



FOUR SEAS MERCANTILE HOLDINGS LIMITED

Stock Code : 374

Interim Report 2007-2008



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 2007 of the Company and its subsidiaries (the “Group”) and the unaudited condensed consolidated income statement, unaudited condensed consolidated statement of changes in equity and unaudited condensed consolidated cash flow statement for the six months ended 30 September 2007 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

	<i>Notes</i>	Six months ended	
		2007	2006
		Unaudited	Unaudited
		HK\$'000	HK\$'000
REVENUE	4	964,691	885,320
Cost of sales		<u>(694,371)</u>	<u>(622,263)</u>
Gross profit		270,320	263,057
Other income and gains	4	40,607	21,869
Selling and distribution expenses		(150,154)	(143,405)
Administrative expenses		(79,736)	(69,346)
Other operating expenses		(3,302)	(2,769)
Finance costs	5	(11,272)	(14,138)
Share of profits and losses of associates		<u>10,137</u>	<u>9,951</u>
PROFIT BEFORE TAX	3 & 6	76,600	65,219
Tax	7	<u>(13,548)</u>	<u>(11,297)</u>
PROFIT FOR THE PERIOD		<u>63,052</u>	<u>53,922</u>
Attributable to:			
Equity holders of the parent		55,229	52,537
Minority interests		<u>7,823</u>	<u>1,385</u>
		<u>63,052</u>	<u>53,922</u>
DIVIDENDS			
Interim	8	<u>7,991</u>	<u>7,991</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT – Basic	9	<u>13.8 cents</u>	<u>13.1cents</u>

CONDENSED CONSOLIDATED BALANCE SHEET

	30 September	31 March
	2007	2007
	Unaudited	Audited
<i>Notes</i>	HK\$'000	HK\$'000
NON-CURRENT ASSETS		
Property, plant and equipment	348,053	303,323
Investment property	11,895	11,633
Prepaid land lease payments	126,254	126,443
Goodwill	26,809	26,809
Non-current livestock	2,726	3,527
Interests in associates	180,745	169,693
Available-for-sale investments	41,800	29,573
Rental deposits	13,467	9,385
Deposits paid	18,600	3,600
Deferred tax assets	2,846	2,717
Total non-current assets	<u>773,195</u>	<u>686,703</u>
CURRENT ASSETS		
Due from associates	217	193
Tax recoverable	3,017	7,256
Current livestock	3,075	2,937
Inventories	150,503	117,144
Trade receivables	367,448	377,130
Rental deposits	6,730	6,960
Prepayments, deposits and other receivables	69,284	57,987
Cash and cash equivalents	362,355	360,998
Total current assets	<u>962,629</u>	<u>930,605</u>

CONDENSED CONSOLIDATED BALANCE SHEET
(Continued)

		30 September	31 March
		2007	2007
		Unaudited	Audited
	<i>Notes</i>	HK\$'000	HK\$'000
CURRENT LIABILITIES			
Tax payable		16,084	8,865
Trade payables and accrued liabilities	11	261,147	220,055
Interest-bearing bank borrowings		456,061	451,558
Total current liabilities		733,292	680,478
NET CURRENT ASSETS		229,337	250,127
TOTAL ASSETS LESS CURRENT LIABILITIES		1,002,532	936,830
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings		111,655	90,552
Deferred tax liabilities		17,193	17,394
Total non-current liabilities		128,848	107,946
Net assets		873,684	828,884
EQUITY			
Equity attributable to equity holders			
of the parent			
Issued capital		39,956	39,956
Reserves		788,873	738,607
Proposed dividends		7,991	19,978
		836,820	798,541
Minority interests		36,864	30,343
Total equity		873,684	828,884

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

SIX MONTHS ENDED 30 SEPTEMBER 2007

	Attributable to equity holders of the parent											
	Issued share capital Unaudited HK\$'000	Share premium account Unaudited HK\$'000	Reserve fund Unaudited HK\$'000	Revaluation reserve Unaudited HK\$'000	Capital reserve Unaudited HK\$'000	Available- for-sale		Retained profits Unaudited HK\$'000	Proposed dividend Unaudited HK\$'000	Total Unaudited HK\$'000	Minority interests Unaudited HK\$'000	Total equity Unaudited HK\$'000
						investment reserve Unaudited HK\$'000	Exchange fluctuation reserve Unaudited HK\$'000					
At 1 April 2006	39,956	240,190	2,925	25,601	750	998	6,130	367,233	19,978	703,761	26,699	730,460
Change in fair value of available-for-sale investments	-	-	-	-	-	940	-	-	-	940	-	940
Exchange realignment	-	-	-	-	-	-	4,095	-	-	4,095	473	4,568
Total income and expense for the period recognised directly in equity	-	-	-	-	-	940	4,095	-	-	5,035	473	5,508
Profit for the period	-	-	-	-	-	-	-	52,537	-	52,537	1,385	53,922
Total income and expense for the period Capital contribution by minority interests	-	-	-	-	-	940	4,095	52,537	-	57,572	1,858	59,430
Acquisition of a minority interest	-	-	-	-	-	-	-	-	-	-	250	250
Final 2006 dividend declared	-	-	-	-	-	-	-	-	(19,978)	(19,978)	-	(19,978)
Transfer to the income statement on disposal	-	-	-	-	-	207	-	-	-	207	-	207
Interim 2007 dividend	-	-	-	-	-	-	-	(7,991)	7,991	-	-	-
At 30 September 2006	<u>39,956</u>	<u>240,190</u>	<u>2,925</u>	<u>25,601</u>	<u>750</u>	<u>2,145</u>	<u>10,225</u>	<u>411,779</u>	<u>7,991</u>	<u>741,562</u>	<u>28,396</u>	<u>769,958</u>
At 1 April 2007	39,956	240,190	4,153	25,601	750	3,384	20,074	444,455	19,978	798,541	30,343	828,884
Change in fair value of available-for-sale investments	-	-	-	-	-	(3,696)	-	-	-	(3,696)	-	(3,696)
Exchange realignment	-	-	-	-	-	-	10,038	-	-	10,038	708	10,746
Total income and expense for the period recognised directly in equity	-	-	-	-	-	(3,696)	10,038	-	-	6,342	708	7,050
Profit for the period	-	-	-	-	-	-	-	55,229	-	55,229	7,823	63,052
Total income and expense for the period Dividends paid to minority interest	-	-	-	-	-	(3,696)	10,038	55,229	-	61,571	8,531	70,102
Final 2007 dividend declared	-	-	-	-	-	-	-	-	(19,978)	(19,978)	-	(19,978)
Transfer to the income statement on disposal	-	-	-	-	-	(3,314)	-	-	-	(3,314)	-	(3,314)
Interim 2008 dividend	-	-	-	-	-	-	-	(7,991)	7,991	-	-	-
At 30 September 2007	<u>39,956</u>	<u>240,190*</u>	<u>4,153*</u>	<u>25,601*</u>	<u>750*</u>	<u>(3,626)*</u>	<u>30,112*</u>	<u>491,693*</u>	<u>7,991</u>	<u>836,820</u>	<u>36,864</u>	<u>873,684</u>

* These reserve accounts comprise the consolidated reserves of HK\$788,873,000 in the condensed consolidated balance sheet.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended	
	30 September	
	2007	2006
	Unaudited	Unaudited
	HK\$'000	HK\$'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	49,272	62,901
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	(41,754)	(51,356)
NET CASH INFLOW/(OUTFLOW) FROM FINANCING ACTIVITIES	(7,654)	32,873
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(136)	44,418
Cash and cash equivalents at beginning of period	360,998	454,291
Effects of foreign exchange rate changes, net	1,493	1,296
CASH AND CASH EQUIVALENTS AT END OF PERIOD	362,355	500,005
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	129,761	130,108
Time deposits with original maturity of less than three months when acquired	232,594	369,897
	362,355	500,005

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

Basis of preparation

The unaudited condensed consolidated interim financial statements for the six months ended 30 September 2007 have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

The unaudited condensed consolidated interim financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements for the year ended 31 March 2007.

Accounting policies

The accounting policies and basis of preparation adopted in the preparation of this unaudited condensed interim financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 March 2007, except in relation to the following new and revised Hong Kong Financial Reporting Standards (“HKFRSs”, which also include HKASs and Interpretations) issued by the HKICPA that affect the Group and are adopted for the first time for the current period’s financial statements:

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions

The adoption of these new and revised accounting standards has had no material impact on the results or the financial position of the Group for the current or prior accounting period. Accordingly, no prior period adjustments are required.

2. IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but not yet effective, in this interim report.

HKAS23 (Revised)	Borrowing Costs ¹
HKFRS 8	Operating Segments ¹
HK(IFRIC) – Int 12	Services Concession Arrangements ²
HK(IFRIC) – Int 13	Customer Loyalty Programmes ³
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction ²

¹ Effective for annual periods beginning on or after 1 January 2009

² Effective for annual periods beginning on or after 1 January 2008

³ Effective for annual periods beginning on or after 1 July 2008

The Group anticipates that the applications of these new or revised standard, amendment and interpretations would not have significant impact on the result and financial position of the Group.

3. SEGMENT INFORMATION

(a) Geographical segments

The following table presents revenue and profit information for the Group's geographical segments for the period ended 30 September 2007 and 2006.

	Hong Kong		Mainland China		Eliminations		Consolidated	
	Six months ended		Six months ended		Six months ended		Six months ended	
	30 September		30 September		30 September		30 September	
	2007	2006	2007	2006	2007	2006	2007	2006
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:								
Sales to external customers	606,671	588,951	358,020	296,369	-	-	964,691	885,320
Intersegment sales	1,523	2,009	45,171	50,959	(46,694)	(52,968)	-	-
Other revenue	2,396	1,346	949	621	(295)	(285)	3,050	1,682
Total	610,590	592,306	404,140	347,949	(46,989)	(53,253)	967,741	887,002
Segment results	43,964	41,863	(485)	10,410	-	-	43,479	52,273
Interest and dividend income and unallocated gains, net							37,557	20,187
Unallocated expenses							(3,301)	(3,054)
Finance costs							(11,272)	(14,138)
Share of profits and losses of associates	7,192	7,287	2,945	2,664	-	-	10,137	9,951
Profit before tax							76,600	65,219
Tax							(13,548)	(11,297)
Profit for the period							63,052	53,922

(b) Business segments

The following table presents revenue information for the Group's business segments for the period ended 30 September 2007 and 2006.

	Wholesaling and manufacturing		Retailing		Others		Consolidated	
	Six months ended		Six months ended		Six months ended		Six months ended	
	30 September		30 September		30 September		30 September	
	2007	2006	2007	2006	2007	2006	2007	2006
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:								
Sales to external customers	755,006	714,619	81,455	80,747	128,230	89,954	964,691	885,320

4. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the invoiced value of goods sold, net of discounts and returns. An analysis of revenue, other income and gains is as follows:

	Six months ended 30 September	
	2007 Unaudited HK\$'000	2006 Unaudited HK\$'000
Revenue	964,691	885,320
Other income		
Bank interest income	5,390	6,719
Dividend income from listed investments	383	248
Management fee income	250	357
Rental income	412	142
Others	2,800	1,174
	9,235	8,640
Gains		
Investment gains*	2,668	12,030
Gain on disposal of available-for-sale investments	28,476	1,199
Gain on disposal of equity investments at fair value through profit or loss	228	–
	31,372	13,229
	40,607	21,869

* Investment gains comprise net loss from currency-linked deposits of HK\$1,686,000 (2006: gain of HK\$8,254,000) and net exchange gain on cash and cash equivalents of HK\$4,354,000 (2006: HK\$3,776,000).

5. FINANCE COSTS

	Six months ended 30 September	
	2007 Unaudited HK\$'000	2006 Unaudited HK\$'000
Interest on bank and trust receipt loans wholly repayable within five years	11,272	14,138

6. PROFIT BEFORE TAX

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

	Six months ended 30 September	
	2007 Unaudited HK\$'000	2006 Unaudited HK\$'000
Depreciation	16,334	12,249
Amortisation of non-current livestock	630	600
Amortisation of prepaid land lease payments	1,944	1,040
Impairment of goodwill	–	612

7. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2006: 17.5%) 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 jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Six months ended	
	30 September	
	2007	2006
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Group:		
Current – Hong Kong		
Provision for the period	14,415	9,681
Current – Overseas		
Provision for the period	235	1,471
Overprovision in prior period	(772)	–
Deferred tax charge/(credit), net	(330)	145
Total tax charge for the period	<u>13,548</u>	<u>11,297</u>

The share of tax attributable to associates amounting to HK\$1,792,000 (2006: HK\$1,576,000) is included in “Share of profits and losses of associates” on the face of the condensed consolidated income statement.

8. DIVIDENDS

	Six months ended	
	30 September	
	2007	2006
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Proposed interim dividend of HK2.0 cents (2006: HK2.0 cents) per ordinary share	<u>7,991</u>	<u>7,991</u>

9. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share amounts is based on the profit for the period attributable to ordinary equity holders of the parent of HK\$55,229,000 (2006: HK\$52,537,000), and on the 399,565,640 (2006: 399,565,640) ordinary shares in issue during the period.

10. 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 aged analysis of trade receivables as at the balance sheet date, based on invoice date and net of provisions, is as follows:

	30 September 2007 Unaudited HK\$'000	31 March 2007 Audited HK\$'000
Current	136,837	141,201
1 to 2 months	85,406	68,441
2 to 3 months	48,846	58,460
Over 3 months	96,359	109,028
	<u>367,448</u>	<u>377,130</u>

Included in trade receivables is an aggregate amount due from the Group's associates of HK\$2,182,000 (31 March 2007: HK\$3,709,000), which is repayable on similar credit terms to those offered to the major customers of the Group.

11. TRADE PAYABLES AND ACCRUED LIABILITIES

Included in trade payables and accrued liabilities is a trade payable balance of HK\$141,664,000 (31 March 2007: HK\$124,813,000). An aged analysis of the trade payables as at the balance sheet date, based on the invoice date, is as follows:

	30 September 2007 Unaudited HK\$'000	31 March 2007 Audited HK\$'000
Current	104,144	76,183
1 to 2 months	26,408	21,673
2 to 3 months	6,967	11,484
Over 3 months	4,145	15,473
	<u>141,664</u>	<u>124,813</u>

Included in the trade payables is an amount of HK\$57,442,000 (31 March 2007: HK\$39,346,000) due to associates, which is repayable on similar credit terms to those offered by the associates to their major customers.

The trade payables are non-interest-bearing and are normally settled on 30-day to 60-day terms.

12. CONTINGENT LIABILITIES

At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	30 September 2007 Unaudited HK\$'000	31 March 2007 Audited HK\$'000
Bank guarantees given in lieu of utility and property rental deposits	721	721
Guarantees given to banks in connection with facilities granted to an associate	23,400	23,400
	<u>24,121</u>	<u>24,121</u>

As at 30 September 2007, the banking facilities guaranteed by the Group to an associate were utilised to the extent of approximately HK\$15,411,000 (31 March 2007: HK\$14,989,000).

13. COMMITMENTS

The Group had capital commitments in respect of property, plant and equipment as follows:

	30 September 2007 Unaudited HK\$'000	31 March 2007 Audited HK\$'000
Authorised, but not contracted for	6,865	881
Contracted, but not provided for	1,693	12,949
	<u>8,558</u>	<u>13,830</u>

14. RELATED PARTY TRANSACTIONS

(a) The Group had the following material transactions with its related parties during the period:

	Six months ended 30 September 2007	2006
<i>Notes</i>	Unaudited HK\$'000	Unaudited HK\$'000
Purchases of goods from associates	190,838	174,506
Sales of goods to associates	8,978	7,432
Promotion expenses reimbursed by associates	5,855	7,047
Rental income from an associate	405	352

Notes:

- (i) The cost of purchases from associates was determined by reference to the prevailing market prices.
- (ii) The selling prices of sales to associates were determined by reference to prices and conditions similar to those offered to other major customers of the Group.
- (iii) The promotion expenses reimbursed by associates were determined by reference to the costs incurred by the Group.
- (iv) The rental income from an associate was determined between the Group and the associate.

14. RELATED PARTY TRANSACTIONS (Continued)

- (b) Other transactions with related parties:
The Group has executed guarantees in favour of certain banks for banking facilities granted to an associate to the extent of HK\$23,400,000 (31 March 2007: HK\$23,400,000), as further detailed in note 12 to the condensed interim financial statements.
- (c) Outstanding balances with related parties:
The amounts due from associates are unsecured, interest-free and repayable on demand. Details of the Group's trade balances with its associates as at the balance sheet date are disclosed in notes 10 and 11 to the condensed interim financial statements.
- (d) Compensation of key management personnel of the Group

	Six months ended	
	30 September	
	2007	2006
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Short term employee benefits	6,444	5,800
Pension scheme contributions	237	218
	<u>6,681</u>	<u>6,018</u>

15. APPROVAL OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The condensed interim financial statements were approved and authorised for issue by the board of directors on 19 December 2007.

INTERIM DIVIDEND

The Board has declared an interim dividend of HK2.0 cents (2006: HK2.0 cents) per share for the period ended 30 September 2007, payable to shareholders whose names appear in the register of members of the Company on 24 January 2008. The dividend will be payable on 4 February 2008.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from 18 January 2008 to 24 January 2008 (both days inclusive) during which period no transfers of shares will be registered. In order to qualify for the interim dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's Share Registrar in Hong Kong, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 17 January 2008.

BUSINESS REVIEW AND PROSPECTS

Results

For the six months ended 30 September 2007 under review, the Group maintained a steady growth and achieved a turnover with HK\$964,691,000 (2006: HK\$885,320,000) representing an increase of 9% from the previous corresponding period. However, the gross profit margin for the period under review has been affected by the increase in production and purchase costs attributed by the inflationary operating environment both in the Mainland China and Hong Kong which cannot be passed on to customers entirely. As a result, the gross profit margin has decreased from 29.7% in the corresponding period last year to 28% during the period under view. The Group will continue to monitor the conditions. Notwithstanding this, the net profit attributable to the equity holders of the parent had a 5.1% increase to reaching HK\$55,229,000 (2006: HK\$52,537,000).

Food Distribution

Food distribution is still the core business of the Group. Through its well developed distribution networks and long established relationship with the customers, the Group selectively chooses premium food products worldwide and successfully introduces them to the Mainland China and Hong Kong markets. Attributable to continual excellent performance, in addition to "The Best Supplier" awarded by Park'n Shop last year, the Group was granted by 7-Eleven the "Flying Dragon Award", "Flying Brand Award" and the "Best Relationship" supplier award in this year.

BUSINESS REVIEW AND PROSPECTS (*Continued*)

Food Distribution (*Continued*)

Apart from serving as retail outlets for various products distributed by the Group, Okashi Land has always been an effective promotion and advertising platform for the Four Seas Brand products. With enhanced professional training for frontier staff to provide better customer services and strong marketing techniques, Okashi Land successfully establishes an image of a “Shop for Trendy Snacks”. It is therefore natural for Okashi Land being honored with the “Hong Kong Top Service Brand”, “The Fourth Hong Kong & Macau Integrity Award” and “The Most Favorite MTR Shops” by MTR Corporation Limited. By adopting marketing strategies as such, Okashi Land is much welcomed by customers in Mainland China and Hong Kong.

Food Manufacturing

The Group now has 18 manufacturing plants in both Mainland China and Hong Kong, producing high value-added products such as seaweed, confectioneries and snacks, peanuts, potato chips, instant noodles, ice creams, beverages, ham and sausages, biscuits, cakes and chestnuts.

During the period under review, sales of the Group both in Mainland China and Hong Kong is expanding. As markets show clear signal in demand for high quality products, the Group reacted positively and expanded its production capacity. New production lines had been installed in Nico Four Seas (Shantou) Company Limited and Four Seas Confectionery (Shantou) Company Limited. In addition, the Group is keen to optimize its production and management quality to match with international standards. Following the chestnuts plant, Four Seas (Hebei) Food Company Limited, attaining the international accreditation Hazard Analysis and Critical Control Point (“HACCP”) last year, 2 more manufacturing plants of the Group, namely Shenzhen Matchless Food Company Limited and Kanro Four Seas Foods (Shantou) Company Limited, were both awarded ISO 9001:2000 and ISO 22000 HACCP accreditation recently, being an independent assurance of excellent management standard of the Group. The manufacturing plant for instant noodles, Li Fook (Qingdao) Foods Company Limited, was also accredited as one of the “Top Ten Instant Noodles Manufacturers in China” jointly by the China Enterprise Development and Monitoring Management Committee and China Quality Control System Certification Centre.

Following numerous accolades received in the past, such as “Creditable-Quality Food Products in Nation”, “Creditable-Quality Enterprises”, “Certified for the Q-Mark Scheme over ten years” and “China Food Industry Outstanding Contribution Award”, the Group was again awarded the “Hong Kong Outstanding Enterprise Award 2007” recently.

BUSINESS REVIEW AND PROSPECTS (*Continued*)

Food Manufacturing (*Continued*)

In view of increasingly strong demand for trendy and unique snacks in the market, manufacturing plants of the Group have devoted continuous efforts to develop more innovative and premium products in addition to capacity expansion. Being the Four Seas Brand's flagship product, Four Seas Seaweed has maintained its leadership position in Hong Kong over the years. The Group has also been actively developing a series of seaweed products under the Four Seas Brand, including seaweed instant noodles, seaweed rice sticks, seaweed potato chips, seaweed cracker and seaweed biscuit sticks. All of the above categories are well received by our customers. In due course, the Group will launch a brand new product, the "Four Seas POP Seaweed" series, which is sure to create a heat wave in town.

Four Seas Brand

During the period under review, the Group has greatly augmented the Four Seas Brand equity and overall image through sponsoring a series of activities in Mainland China and Hong Kong, including the title sponsorship of "Jay Chou World Tour 07-08 Hong Kong" and the fourth "Four Seas Cup" Cantonese Opera Contest; all of these received overwhelming market response and positively reinforced the Four Seas Brand image.

Riding on the motto of "Leading in trend, Winning in quality", Four Seas Brand has won many industrial accolades in past years and the period under review. In 2006, the Group was honored with "2006 The Best Brand Enterprise Award", "Hong Kong Premier Brand" at the "2006 Hong Kong Top Brands and Hong Kong Top Service Brands Awards" and "The Most Popular Brand On-Line". Recently, the Group was also awarded "Hong Kong Corporate Branding Award 2007 – Judging Panel Merit Prize" in a contest jointly organized by Ming Pao and The Chinese University of Hong Kong. In addition, the Four Seas Crackers again won the "Top Ten Favorite Brands 2007" awarded by Wellcome Supermarket.

Catering Business

Benefiting from the good economic climate in Hong Kong, catering business of the Group maintains a steady growth within this financial period.

The longstanding renowned Panxi Restaurant acquired last year has commenced renovation. It is presently expected that the renovation programme will be completed in the first quarter of 2008. Located in Liwan District of Guangzhou, Panxi Restaurant is one of the largest garden restaurants in the Mainland with leading cuisines and among its patrons were international heads of state, such as the former British Prime Minister Heath, former Australia Prime Minister Fraser, former Vietnam President Ho Chi Minh, former Singapore Prime Minister Lee Kuan Yew, former US President George H.W. Bush and former German Chancellor Helmut Kohl. The Directors are confident that the re-launch of business of Panxi Restaurant in early next year will become a market focus of the local catering business. It is expected that Panxi Restaurant would not only provide benefits in further consolidating the Group's restaurant business and reaping the benefits of synergy, but also allows the Group to distribute high quality dim sums from the restaurant to bring in a new source of revenue by leveraging on its network in Mainland China and Hong Kong.

BUSINESS REVIEW AND PROSPECTS (*Continued*)

Catering Business (*Continued*)

In Hong Kong, with the recovery of economy, high-quality and mid-to-high-end eateries are becoming more popular in the market. Benefiting from these favorable conditions, the Group's restaurants achieved satisfactory growth during the period. Restaurant chains like Pokka Café and Tonkichi, operated under a joint venture with Pokka Corporation of Japan, has good contribution to the earnings of the Group during the period under review.

Being a market leader of vegetarian restaurants, Kung Tak Lam Shanghai Vegetarian Cuisine Limited achieved satisfactory performance during the period. With the growing demand for healthy food, the restaurant has been regularly introducing innovative food menu to maintain customer loyalty. In order to complement the business expansion program, the Group consistently utilizes different mass media to launch various forms of advertising campaigns, including sponsorship of a popular TV program "A Vegan's Gourmet Notebook", hence positively reinforcing the brand name of Kung Tak Lam.

With 37 years of experience, the Group's wholly-owned subsidiary New Kondo Trading Company Limited recorded a good result for the period under review and continues to act as a market leader in Hong Kong. It supplies Japanese cuisine restaurants of Hong Kong with over 1,000 food products.

Looking Forward

Looking to the future, the Group is confident to foresee that economy for both Mainland China and Hong Kong will develop favorably, hence providing good environment and enormous opportunities for food business. The Group will continue to build on its wealth of 36 years' experience in the industry and solid market advantage to win trust and support from its industrial partners and associates. Riding on the strong and solid market brand recognition of the brands owned by the Group, e.g. "Four Seas" brand and "Maid" brand in Hong Kong and Mainland China, and supplemented by its well established distribution networks, the Group will speed up market expansion in the Mainland to create a strong base for its core business. Four Seas' management is optimistic about the market prospect and confident of our continual success.

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 2007, the Group had banking facilities of HK\$1,369,555,000 of which 41% had been utilised. The Group had a gearing ratio of 68% as at 30 September 2007. This is expressed as the total bank borrowings to equity attributable to equity holders of the parent. Bank borrowings of the Group, denominated in Hong Kong dollar, Japanese yen or United States dollar, 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 within one year and the Interest-Bearing Bank Borrowings in non-current liabilities are repayable between two and five years. As at 30 September 2007, the Group held cash and cash equivalents of HK\$362,355,000. During the period, the Group placed surplus short term funds in short term currency-linked deposits and foreign currency deposits with banks and earned net investment gains of HK\$2,668,000. As at 30 September 2007, no short term currency-linked deposits were placed with banks. There were no significant changes in the Group's contingent liabilities and no charges on the Group's assets during the period under review.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 September 2007, the interests and short positions of the directors of the Company in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”)), which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) were as follows:

Long position in ordinary shares of the Company

Name of director	Number of ordinary shares held, capacity and nature of interest				Total interests	Percentage of the Company's issued share capital
	Directly beneficially owned	Through controlled corporation	Beneficiary of a trust	Through controlled corporation and other interests		
TAI Tak Fung, Stephen	-	81,250,000 ⁽ⁱ⁾	82,000,000 ⁽ⁱⁱ⁾	112,628,000 ⁽ⁱⁱⁱ⁾	275,878,000	69.04%
WU Mei Yung, Quinly	-	81,250,000 ⁽ⁱ⁾	82,000,000 ⁽ⁱⁱ⁾	112,628,000 ⁽ⁱⁱⁱ⁾	275,878,000	69.04%
YIP Wai Keung	680,000	-	-	-	680,000	0.17%

Notes:

- (i) The 81,250,000 shares are owned by Special Access Limited (“SAL”), a company wholly-owned by Dr. Tai Tak Fung, Stephen, and his spouse Dr. Wu Mei Yung, Quinly.
- (ii) The 82,000,000 shares are owned by Careful Guide Limited (“CGL”) whose shares are owned by a discretionary trust, the Tai Family Trust, the eligible beneficiaries of which include members of the family of Dr. Tai Tak Fung, Stephen and his spouse Dr. Wu Mei Yung, Quinly.
- (iii) The 112,628,000 shares are owned by Capital Season Investments Limited (“CSI”). CSI is wholly-owned by Advance Finance Investments Limited, which is a wholly-owned subsidiary of Four Seas Food Investment Holdings Limited (“FSFH”). Accordingly, FSFH is deemed to be interested in 112,628,000 shares in the Company. FSFH is owned as to 0.072% by the Company, 2.59% by Dr. Tai Tak Fung, Stephen, 20.38% by SAL, and as to 11.91% by CGL. As Dr. Wu Mei Yung, Quinly is the spouse of Dr. Tai Tak Fung, Stephen, Dr. Wu Mei Yung, Quinly is deemed to be interested in the shares of Dr. Tai Tak Fung, Stephen and vice versa. Therefore, Dr. Tai Tak Fung, Stephen and his spouse Dr. Wu Mei Yung, Quinly are considered to have deemed interests in 112,628,000 shares of the Company.

All the interests stated above represent long positions in the shares of the Company. Save as disclosed above, as at 30 September 2007, none of the directors nor any of their associates had registered any interests or short positions in the shares and underlying shares of the Company or any of its associated corporations as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES (*Continued*)

During the six months ended 30 September 2007, none of the directors of the Company nor any of their respective spouse or minor children was granted or held options to subscribe for shares in the Company (within the meaning of Part XV of the SFO), or had exercised such rights.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the period were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or its associated corporation a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30 September 2007, the interests or short positions of every person, other than the directors of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO were as follows:

Name of shareholder	Notes	Capacity and nature of interest		Number of ordinary shares held	Percentage of the Company's issued share capital
Special Access Limited ("SAL")		Direct	Long position	81,250,000	20.33%
Careful Guide Limited ("CGL")		Direct	Long position	82,000,000	20.52%
HSBC International Trustee Limited	1	Deemed	Long position	82,000,000	20.52%
Capital Season Investments Limited ("CSI")		Direct	Long position	112,628,000	28.19%
Advance Finance Investments Limited ("AFI")	2	Deemed	Long position	112,628,000	28.19%
Four Seas Food Investment Holdings Limited ("FSFH")	3	Deemed	Long position	112,628,000	28.19%
Arisaig Greater China Fund ("Arisaig Fund")		Direct	Long position	28,334,000	7.09%
Arisaig Partners (Mauritius) Limited ("Arisaig Mauritius")	4	Deemed	Long position	28,334,000	7.09%
Lindsay William Ernest Cooper	5	Deemed	Long position	28,334,000	7.09%

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES *(Continued)*

Notes:

1. The interest of HSBC International Trustee Limited is held as trustee via CGL for a discretionary trust, the Tai Family Trust, the eligible beneficiaries of which include members of the family of Dr. Tai Tak Fung, Stephen and his spouse Dr. Wu Mei Yung, Quinly. These interests are also included as beneficiary of a trust of Dr. Tai Tak Fung, Stephen and his spouse Dr. Wu Mei Yung, Quinly in "Directors' interests and short positions in shares and underlying shares" above.
2. AFI is deemed by virtue of its holdings of the entire issued share capital of CSI to be interested in the shares held by CSI.
3. FSFH is deemed to be interested in the shares of the Company held by CSI by virtue of its holding in the entire issued share capital of AFI, which in turn wholly owns CSI.
4. The figure refers to the same holding of 28,334,000 shares of the Company held by the Arisaig Fund. Arisaig Mauritius is the investment manager of Arisaig Fund and is thereby deemed to have an interest in the shares in which Arisaig Fund is interested.
5. Mr. Lindsay William Ernest Cooper has only an indirect beneficial interest in Arisaig Mauritius (the investment manager of Arisaig Fund), but is thereby deemed to have an interest in the shares in which Arisaig Mauritius is interested.

Save as disclosed above, as at 30 September 2007, no persons, other than the directors of the Company, whose interests are set out in the above section headed "Directors' interests and short positions in shares and underlying shares", had registered an interest or a short position in the shares and underlying shares of the Company that was recorded in the register required to be kept by the Company under Section 336 of the SFO.

SHARE OPTION SCHEME

The Company did not have any outstanding option at the beginning and at the end of the period under review. During the period under review, no options have been granted under the share option scheme adopted by the Company on 2 September 2002 (the "Scheme") and there are no changes in any terms of the Scheme. Details of the Scheme were disclosed in the 2007 Annual Report.

STAFF EMPLOYMENT

The total number of employees of the Group as at 30 September 2007 was 4,052. Remuneration packages are generally structured by reference to market terms and individual qualifications. Salaries and wages are normally reviewed on an annual basis based on performance appraisals and other relevant factors. The Group operates a mandatory provident fund scheme which covers all the employees of the Group in Hong Kong.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

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

CORPORATE GOVERNANCE

In the opinion of the directors, the Company has met the code provisions listed in the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") throughout the accounting period for the six months ended 30 September 2007, 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 Company's 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.

CORPORATE GOVERNANCE (*Continued*)

Code Provision A.4.2

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

In accordance with the Articles of Association of the Company, 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 happens 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 as set out in Appendix 10 to the Listing Rules as the Company's code of conduct regarding directors' dealings in the Company's securities. Having made specific enquiry of all directors of the Company, the directors of the Company have confirmed that they have complied with the required standard as set out in the Model Code throughout the six months period ended 30 September 2007.

The Company has also established the Code for Securities Transaction by the 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 unpublished price-sensitive information of the Company. No incident of non-compliance of the Employees Code by the employees was noted by the Company.

AUDIT COMMITTEE

The Audit Committee comprises three independent non-executive directors, namely Ms. Leung Mei Han (Chairman of the Audit Committee), Mr. Chan Yuk Sang, Peter and Mr. Hiroshi Zaizen. The Audit Committee has reviewed the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including a review of the Company's interim report for the six months ended 30 September 2007.

APPRECIATION

The Board of Directors of the Company would like to take this opportunity to thank our shareholders for their continued support and the fellow directors and our staff for their contributions to the Group.

THE BOARD

As at the date of this report, the Board of the Company comprises Dr. TAI Tak Fung, Stephen, Dr. WU Mei Yung, Quinly, Ms. CHAN Siu Ling, Doris, Mr. MAN Wing Cheung, Ellis, Mr. YIP Wai Keung and Mr. WU Wing Biu as executive directors, Ms. LEUNG Mei Han, Mr. CHAN Yuk Sang, Peter and Mr. Hiroshi ZAIZEN as independent non-executive directors.

On behalf of the Board
Dr. TAI Tak Fung, Stephen, *SBS, JP*
Chairman

Hong Kong, 19 December 2007