

Interim Report 2008-2009



Four Seas Mercantile Holdings Limited

Stock Code : 374

The board of directors (the “Board”) of Four Seas Mercantile Holdings Limited (the “Company”) announces the unaudited condensed consolidated balance sheet as at 30 September 2008 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 2008 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

	<i>Notes</i>	Six months ended 30 September	
		2008 Unaudited <i>HK\$'000</i>	2007 Unaudited <i>HK\$'000</i>
REVENUE	4	1,059,857	964,691
Cost of sales		(756,540)	(694,371)
Gross profit		303,317	270,320
Other income and gains/(losses), net	4	(20,946)	40,607
Selling and distribution expenses		(162,027)	(150,154)
Administrative expenses		(92,879)	(79,736)
Other operating expenses		(5,496)	(3,302)
Finance costs	5	(9,264)	(11,272)
Share of profits and losses of associates		6,344	10,137
PROFIT BEFORE TAX	3 & 6	19,049	76,600
Tax	7	(1,468)	(13,548)
PROFIT FOR THE PERIOD		17,581	63,052
Attributable to:			
Equity holders of the parent		30,518	55,229
Minority interests		(12,937)	7,823
		17,581	63,052
DIVIDEND			
Interim	8	7,991	7,991
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT – Basic	9	7.6 cents	13.8 cents

CONDENSED CONSOLIDATED BALANCE SHEET

	30 September 2008	31 March 2008
	Unaudited	Audited
<i>Notes</i>	HK\$'000	HK\$'000
NON-CURRENT ASSETS		
Property, plant and equipment	429,719	413,092
Investment property	15,312	14,984
Prepaid land lease payments	127,575	126,833
Goodwill	26,809	26,809
Non-current livestock	1,687	1,896
Interests in associates	197,657	189,172
Available-for-sale investments	53,094	56,803
Deposits	11,532	17,498
Deferred tax assets	1,394	1,491
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Total non-current assets	864,779	848,578
CURRENT ASSETS		
Due from associates	301	3,637
Current livestock	4,425	3,392
Inventories	176,741	139,377
Trade receivables	399,338	413,018
Prepayments, deposits and other receivables	105,100	83,989
Tax recoverable	2,138	4,450
Cash and cash equivalents	380,695	443,701
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Total current assets	1,068,738	1,091,564

CONDENSED CONSOLIDATED BALANCE SHEET (continued)

	<i>Notes</i>	30 September 2008 Unaudited HK\$'000	31 March 2008 Audited HK\$'000
CURRENT LIABILITIES			
Trade payables, other payables and accruals	<i>11</i>	284,260	258,349
Interest-bearing bank borrowings		677,060	667,511
Tax payable		14,371	18,079
Total current liabilities		<u>975,691</u>	<u>943,939</u>
NET CURRENT ASSETS		<u>93,047</u>	<u>147,625</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>957,826</u>	<u>996,203</u>
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings		40,719	74,437
Deferred tax liabilities		17,425	17,470
Total non-current liabilities		<u>58,144</u>	<u>91,907</u>
Net assets		<u>899,682</u>	<u>904,296</u>
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital		39,956	39,956
Reserves		831,699	812,014
Proposed dividends		7,991	19,978
		<u>879,646</u>	<u>871,948</u>
Minority interests		20,036	32,348
Total equity		<u>899,682</u>	<u>904,296</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

SIX MONTHS ENDED 30 SEPTEMBER 2008

	Attributable to equity holders of the parent												
	Share		Reserve fund	Revaluation reserve	Capital reserve	Available-for-sale investment		Exchange fluctuation reserve	Retained profits	Proposed dividends	Total	Minority interests	Total equity
	Issued capital	premium account				revaluation reserve	revaluation reserve						
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000		
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	
Changes in fair value of available-for-sale investments	-	-	-	-	-	(3,696)	-	-	-	(3,696)	-	(3,696)	
Exchange realignment	-	-	-	-	-	-	10,038	-	-	10,038	708	10,746	
Transfer to the income statement on disposals	-	-	-	-	-	(3,314)	-	-	-	(3,314)	-	(3,314)	
Total income and expense for the period recognised directly in equity	-	-	-	-	-	(7,010)	10,038	-	-	3,028	708	3,736	
Profit for the period	-	-	-	-	-	-	-	55,229	-	55,229	7,823	63,052	
Total income and expense for the period	-	-	-	-	-	(7,010)	10,038	55,229	-	58,257	8,531	66,788	
Dividends paid to minority shareholders	-	-	-	-	-	-	-	-	-	-	(2,010)	(2,010)	
Final 2007 dividend declared	-	-	-	-	-	-	-	-	(19,978)	(19,978)	-	(19,978)	
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>	
At 1 April 2008	39,956	240,190	3,885	26,008	750	(14,391)	57,646	497,926	19,978	871,948	32,348	904,296	
Changes in fair value of available-for-sale investments	-	-	-	-	-	(11,431)	-	-	-	(11,431)	-	(11,431)	
Exchange realignment	-	-	-	-	-	-	9,837	-	-	9,837	625	10,462	
Transfer to the income statement on disposals	-	-	-	-	-	(1,248)	-	-	-	(1,248)	-	(1,248)	
Total income and expense for the period recognised directly in equity	-	-	-	-	-	(12,679)	9,837	-	-	(2,842)	625	(2,217)	
Profit for the period	-	-	-	-	-	-	-	30,518	-	30,518	(12,937)	17,581	
Total income and expense for the period	-	-	-	-	-	(12,679)	9,837	30,518	-	27,676	(12,312)	15,364	
Final 2008 dividend declared	-	-	-	-	-	-	-	-	(19,978)	(19,978)	-	(19,978)	
Interim 2009 dividend	-	-	-	-	-	-	-	(7,991)	7,991	-	-	-	
At 30 September 2008	<u>39,956</u>	<u>240,190*</u>	<u>3,885*</u>	<u>26,008*</u>	<u>750*</u>	<u>(27,070)*</u>	<u>67,483*</u>	<u>520,453*</u>	<u>7,991</u>	<u>879,646</u>	<u>20,036</u>	<u>899,682</u>	

* These reserve accounts comprise the consolidated reserves of HK\$831,699,000 in the unaudited condensed consolidated balance sheet.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended	
	30 September	
	2008	2007
	Unaudited	Unaudited
	HK\$'000	HK\$'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	23,147	49,272
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	(34,751)	(41,754)
NET CASH OUTFLOW FROM FINANCING ACTIVITIES	(53,412)	(7,654)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(65,016)	(136)
Cash and cash equivalents at beginning of period	443,701	360,998
Effects of foreign exchange rate changes, net	2,010	1,493
CASH AND CASH EQUIVALENTS AT END OF PERIOD	380,695	362,355
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	155,061	129,761
Time deposits with original maturity of less than three months when acquired	225,634	232,594
	380,695	362,355

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 2008 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 2008.

Accounting policies

The accounting policies and basis of preparation adopted in the preparation of these unaudited condensed consolidated interim financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 March 2008, except in relation to the following new and revised Hong Kong Financial Reporting Standards (“HKFRSs”), (which include all Hong Kong Financial Reporting Standards, 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:

HK(IFRIC) – Int 12	Service Concession Arrangements
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
HKAS 39 and HKFRS 7 Amendments	Reclassification of Financial Assets

The adoption of these new and revised HKFRSs has had no material impact on the results or the financial position of the Group for the current or prior accounting periods.

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 these financial statements.

HKAS 1 (Revised)	Presentation of Financial Statements ¹
HKAS 23 (Revised)	Borrowing Costs ¹
HKAS 27 (Revised)	Consolidated and Separate Financial Statements ²
HKAS 32 and HKAS 1 Amendments	HKAS 32 Financial Instruments: Presentation and HKAS1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation ¹
HKFRS 2 Amendments	Share-based Payments – Vesting Conditions and Cancellations ¹
HKFRS 3 (Revised)	Business Combinations ²
HKFRS 8	Operating Segments ¹
HK(IFRIC)-Int 13	Customer Loyalty Programmes ³
HK(IFRIC)-Int 15	Agreements for the Construction of Real Estate ¹
HK(IFRIC)-Int 16	Hedges of a Net Investment in a Foreign Operation ⁴
HK(IFRIC)-Int 17	Distributions of Non-Cash Assets to Owners ²
Improvement to HKFRSs ⁵	

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

² Effective for annual periods beginning on or after 1 July 2009

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

⁴ Effective for annual periods beginning on or after 1 October 2008

⁵ The HKICPA has issued Improvements to HKFRSs which sets out 35 amendments to 20 HKFRSs resulting from its annual improvements project. Except for the amendment to HKFRS 5 Non-current Assets Held for Sale and Discontinued Operation which is effective for the annual periods beginning on or after 1 July 2009, other amendments are effective for annual periods beginning on or after 1 January 2009.

The Group anticipates that the applications of these new or revised standards, amendments and interpretations would not have a significant impact on the results and financial position of the Group.

3. SEGMENT INFORMATION

(a) Geographical segments

The following table presents revenue and profit/(loss) information for the Group's geographical segments for the six months ended 30 September 2008 and 2007.

	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	
	2008	2007	2008	2007	2008	2007	2008	2007
	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	693,708	606,671	366,149	358,020	-	-	1,059,857	964,691
Intersegment sales	799	1,523	53,954	45,171	(54,753)	(46,694)	-	-
Other income	2,203	2,396	1,839	949	(275)	(295)	3,767	3,050
Total	696,710	610,590	421,942	404,140	(55,028)	(46,989)	1,063,624	967,741
Segment results	77,395	43,964	(26,846)	(485)	-	-	50,549	43,479
Interest and dividend income and unallocated gains/(losses), net							(24,713)	37,557
Unallocated expenses							(3,867)	(3,301)
Finance costs							(9,264)	(11,272)
Share of profits and losses of associates	6,901	7,192	(557)	2,945	-	-	6,344	10,137
Profit before tax							19,049	76,600
Tax							(1,468)	(13,548)
Profit for the period							17,581	63,052

3. SEGMENT INFORMATION (Continued)

(b) Business segments

The following table presents revenue information for the Group's business segments for the six months ended 30 September 2008 and 2007.

	Manufacturing and wholesaling		Retailing		Others		Consolidated	
	Six months ended 30 September		Six months ended 30 September		Six months ended 30 September		Six months ended 30 September	
	2008	2007	2008	2007	2008	2007	2008	2007
	Unaudited HK\$'000	Unaudited HK\$'000	Unaudited HK\$'000	Unaudited HK\$'000	Unaudited HK\$'000	Unaudited HK\$'000	Unaudited HK\$'000	Unaudited HK\$'000
Segment revenue:								
Sales to external customers	826,474	755,006	97,788	81,455	135,595	128,230	1,059,857	964,691

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

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/(losses) is as follows:

	Six months ended 30 September	
	2008	2007
	Unaudited HK\$'000	Unaudited HK\$'000
Revenue	1,059,857	964,691
Other income		
Bank interest income	3,362	5,390
Dividend income from listed available-for-sale investments	666	383
Management fee income	277	250
Rental income	614	412
Others	2,876	2,800
	7,795	9,235
Gains/(Losses)		
Investment gains/(losses)*	(29,989)	2,668
Fair value gains on available-for-sale investments (transfer from equity on disposal)	1,248	28,476
Fair value gains on equity investments at fair value through profit or loss	—	228
	(28,741)	31,372
	(20,946)	40,607

* Investment losses comprise net loss from currency-linked deposits of HK\$8,334,000 (2007: HK\$1,686,000) and net exchange loss on cash and cash equivalents of HK\$21,655,000 (2007: gain of HK\$4,354,000).

5. FINANCE COSTS

	Six months ended 30 September	
	2008	2007
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Interest on bank and trust receipt loans wholly repayable within five years	9,264	11,272

6. PROFIT BEFORE TAX

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

	Six months ended 30 September	
	2008	2007
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Depreciation	18,491	16,334
Amortisation of non-current livestock	634	630
Amortisation of prepaid land lease payments	1,557	1,944

7. TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2007: 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 countries/jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Six months ended 30 September	
	2008	2007
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Current		
Hong Kong	8,656	14,415
Elsewhere	2,118	235
Overprovision in prior periods	(9,436)	(772)
Deferred	130	(330)
Total tax charge for the period	1,468	13,548

The share of tax attributable to associates amounting to HK\$1,689,000 (2007: HK\$1,792,000) is included in "Share of profits and losses of associates" on the face of the unaudited condensed consolidated income statement.

8. DIVIDENDS

	Six months ended	
	30 September	
	2008	2007
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Proposed interim dividend of HK2.0 cents (2007: 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\$30,518,000 (2007: HK\$55,229,000), and on the 399,565,640 (2007: 399,565,640) ordinary shares in issue during the period.

Diluted earnings per share amounts for the six months ended 30 September 2008 and 2007 have not been disclosed as no diluting events existed during these periods.

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	31 March
	2008	2008
	Unaudited	Audited
	HK\$'000	HK\$'000
Within 1 month	154,687	131,704
1 to 2 months	85,126	78,176
2 to 3 months	53,643	82,724
Over 3 months	<u>105,882</u>	<u>120,414</u>
	<u>399,338</u>	<u>413,018</u>

Included in trade receivables is an aggregate amount due from the Group's associates of HK\$2,967,000 (31 March 2008: HK\$1,600,000), which is repayable on similar credit terms to those offered to the major customers of the Group.

11. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

Included in trade payables, other payables and accruals is a trade payable balance of HK\$160,591,000 (31 March 2008: HK\$135,557,000). An aged analysis of the trade payables as at the balance sheet date, based on the invoice date, is as follows:

	30 September 2008 Unaudited HK\$'000	31 March 2008 Audited HK\$'000
Within 1 month	123,753	88,647
1 to 2 months	25,030	21,521
2 to 3 months	5,839	12,974
Over 3 months	5,969	12,415
	<u>160,591</u>	<u>135,557</u>

Included in the trade payables is an aggregate amount of HK\$51,640,000 (31 March 2008: HK\$45,776,000) due to the Group's associates, which is 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.

12. CONTINGENT LIABILITIES

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

	30 September 2008 Unaudited HK\$'000	31 March 2008 Audited HK\$'000
Bank guarantees given in lieu of utility and property rental deposits	542	542
Guarantees given to banks in connection with facilities granted to associates	23,400	23,400
	<u>23,942</u>	<u>23,942</u>

As at 30 September 2008, the banking facilities guaranteed by the Group to associates were utilised to the extent of approximately HK\$14,048,000 (31 March 2008: HK\$13,769,000).

13. COMMITMENTS

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

	30 September 2008 Unaudited HK\$'000	31 March 2008 Audited HK\$'000
Authorised, but not contracted for	–	1,014
Contracted, but not provided for	3,017	10,208
	<u>3,017</u>	<u>11,222</u>

14. RELATED PARTY TRANSACTIONS

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

	<i>Notes</i>	Six months ended 30 September 2008 Unaudited HK\$'000	2007 Unaudited HK\$'000
Purchases of goods from associates	<i>(i)</i>	198,360	190,838
Sales of goods to associates	<i>(ii)</i>	8,623	8,978
Promotion expenses reimbursed by associates	<i>(iii)</i>	5,513	5,855
Rental income from an associate	<i>(iv)</i>	<u>482</u>	<u>405</u>

Notes:

- (i) The cost of purchases from associates was determined by reference to the prevailing market prices.
- (ii) The selling prices of goods sold to associates were determined by reference to prices and conditions similar to those offered to other major customers.
- (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 its associates to the extent of HK\$23,400,000 (31 March 2008: HK\$23,400,000), as further detailed in note 12 to the unaudited condensed consolidated 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 unaudited condensed consolidated interim financial statements.

(d) Compensation of key management personnel of the Group

	Six months ended	
	30 September	
	2008	2007
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Short term employee benefits	5,420	6,444
Pension scheme contributions	190	237
	<u>5,610</u>	<u>6,681</u>

15. POST BALANCE SHEET EVENT

On 30 October 2008, Kwong Cheung Developments Limited, an indirect wholly-owned subsidiary of the Company entered into an acquisition agreement to purchase 49% of the issued share capital of Abundant Capital Inc., a non-wholly-owned subsidiary of the Company from the vendor at a consideration of HK\$4,536,000. As the vendor is a substantial shareholder of a non-wholly-owned subsidiary of the Company, the acquisition constitutes a connected transaction for the Company.

INTERIM DIVIDEND

The Board has declared an interim dividend of HK2.0 cents (2007: HK2.0 cents) per share for the six months ended 30 September 2008, payable to shareholders whose names appear in the Register of Members of the Company on Monday, 12 January 2009. The dividend will be payable on Wednesday, 21 January 2009.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Tuesday, 6 January 2009 to Monday, 12 January 2009 (both days inclusive), during which period no transfers of shares will be registered. In order to qualify for entitlement to the interim dividend for the six months period ended 30 September 2008, all 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 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Monday, 5 January 2009.

BUSINESS REVIEW AND PROSPECTS

Results

For the six months ended 30 September 2008, the Group's consolidated turnover reached HK\$1,059,857,000 (2007: HK\$964,691,000), representing a 10% increase over the same period last year. The net profit attributable to equity holders of the parent was HK\$30,518,000 (2007: HK\$55,229,000).

During the period under review, the sales performance in both Hong Kong and Mainland China markets maintained steady growth. The contribution derived from Hong Kong was above satisfactory while losses were incurred in the Mainland China. The increased contribution derived from the Hong Kong geographical segment was able to fully offset the losses incurred in the Mainland China, which was resulted from the continuous soaring production costs that could not be fully recovered from the upward adjustments of the selling price in Mainland China market.

The decrease in the net profit was primarily because of the fact that, the fair value gains on available-for-sale investments in the corresponding period of last year was higher than the current period and exchange losses incurred during the current period arising from the foreign currency deposits held as a result of the fluctuation of the foreign exchange market.

Food Distribution

Food distribution has all along been the Group's core business. Through longstanding partnerships with well-known overseas suppliers and enhancing cooperation with major supermarkets, chain stores and wholesalers, the Group was able to strengthen its extensive distribution network and drive continued growth of the business.

BUSINESS REVIEW AND PROSPECTS (*continued*)

Food Distribution (*continued*)

The Group was also recognized by major supermarket chains and convenience store chains for its achievements in brand and strategic marketing management. Following “The Best Brand 2007” award early in the year from Park’n Shop, the Group received the “2008 Leading Brand” award from 7-Eleven Convenience Store and the “2008 Wellcome Top 10 Favorite Brands” honor from Wellcome Supermarket during the period.

The Group’s Okashi Land continued to strengthen its platform for product distribution and brand name awareness. Okashi Land has effectively driven market desire for new and trendy snack foods with a variety of offerings and promotional mix. During the period under review, Okashi Land was again awarded by Guangzhou Daily the “Fifth Hong Kong Macau Integrity Award”.

Food Manufacturing

To date, the Group has 19 manufacturing plants producing a wide range of high value-added products including seaweed, high quality candies, potato chips, biscuits, snacks and confectioneries, instant noodles, cake, chestnuts, ice-cream, beverages, ham, sausages and frozen dim sums. Building on its unique “integrated business model”, the Group can achieve the best competitive advantage by effectively managing costs, enhancing production capacity, improving product quality and profitability throughout the entire value chain of materials supply, manufacturing, distribution and retailing.

Given strong market demands for snacks in Hong Kong and Mainland China, the Group has endeavored to introduce a variety of new product flavors, including a series of crispy seaweed and crackers, which immediately became very popular in the snack market.

Following the accolades of “Creditable-Quality Food Products in Nation”, “Creditable-Quality Enterprises”, “Certified for the Q-Mark Scheme over ten years” and “Fresh Check Food Safety Certificate Grade A Award”, “Asia Management Innovation Award”, “China Food Industry Outstanding Contribution Award” and “China Independent Innovation and Brand Building Award”, the Group was awarded the “Food Safety Honorary Certificate” and the “Outstanding Management Entrepreneur Honorary Certificate” by the China Food Safety Association Organizing Committee under the Beijing Municipal Government during the period.

In the middle of the year, the Group’s Chairman, Dr. Tai, was honored by the Japanese government with the “Award of the Ministry of Agriculture, Forestry and Fisheries of Japan” as well as certificate of appreciation by the Meiji Seika Kaisha, Ltd. These two accolades recognize Dr. Tai’s success in the leadership of promoting Japanese food products under the Group over the past 30 years, and achievement of impressive results through close relationship with Japanese partners.

BUSINESS REVIEW AND PROSPECTS (*continued*)

Four Seas Brand

Adhering to its motto of “Leading in trends, Winning in quality”, Four Seas Brand products have long been well received among consumers. During a recent survey jointly conducted by the Hong Kong Design Centre and the Hong Kong Polytechnic University regarding the best loved brands among consumers, the Four Seas Brand was named the “Best Loved Local Brand in Daily Life”, fully demonstrating that Four Seas Brand as a truly indigenous local brand is well received and recognized among local consumers.

Being a renowned brand name, Four Seas Brand has been gaining popularity in the Mainland China. Following the honor to Four Seas seaweed as “2004 Shanghai Top Ten Worthy Tasting Snack Food”, “2002 Hong Kong Super Brand”, “Asia Outstanding Golden Brand Award”, “First Brand” etc. by authoritative organizations, Four Seas Brand was given the “Fifth Hong Kong Macau Integrity Award” by Guangzhou Daily.

Catering Business

The Group’s catering business includes Japanese chain restaurants, Japanese specialty restaurant, and high-end vegetarian cuisine restaurant. Given Hong Kong’s robust economy and a mature local market, the Group’s catering business was able to achieve a steady growth. At the same time, the Group’s catering business in Mainland China saw a further growth due to local consumers’ rising sophistication and spending power.

In the Mainland, the longstanding renowned Panxi Restaurant acquired by the Group has already opened for business. Located in Liwan District in Guangzhou, Panxi Restaurant is one of the largest scale garden restaurants in the Mainland with leading cuisines. Among its patrons were international heads of state, like former British Prime Minister Heath, former Australia Prime Minister Fraser, former Vietnam President Ho Chi Minh, former Singapore Prime Minister Lee Kuan Yew, former United States President George H.W. Bush, and former German Chancellor Helmut Kohl. Through the Group’s distribution network in Hong Kong and Mainland China, the sales of the restaurant’s high quality dim sums is set to bring in a new source of revenue to the Group.

In Hong Kong, Pokka Café, a joint venture café chain with Pokka Corporation of Japan, continued its popularity among consumers and maintained a stable business growth.

In addition, Kung Tak Lam Shanghai Vegetarian Cuisine Limited maintained its leadership position in the vegetarian restaurant sector. With its premium healthy vegetarian cuisine and high-quality décor, Kung Tak Lam not only maintained a strong demand among the health-conscious young consumers, but also attracted many celebrities and luminaries. Early in the year, Kung Tak Lam was voted by local magazines as “My Most Favorite Restaurant 2008”, and recently recognized by the Hong Kong Department of Health as an “EatSmart restaurant”.

BUSINESS REVIEW AND PROSPECTS (*continued*)

Catering Business (*continued*)

The Group's wholly-owned subsidiary, New Kondo Trading Company Limited has over 38 years of establishment history, is a leader in supplying Japanese restaurants with over 1,000 types of Japanese food materials. The company recorded good results and contributed to the Group's steady earnings.

Prospects

Looking to the coming year, leveraging the Group's more than 30 years' wealth of experience in food industry, its "integrated business model" of production platform, and adopting a prudent development strategy, the Group would be able to achieve a continued steady growth.

Four Seas Group is a listed company in Hong Kong with unique characteristics. Building on its strength and credibility, the Group has been winning the trust and support from its business partners over the years. In the foreseeable future, the Group would continue its diversified businesses in food materials supply, food manufacturing, distribution, and catering, expanding current market places with vigorous marketing and promotional activities. Leveraging the above strategies on its own brandname products, the Group believes its leadership position in the food industry will be further consolidated. Coping with current global financial crisis, the Group will maintain a prudent approach toward its businesses and carefully explore new opportunities for the future.

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 2008, the Group had banking facilities of HK\$1,372,300,000 of which 52% had been utilised. The Group had a gearing ratio of 82% as at 30 September 2008. 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 2008, the Group held cash and cash equivalents of HK\$380,695,000. During the period, the Group placed surplus short term funds in short term currency-linked deposits and foreign currency deposits with banks and incurred net investment losses of HK\$29,989,000. As at 30 September 2008, no 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' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 September 2008, 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/interested, capacity and nature of interest					Percentage of the Company's issued share capital
	Directly beneficially owned	Through controlled corporation	Beneficiary of a trust	Through controlled corporation and other interests	Total interests	
TAI Tak Fung, Stephen	–	81,250,000 ⁽ⁱ⁾	82,000,000 ⁽ⁱⁱ⁾	113,846,000 ⁽ⁱⁱⁱ⁾	277,096,000	69.35%
WU Mei Yung, Quinly	–	81,250,000 ⁽ⁱ⁾	82,000,000 ⁽ⁱⁱ⁾	113,846,000 ⁽ⁱⁱⁱ⁾	277,096,000	69.35%
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 113,846,000 shares are owned by Capital Season Investments Limited (“CSI”). CSI is wholly owned by Advance Finance Investments Limited (“AFI”), which is a wholly-owned subsidiary of Four Seas Food Investment Holdings Limited (“FSFH”). Accordingly, FSFH is deemed to be interested in 113,846,000 shares in the Company. FSFH is owned as to 0.07% 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 113,846,000 shares of the Company.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES (*continued*)

All the interests stated above represent long positions in the shares of the Company. Save as disclosed above, as at 30 September 2008, 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.

During the six months ended 30 September 2008, none of the directors of the Company nor any of their respective spouses 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 spouses or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

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

As at 30 September 2008, the following parties, other than the directors of the Company, had interests of 5% or more of the total issued share capital of the Company as recorded in the register required to be kept under Section 336 of the SFO were as follows:

Name of substantial shareholder	Notes	Capacity	Long/short position	Number of ordinary shares held/interested	Percentage of the Company's issued share capital
SAL		Direct	Long	81,250,000	20.34%
CGL		Direct	Long	82,000,000	20.52%
HSBC International Trustee Limited	(i)	Deemed	Long	82,000,000	20.52%
CSI		Direct	Long	113,846,000	28.49%
AFI	(ii)	Deemed	Long	113,846,000	28.49%
FSFH	(iii)	Deemed	Long	113,846,000	28.49%
Arisaig Greater China Fund ("Arisaig Fund")		Direct	Long	28,334,000	7.09%
Arisaig Partners (Mauritius) Limited ("Arisaig Mauritius")	(iv)	Deemed	Long	28,334,000	7.09%
Lindsay William Ernest Cooper	(v)	Deemed	Long	28,334,000	7.09%

Notes:

- (i) 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 the above section headed "Directors' and chief executives' interests and short positions in shares and underlying shares" above.
- (ii) AFI is deemed (by virtue of its holding of the entire issued share capital of CSI) to be interested in the shares of the Company held by CSI.
- (iii) 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.
- (iv) 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.
- (v) 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.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES (*continued*)

Save as disclosed above, as at 30 September 2008, no persons, other than the directors of the Company whose interests are set out in the above section headed "Directors' and chief executives' 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 as recorded in the register of the Company required to be kept 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 2008 Annual Report.

STAFF EMPLOYMENT

The total number of employees of the Group as at 30 September 2008 was 4,200. 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 of the Listing Rules throughout the accounting period for the six months ended 30 September 2008, except for the following deviations:

CORPORATE GOVERNANCE (*continued*)

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.

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 the interval between the appointment made to fill casual vacancy and the immediate following annual general meeting is short.

CODE OF CONDUCT 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 securities transactions by directors of the Company (the "Code of Conduct"). 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 Code of Conduct throughout the six months period ended 30 September 2008.

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 relevant 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 throughout the six months period ended 30 September 2008.

AUDIT COMMITTEE

The Audit Committee of the Company 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 unaudited condensed consolidated interim financial statements for the six months ended 30 September 2008.

PUBLICATION OF INTERIM RESULTS ON THE STOCK EXCHANGE'S WEBSITE

The Company's interim results announcement is published on the website of the Stock Exchange 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 2008 containing all information required by Appendix 16 of the Listing Rules will be despatched to the shareholders of the Company and published on the above websites in late December 2008.

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, 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 2008