of finance	(3,707)
Tax paid	(3,045)
Investing activities	<u>(10,650)</u>
NET CASH INFLOW BEFORE FINANCING ACTIVITIES	33,381
FINANCING ACTIVITIES	<u>7,142</u>
INCREASE IN CASH AND CASH EQUIVALENTS	40,523
Cash and cash equivalents at beginning of period	<u>(66,691)</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u><u>(26,168)</u></u>
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS	
Cash and cash equivalents	114,830
Bank loans and overdrafts repayable within three months from date of advance	<u>(140,998)</u>
	<u><u>(26,168)</u></u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

These unaudited condensed consolidated interim financial statements of the Group (“Interim Accounts”) are prepared in accordance with Hong Kong Statement of Standard Accounting Practice (“SSAP”) No. 25, “Interim Financial Reporting”, issued by the Hong Kong Society of Accountants, except that the comparative figures of the condensed consolidated cash flow statement and condensed consolidated statement of recognised gains and losses have not been prepared as the company has taken advantage of the transitional provisions set out in the Main Board Listing Rules of The Stock Exchange of Hong Kong Limited. The accounting policies and bases of preparation of these interim accounts are the same as those used in the annual financial statements for the year ended 31 March 2000. Figures for the year ended 31 March 2000 are extracted from the Group annual financial statements for that year.

Prior period adjustments

The Group has complied with SSAP 1, “Presentation of Financial Statements”, and SSAP 24, “Accounting for Investment in Securities”, for the first time in this interim reporting period and changed its accounting policies with respect to the treatment of pre-operating expenses and the valuation of investments in securities. The Group now expenses rather than capitalises pre-operating expenses and deferred expenditure and states its long term investments at their fair values rather than at cost, less provisions for any permanent diminutions in values.

This change in accounting policy has been applied retrospectively and, accordingly, the comparative amounts for the period ended 30 September 1999 have been restated. The effect of the change for the period ended 30 September 1999 is an increase in other operating expenses of HK\$2,197,000, an increase in the share of profits less losses of associates of HK\$325,000, an increase in the minority interests charge on profit of HK\$96,000, and a resulting decrease in the net profit from ordinary activities attributable to shareholders of HK\$1,968,000. The retained profits brought forward as at 1 April 1999 have been reduced by HK\$10,158,000, which represents an adjustment in respect of the Group’s share of pre-operating expenses and deferred expenditure capitalised relating to the years prior to 1 April 1999 and a transfer to the prior year’s consolidated profit and loss account of the provisions for impairment in values of certain non-trading securities held by the Group and an associate at 31 March 1999, as considered necessary by the directors upon the adoption of SSAP 24.

Comparative figures

The presentation of the Interim Accounts have been changed due to the adoption of the requirements of SSAP 1. As a result, the formats of the profit and loss account and balance sheet have been revised in accordance with the SSAP. Comparative figures have been reclassified to conform with the current period’s presentation.

2. SEGMENTAL INFORMATION

An analysis of the Group's turnover and contribution to profit from operating activities for the period by principal activities and principal markets is as follows:

	Turnover		Contribution to profit	
	Six months ended		from operating activities	
	30 September		Six months ended	
	2000	1999	2000	1999
	Unaudited	Unaudited	Unaudited	Unaudited
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<i>Principal activities</i>				
Trading and distribution of snack foods, confectionery, beverages and frozen foods products	459,695	439,195	31,005	30,089
Manufacturing of ham, ham related products and snack foods	75,042	24,022	3,776	(491)
	<u>534,737</u>	<u>463,217</u>	<u>34,781</u>	<u>29,598</u>
<i>Principal markets</i>				
The People's Republic of China:				
Hong Kong	434,076	392,142	36,661	32,205
Elsewhere	100,661	71,075	(1,880)	(2,607)
	<u>534,737</u>	<u>463,217</u>	<u>34,781</u>	<u>29,598</u>

3. OTHER REVENUE

An analysis of other revenue is as follows:

	Six months ended	
	30 September	
	2000	1999
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Interest income	1,333	806
Dividend income from listed investments	1,651	1,385
Rental income	232	335
Commission income	290	239
Others	2,348	1,263
	<u>5,854</u>	<u>4,028</u>

4. PROFIT FROM OPERATING ACTIVITIES

Profit from operating activities is arrived after charging:

	Six months ended 30 September	
	2000 Unaudited HK\$'000	1999 Unaudited HK\$'000
Depreciation	<u>8,028</u>	<u>4,191</u>

5. TAX

Hong Kong profits tax has been provided at the rate of 16% (1999: 16%) 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 in which the Group or its associates operate, based on existing legislation, interpretations and practices in respect thereof.

	Six months ended 30 September	
	2000 Unaudited HK\$'000	1999 Unaudited HK\$'000
Group:		
Hong Kong	4,940	4,695
Overseas	<u>206</u>	<u>—</u>
	5,146	4,695
Associates:		
Hong Kong	<u>1,111</u>	<u>1,475</u>
Tax charge for the period	<u>6,257</u>	<u>6,170</u>

6. DIVIDEND

	Six months ended 30 September	
	2000 Unaudited HK\$'000	1999 Unaudited HK\$'000
Interim dividend of 1.6 cents per share (1999: 2.3 cents)	6,393	7,196
Dividend in specie of shares of interests in Four Seas eFood Holdings Limited ("FSFH")	<u>112,280</u>	<u>—</u>
	<u>118,673</u>	<u>7,196</u>

7. EARNINGS PER SHARE

The calculation of earnings per share is based on the Group's net profit attributable to shareholders of HK\$27,918,000 (1999: HK\$30,944,000) and the weighted average number of 371,608,667 (1999: 312,851,640) ordinary shares in issue during the period.

Diluted earnings per share for the six months ended 30 September 2000 and 30 September 1999 have not been calculated because no diluting events existed during the periods.

8. FIXED ASSETS

The Group acquired fixed assets amounting to HK\$53,455,000 through the acquisition of subsidiaries in the current period.

9. TRADE RECEIVABLES

The Group grants credit period ranging from 30 days to 120 days to its trade customers. Details of the aging analysis of trade receivables are as follows:

	30 September 2000 Unaudited HK\$'000	31 March 2000 Unaudited HK\$'000
Current-1 month	97,370	90,917
1-2 months	50,665	49,025
2-3 months	44,868	59,908
over 3 months	59,182	151,626
	<u>252,085</u>	<u>351,476</u>

10. TRADE PAYABLES AND ACCRUED LIABILITIES

Included in the trade payables and accrued liabilities is a trade payables balance of HK\$46,516,000 (31 March 2000: HK\$40,714,000). Details of the aging analysis of trade payables are as follows:

	30 September 2000 Unaudited HK\$'000	31 March 2000 Unaudited HK\$'000
Current-1 month	31,521	26,306
1-2 months	7,838	9,469
2-3 months	4,042	887
Over 3 months	3,115	4,052
	<u>46,516</u>	<u>40,714</u>

11. SHARE CAPITAL

During the period, 86,714,000 ordinary shares of the Company were issued at a price of HK\$1.452 per share as consideration of acquiring certain subsidiaries of FSFH.

12. RELATED PARTY TRANSACTIONS

The Group had the following material transactions with its associates during the period.

	Six months ended 30 September	
	2000	1999
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Purchases from associates	125,081	70,805
Sales to associates	<u>6,074</u>	<u>2,528</u>

The cost of purchases from associates is determined by reference to the prevailing market prices. The selling prices of sales to associates are determined by reference to prices and conditions similar to those offered to other customers.

13. CONTINGENT LIABILITIES

	30 September	31 March
	2000	2000
	Unaudited	Audited
	HK\$'000	HK\$'000
Guarantees given to banks for banking facilities granted to associates	<u>28,370</u>	<u>34,570</u>

14. ACQUISITION OF SUBSIDIARIES

During the period, the Group acquired all the ordinary shares of a retail customer of the Group at a consideration of HK\$10,000. Goodwill of an amount of approximately HK\$69,825,000 has arisen upon the acquisition. In addition, during the period, the Group acquired all the ordinary shares of Hong Kong Ham Holdings Limited, Homeright Properties Limited, Shenzhen Yaohan Zhonghao Food Co., Limited and Yaohan (Yanwin) Food Co., Limited (collectively referred to as the “Manufacturing Operations”) and their shareholder loans amounting to HK\$16,537,823, for an aggregate consideration of HK\$125,908,728.

The following summarises the effect of acquisitions of subsidiaries:

	<i>HK\$'000</i>
Deficiency in assets acquired	(33,353)
Shareholder loans acquired	16,538
Goodwill arising on acquisitions	142,734
	<u>125,919</u>
Satisfied by:	
Cash consideration	10
Share consideration	125,909
	<u>125,919</u>
Net cash inflow arising on acquisition:	
Cash consideration	(10)
Cash and bank balances acquired	12,215
Trust receipt loans acquired	(4,573)
	<u>7,632</u>

The subsidiaries acquired during the period contributed HK\$125,429,000 turnover and HK\$7,202,000 profit from operating activities to the Group.

15. ACQUISITION AND DISTRIBUTION OF ASSOCIATES**Disposal**

During the period, the Group distributed its interest in FSFH by way of a dividend in specie, FSFH contributed a profit of HK\$2,025,000 (1999: HK\$7,519,000) during the period.

Acquisition of an additional interest in an associate

On 28 April 2000, the Group acquired a further 20% equity interest in an associate, Calbee Four Seas Company Limited (“Calbee Four Seas”) at a cash consideration of HK\$14,920,000 (the “Acquisition”). Following this Acquisition, the Group has 50% equity interest in Calbee Four Seas. The capital reserve arising on the Acquisition was approximately HK\$2,378,000.

16. APPROVAL OF THE INTERIM ACCOUNTS

These Interim Accounts were approved by the Board of Directors on 21 December 2000.

INTERIM DIVIDEND

The Board has declared an interim dividend of HK1.6 cents (1999: HK2.3 cents) per share for the period ended 30 September 2000, payable to shareholders whose names appear in the register of members of the Company on 1 February 2001. The dividend will be payable on 8 February 2001.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 29 January 2001 to 1 February 2001 (both days inclusive) during which period no transfers of shares will be registered. In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's share registrar in Hong Kong, Tengis Limited at 4/F, Hutchison House, 10 Harcourt Road, Central, Hong Kong not later than 4:00 p.m. on 23 January 2001.

BUSINESS REVIEW AND PROSPECTS

During the period under review, the Group's turnover increased to HK\$534,737,000 (1999: HK\$463,217,000), partly attributable to the acquisition of ham manufacturing operation from its previous associated company, Four Seas eFood Holdings Limited ("FSFH"). Following the distribution of the Group's interest in FSFH by way of a dividend in specie in May 2000, share of profit less losses of associates for the period decreased to HK\$4,517,000 (1999: HK\$11,028,000). Consequently, the results of FSFH were no longer equity accounted for in the Group's accounts during the period. Although Hong Kong continued to face deflation, high unemployment rate, weak spending power and severe price competition, the Group was able to maintain a steady growth in turnover, attributable to its leading position in the market and diversified range of products.

During the period, the Group's profit decreased slightly as a result of more resources allocated into various kinds of marketing and promotional activities with a view to developing new markets for products manufactured by its Mainland China factories.

Since the acquisition of the ham manufacturing business from FSFH in May 2000, the Group has stepped up its marketing and promotional efforts in selling the "Maid" brand of ham and sausage products. Sales of these products had increased steadily, attributable to the extensive marketing experience of the Group, including but not limited to the use of television commercial advertising campaigns.

The Group, in past years, has provided full support to its 12 factories in Mainland China through management and financial resources. The Board is pleased to see that these factories continued to progress satisfactorily. Among the 12 factories, Nico Four Seas (Shantou) Co., Ltd. (“Nico Four Seas”) had the most outstanding performance during the period. Demand for the seaweed of Nico Four Seas continued to surge rapidly. Kanro Four Seas Foods (Shantou) Co., Ltd (“Kanro Four Seas”) also performed satisfactorily during the period. With the full support of the Group in intensive and effective marketing campaigns, the launch of “Four Seas Milk Candy” made by Kanro Four Seas in both Hong Kong and Mainland China has been very satisfactory. To cope with the strong demand from the consumers, Kanro Four Seas has commenced 24-hour production. Besides, the most recent launch of another Four Seas Brand product – “Four Seas Seaweed Corn Crisp”, a product manufactured by Tohato Four Seas Confectionery (Shenzhen) Co., Ltd. was very encouraging. The Group believes that “Four Seas Seaweed Corn Crisp” will be another successful product for Four Seas Brand products.

In Hong Kong, the utilisation rate of the joint venture snack factory with Calbee Foods Co., Ltd, the largest snack manufacturer in Japan, has progressed very well and in line with the business plan since its commencement of operations in early this year. The competitive edge of producing in Hong Kong instead of importing Calbee products from overseas has further enhanced the popularity of Calbee snack products. As a result, sales of Calbee snack products have increased in both Hong Kong and Mainland China. During the period, it was the Group’s greatest honour to have the Chief Executive of the Hong Kong SAR to kindly visit and appraised the factory.

The cafe chain and restaurant business was outstanding during the period. At present, there are 17 outlets located in Hong Kong, Mainland China and Macau. The most recently opened “XYZ New York Grill & Sushi Bar” is situated at No. 100 Canton Road in Tsimshatsui. This new restaurant at Tsimshatsui adopts a new design concept to attract different types of customers by encompassing the operations of Pokka Cafe, Tonkichi and a New York Grill & Sushi Bar. The Board is optimistic that, building upon many years of excellent reputation and the patronage of the younger generation, the Group’s cafe chain and restaurant business is well posed to capture new market challenge and opportunities.

Being a large food enterprise, the Group has always been actively seeking new investment opportunities, particularly for developing healthcare and pharmaceutical products. Recently, the Group entered into a new business partnership with Morishita Jintan Co., Ltd. of Japan (“Jintan”), a company with over 100 years of history, to form a 50-50 joint venture company, namely Four Seas & Jintan Co., Ltd. (“Four Seas Jintan”). Jintan has a long history and manufactures a series of healthcare and pharmaceutical products which have been well received by consumers in Japan. Also, Jintan has also led the market by introducing telemarketing and Internet sales of healthcare products in Japan which produced excellent results. Four Seas Jintan

will introduce into Hong Kong and Mainland China markets a series of healthcare and pharmaceutical products. The Group believes that the marketing of healthcare products, together with sales via the Internet, of Four Seas Jintan will provide an excellent base and good contribution to the Group.

Subsequent to the approval by the shareholders at the extraordinary general meeting held on 25 May 2000, the Group completed the distribution of its interest in Four Seas eFood Holdings Limited by way of a dividend in specie to its then shareholders.

In May 2000, the Group completed the acquisition of the ham manufacturing business operations of FSFH and related shareholders' loans, for an aggregate consideration of approximately HK\$125,909,000. Such consideration was satisfied by the issue of 86,714,000 ordinary shares of the Company, at a price of HK\$1.452 per share.

Looking ahead, there are signs of gradual recovery of the economy of Hong Kong, while the price competition in the marketplace has shown signs of easing off. The entry of China into the WTO will also stimulate the consumer spending power. The Directors are cautiously optimistic that the Group's businesses will be among the first companies to benefit from the entry of China into the WTO. In the meantime, the Group will continue to aggressively develop the Mainland China market by capitalising on its competitive edge of manufacturing by its factories in Mainland China and launching proactive sales and marketing campaigns in order to build up its leading position. The Directors expect that the Group's investments in manufacturing business in Mainland China will soon start to contribute to the bottom line results of the Group. The Directors also believe that the Mainland China market will be the most important profit contributor to the Group in the near future. The management is also full of confidence that from the 21st century onwards, the Group will be able to resume its good results in the past.

DIRECTORS' INTERESTS IN SHARES

As at 30 September 2000 the interests of the directors in the share capital of the Company and its associated corporations, as recorded in the register maintained by the Company under Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") or as notified to the Company were as follows:

Name of Directors	<i>Notes</i>	Nature of interests	Number of shares
Tai Tak Fung, Stephen	i	Corporate	87,250,000
	ii	Other	80,000,000
	iii	Corporate & Other	96,678,000
Wu Mei Yung, Quinly	i	Corporate	87,250,000
	ii	Other	80,000,000
	iii	Corporate & Other	96,678,000
Yip Wai Keung		Personal	680,000

NOTES:

- (i) 87,250,000 shares were owned by Special Access Limited ("SAL"), a company wholly-owned by Mr. Tai Tak Fung, Stephen and Mdm. Wu Mei Yung, Quinly.
- (ii) 80,000,000 shares were owned by Careful Guide Limited ("CGL") whose shares were owned by a discretionary trust, the eligible beneficiaries of which include members of the family of Mr. Tai Tak Fung, Stephen and Mdm. Wu Mei Yung, Quinly.
- (iii) 96,678,000 shares were owned by Capital Season Investments Limited ("CSI"). CSI was wholly-owned by Advance Finance Investments Limited which was 100% owned by FSFH. Accordingly, FSFH was deemed to be interested in 96,678,000 shares in the Company. SAL and CGL in aggregate held more than one-third of the issued share capital of FSFH. Accordingly, Mr. Tai Tak Fung, Stephen and his spouse Mdm. Wu Mei Yung, Quinly, through SAL and CGL, were deemed to be interested in 96,678,000 shares in the Company.

Other than certain non-beneficial personal equity interests held by Mr. Tai Tak Fung, Stephen and Mr. Yip Wai Keung for the benefit of the Company solely for the purpose of complying with the minimum company membership requirements, and save as disclosed above, none of the directors or their respective associates had any interest in the equity of the Company or any of its associated corporations (as defined in the SDI Ordinance) as recorded in the register required to be kept under Section 29 of the SDI Ordinance, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as at 30 September 2000.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

On 4 August 1993, the Company approved a share option scheme (the "Scheme") under which the directors may, at their absolute discretion, grant options to directors and employees of the Company and its subsidiaries to subscribe for shares in the Company. The maximum number of shares in respect of which options may be granted may not exceed 10% of the share capital of the Company in issue from time to time. The Scheme will remain in force for a period of 10 years from 4 August 1993.

No options were granted under the Scheme up to 30 September 2000.

Apart from the foregoing, at no time during the period was the Company or any of its subsidiaries a party to any arrangement to enable the Company's directors, their respective spouses or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed shares during the period under review.

COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

None of the directors of the Company is aware of any information which would indicate that the Group is not, or was not, in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules of The Stock Exchange of Hong Kong Limited at any time during the six months ended 30 September 2000.

AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters including a review of the unaudited interim accounts for the six months ended 30 September 2000.

On behalf of the Board
TAI Tak Fung, Stephen
Chairman

Hong Kong, 21 December 2000