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FOUR SEAS MERCANTILE HOLDINGS LIMITED

四洲集團有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 374)

ANNOUNCEMENT OF RESULTS

FOR THE YEAR ENDED 31 MARCH 2016

RESULTS

The board of directors (the "Board") of Four Seas Mercantile Holdings Limited (the "Company") announces the preliminary consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 March 2016, together with the comparative figures for the previous year, as follows:

**For identification purpose only*

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 March 2016

	Notes	**2016** **HK$'000**	2015 HK$'000
REVENUE	4	**2,941,468**	2,907,497
Cost of sales		**(1,993,103)**	(1,866,995)
Gross profit		**948,365**	1,040,502
Other income and gains, net	4	**23,573**	28,742
Selling and distribution expenses		**(594,505)**	(571,209)
Administrative expenses		**(290,621)**	(291,707)
Other operating expenses		**(11,533)**	(10,348)
Finance costs	5	**(16,764)**	(15,538)
Share of profits and losses of associates		**8,062**	4,108
PROFIT BEFORE TAX	3 & 6	**66,577**	184,550
Income tax expense	7	**(21,362)**	(47,201)
PROFIT FOR THE YEAR		**45,215**	137,349
Attributable to:			
Equity holders of the Company		**45,827**	140,185
Non-controlling interests		**(612)**	(2,836)
		45,215	137,349
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
- Basic and diluted	9	**HK11.9 cents**	HK36.4 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 March 2016

	2016	2015
	HK$'000	*HK$'000*
PROFIT FOR THE YEAR	**45,215**	137,349
OTHER COMPREHENSIVE LOSS		
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:		
Available-for-sale investments:		
Changes in fair value	**(64)**	9,371
Reclassification adjustment for gain included in the consolidated statement of profit or loss - gain on disposal	**-**	(26,251)
	(64)	(16,880)
Exchange differences on translation of foreign operations	**(35,997)**	320
Share of other comprehensive loss of associates	**(3,712)**	(46)
Release of share of an associate's other comprehensive income upon disposal of the associate	**(2,874)**	-
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX	**(42,647)**	(16,606)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**2,568**	120,743
Attributable to:		
Equity holders of the Company	**4,148**	123,583
Non-controlling interests	**(1,580)**	(2,840)
	2,568	120,743

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 March 2016

	Notes	2016 HK$'000	2015 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**602,187**	588,313
Investment property		**19,362**	20,125
Prepaid land lease payments		**99,395**	106,578
Goodwill		**49,580**	36,812
Other intangible assets		**5,993**	-
Investments in associates		**161,041**	180,679
Available-for-sale investments		**1,351**	3,791
Deposits		**32,285**	32,600
Deferred tax assets		**8,771**	3,789
Total non-current assets		**979,965**	972,687
CURRENT ASSETS			
Inventories		**339,981**	339,485
Trade receivables	10	**568,798**	534,758
Prepayments, deposits and other receivables		**131,638**	102,380
Tax recoverable		**16,669**	1,121
Financial assets at fair value through profit or loss		**43,315**	27,312
Cash and cash equivalents		**799,432**	857,587
Total current assets		**1,899,833**	1,862,643
CURRENT LIABILITIES			
Trade payables, other payables and accruals	11	**341,660**	375,391
Interest-bearing bank borrowings		**1,004,317**	911,149
Tax payable		**12,098**	22,183
Total current liabilities		**1,358,075**	1,308,723
NET CURRENT ASSETS		**541,758**	553,920
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,521,723**	1,526,607

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

31 March 2016

	2016	2015
	HK$'000	*HK$'000*
NON-CURRENT LIABILITIES		
Interest-bearing bank borrowings	**105,205**	80,551
Deferred tax liabilities	**20,107**	20,712
Total non-current liabilities	**125,312**	101,263
Net assets	**1,396,411**	1,425,344
EQUITY		
Equity attributable to equity holders of the Company		
Issued capital	**38,425**	38,425
Reserves	**1,328,632**	1,360,989
	1,367,057	1,399,414
Non-controlling interests	**29,354**	25,930
Total equity	**1,396,411**	1,425,344

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for an investment property, certain properties classified as property, plant and equipment, financial instruments at fair value through profit or loss and certain available-for-sale investments which have been measured at valuation or fair value. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 March 2016. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;
(b) rights arising from other contractual arrangements; and
(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

1. BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised standards for the first time for the current year's financial statements.

Amendments to HKAS 19 *Defined Benefit Plans: Employee Contributions*
Annual Improvements to HKFRSs 2010-2012 Cycle
Annual Improvements to HKFRSs 2011-2013 Cycle

The adoption of these revised standards has had no significant financial effect on the consolidated financial statements of the Group.

In addition, the Company has adopted the amendments to the Rules Governing the Listing of Securities on the Stock Exchange issued by The Stock Exchange of Hong Kong Limited relating to the disclosure of financial information with reference to the Hong Kong Companies Ordinance (Cap. 622) during the current financial year. The main impact to the financial statements is on the presentation and disclosure of certain information in the financial statements.

3. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on geographical areas and has two reportable operating segments as follows:

(i) the Hong Kong segment is engaged in the manufacturing and trading of snack foods, confectionery, beverages, frozen food products, ham and ham-related products, noodles and the retailing of snack foods, confectionery and beverages, and the operations of restaurants; and

(ii) the Mainland China segment is engaged in the manufacturing and trading of snack foods, confectionery, beverages, frozen food products, poultry products, noodles, ham and ham-related products, and the operations of restaurants.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/loss, which is a measure of adjusted profit/loss before tax. The adjusted profit/loss before tax is measured consistently with the Group's profit before tax except that interest income, dividend income and unallocated gains, gain on disposal/deemed disposal of associates, finance costs, share of profits and losses of associates and corporate and other unallocated expenses are excluded from such measurement.

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

Segment liabilities exclude interest-bearing bank borrowings, tax payable and deferred tax liabilities as these liabilities are managed on a group basis.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

3. OPERATING SEGMENT INFORMATION (continued)

	Hong Kong		Mainland China		Total	
	2016	2015	**2016**	2015	**2016**	2015
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue:						
Sales to external customers*	**2,004,350**	1,939,080	**937,118**	968,417	**2,941,468**	2,907,497
Intersegment sales	**9,662**	1,437	**212,255**	228,793	**221,917**	230,230
	2,014,012	1,940,517	**1,149,373**	1,197,210	**3,163,385**	3,137,727
Reconciliation:						
Elimination of intersegment sales					**(221,917)**	(230,230)
Revenue					**2,941,468**	2,907,497
Segment results	**86,660**	201,683	**(6,407)**	(7,864)	**80,253**	193,819
Reconciliation:						
Interest income					**2,224**	2,360
Dividend income and unallocated gains					**2,478**	20,371
Gain on disposal of associates					**12,012**	-
Gain on deemed disposal of associates					**336**	-
Finance costs					**(16,764)**	(15,538)
Share of profits and losses of associates					**8,062**	4,108
Corporate and other unallocated expenses					**(22,024)**	(20,570)
Profit before tax					**66,577**	184,550
Segment assets	**1,189,527**	1,108,697	**997,823**	970,982	**2,187,350**	2,079,679
Reconciliation:						
Elimination of intersegment receivables					**(338,131)**	(318,628)
Investments in associates					**161,041**	180,679
Corporate and other unallocated assets					**869,538**	893,600
Total assets					**2,879,798**	2,835,330
Segment liabilities	**340,026**	328,661	**339,765**	365,358	**679,791**	694,019
Reconciliation:						
Elimination of intersegment payables					**(338,131)**	(318,628)
Corporate and other unallocated liabilities					**1,141,727**	1,034,595
Total liabilities					**1,483,387**	1,409,986
Other segment information:						
Impairment/(reversal of impairment) of trade receivables	**(60)**	(794)	**417**	-	**357**	(794)
Write-down of slow-moving inventories	**12**	64	**1,920**	764	**1,932**	828
Depreciation and amortisation	**26,792**	23,072	**41,907**	37,291	**68,699**	60,363
Capital expenditure**	**52,550**	23,846	**52,689**	60,565	**105,239**	84,411
Non-current assets***	**234,459**	196,248	**542,058**	555,580	**776,517**	751,828

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

** Capital expenditure consists of additions to property, plant and equipment, prepaid land lease payments, investment property and other intangible assets including assets from the acquisition of a subsidiary.

*** The non-current asset information above is based on the locations of the assets and excludes financial instruments, deferred tax assets and investments in associates.

4. REVENUE, OTHER INCOME AND GAINS, NET

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

	2016	2015
	HK$'000	*HK$'000*
Revenue	**2,941,468**	2,907,497
Other income		
Bank interest income	**2,224**	2,360
Commission income	**269**	-
Dividend income	**13**	172
Rental income	**1,261**	1,246
Others	**4,993**	4,640
	8,760	8,418
Gains, net		
Gain on disposal of an available-for-sale investment stated at cost	**688**	-
Gain on disposal of associates	**12,012**	-
Gain on deemed disposal of associates	**336**	-
Fair value gain on an investment property	**-**	125
Fair value gains/(losses), net:		
Available-for-sale investments (transfer from equity on disposal)	**-**	26,251
Financial assets at fair value through profit or loss	**1,777**	(6,052)
	14,813	20,324
	23,573	28,742

5. FINANCE COSTS

An analysis of finance costs is as follows:

	2016	2015
	HK$'000	*HK$'000*
Interest on bank and trust receipt loans	**16,764**	15,538

6. PROFIT BEFORE TAX

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

	2016	2015
	HK$'000	*HK$'000*
Cost of inventories sold	**1,991,171**	1,866,167
Depreciation	**64,739**	57,062
Amortisation of prepaid land lease payments	**3,202**	3,301
Amortisation of other intangible assets	**758**	-
Minimum lease payments under operating leases	**181,590**	173,164
Auditors' remuneration	**3,825**	3,874
Employee benefit expense (excluding directors' and chief executive's remuneration):		
Wages, salaries, allowances and benefits in kind	**351,549**	323,296
Pension scheme contributions*	**15,281**	16,831
	366,830	340,127
Loss on disposal/write-off of items of property, plant and equipment, net	**1,709**	1,932
Foreign exchange differences, net	**6,677**	(2,612)
Direct operating expenses (including repairs and maintenance) arising from a rental-earning investment property	**902**	816
Impairment/(reversal of impairment) of trade receivables**	**357**	(794)
Write-down of slow-moving inventories***	**1,932**	828

* At 31 March 2016, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2015: Nil).

** The impairment/(reversal of impairment) of trade receivables is included in "Other operating expenses" in the consolidated statement of profit or loss.

*** The write-down of slow-moving inventories is included in "Cost of sales" in the consolidated statement of profit or loss.

7. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2015: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries/jurisdictions in which the Group operates.

	2016	2015
	HK$'000	*HK$'000*
Current – Hong Kong		
Charge for the year	**18,942**	40,654
Current – Elsewhere		
Charge for the year	**8,224**	7,607
Overprovision in prior years	**(353)**	(390)
Deferred	**(5,451)**	(670)
Total tax charge for the year	**21,362**	47,201

The share of tax attributable to associates amounting to HK$2,924,000 (2015: HK$2,492,000) is included in "Share of profits and losses of associates" in the consolidated statement of profit or loss.

8. DIVIDENDS

	2016	2015
	HK$'000	*HK$'000*
Interim – HK3.0 cents (2015: HK3.0 cents) per ordinary share	**11,528**	11,528
Proposed final – HK6.5 cents (2015: HK6.5 cents) per ordinary share	**24,977**	24,977
	36,505	36,505

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

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

The calculation of basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares in issue during the year.

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 March 2016 and 2015 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during the years ended 31 March 2016 and 2015.

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

	2016	2015
	HK$'000	*HK$'000*
Earnings		
Profit attributable to ordinary equity holders of the Company, used in the basic and diluted earnings per share calculation	**45,827**	140,185

	Number of shares	
	2016	2015
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic and diluted earnings per share calculation	**384,257,640**	385,548,977

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 the trade receivables as at the end of the reporting period, based on the invoice date and net of provisions, is as follows:

	2016	2015
	HK$'000	*HK$'000*
Within 1 month	**223,618**	208,203
1 to 2 months	**103,180**	90,325
2 to 3 months	**101,963**	101,693
Over 3 months	**140,037**	134,537
	568,798	534,758

As at 31 March 2015, included in trade receivables were amounts due from the Group's associates of HK$1,415,000 and a subsidiary of Hong Kong Food Investment Holdings Limited ("HKFH"), a substantial shareholder of the Company, of HK$231,000, which were repayable on credit terms similar 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 trade payables balance of HK$184,760,000 (2015: HK$210,212,000). An aged analysis of the trade payables at the end of the reporting period, based on the invoice date, is as follows:

	2016	2015
	HK$'000	*HK$'000*
Within 1 month	**122,903**	141,531
1 to 2 months	**30,443**	36,019
2 to 3 months	**13,160**	15,513
Over 3 months	**18,254**	17,149
	184,760	210,212

Included in the trade payables are amounts due to the Group's associates of HK$38,247,000 (2015: HK$53,037,000) and a subsidiary of HKFH, a substantial shareholder of the Company, of HK$141,000 (2015: Nil), which are normally settled on 30-day to 60-day terms.

The trade payables are non-interest-bearing and are normally settled on 30-day to 60-day terms. Other payables are non-interest-bearing and have an average term of three months.

12. BUSINESS COMBINATION

On 2 November 2015, Champ Business Development Limited, a 70%-owned subsidiary of the Group, acquired a 100% interest in Murray Catering Company Limited ("Murray Catering") at a total cash consideration of approximately HK$19,480,000. Murray Catering is engaged in catering business providing mainly lunch box and tuck shop services to schools in Hong Kong.

PROPOSED FINAL DIVIDEND

The Board recommended the payment of a final dividend of HK6.5 cents in cash per ordinary share for the year ended 31 March 2016. Subject to the approval by the shareholders of the Company at the forthcoming annual general meeting of the Company to be held on Thursday, 25 August 2016 (the "AGM"), the said dividend will be paid in cash on Wednesday, 28 September 2016 to shareholders of the Company whose names appear in the register of members of the Company as at the close of business on Thursday, 8 September 2016. Together with the interim dividend of HK3.0 cents per ordinary share, the total dividends per ordinary share for the financial year ended 31 March 2016 is HK9.5 cents (2015: HK9.5 cents).

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed during the following periods, and no transfers of shares will be registered during such periods:

(i) from Tuesday, 23 August 2016 to Thursday, 25 August 2016, both days inclusive, for the purpose of ascertaining shareholders' eligibility to attend and vote at the AGM. In order to be eligible to attend and vote at the AGM, unregistered holders of shares of the Company shall ensure that 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 Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Monday, 22 August 2016; and

(ii) from Tuesday, 6 September 2016 to Thursday, 8 September 2016, both days inclusive, for the purpose of ascertaining shareholders' entitlement to the proposed final dividend for the year ended 31 March 2016. In order to qualify for the said proposed final dividend, unregistered holders of shares of the Company shall ensure that 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 Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Monday, 5 September 2016. The proposed final dividend is subject to the shareholders' approval at the AGM. The record date for entitlement to the proposed final dividend is Thursday, 8 September 2016 and the payment of final dividend will be made on Wednesday, 28 September 2016.

BUSINESS REVIEW AND PROSPECTS

The Group maintained its solid position amid challenging market environment by adopting flexible strategy during the year under review. Retail market continued to perform weakly, following the slowdown of the economy of Hong Kong and the Mainland. Meanwhile, the exchange rate of Japanese yen has strengthened during the second half of the year under review. Such environment created strong business challenges to the Group. Nevertheless, the Group responded proactively to the changing market conditions and intensified competition within the industry by making timely adjustments. It reduced the selling prices of some products strategically while increased marketing and promotion expenses. Such moves helped to maintain the Group's sales at a relatively stable level while upholding its leadership and competiveness in the market. As a result, the profit of the Group for the year under review was negatively impacted.

RESULTS

In the annual results for the year ended 31 March 2016, the Group's consolidated revenue increased slightly to HK$2,941,468,000 (2015: HK$2,907,497,000). The profit for the year attributable to equity holders of the Company decreased to HK$45,827,000 (2015: HK$140,185,000). Sales for Hong Kong and Mainland China performed steadily. The sales derived from Hong Kong was HK$2,004,350,000 (2015: HK$1,939,080,000), representing an increase of 3.4%, and accounting for 68% of the Group's total sales. The sales in Mainland China was HK$937,118,000 (2015: HK$968,417,000), representing a decrease of 3.2%, and corresponding to 32% of the Group's total sales.

BUSINESS REVIEW

Founded in 1971 in Hong Kong, the Group has developed into a world renowned brand owing to its persistence and consistent effort. This year marked the 45th anniversary of the Group. It evolved from being an importer and distributor of Japanese food into a creator of its own brands of snacks and restaurants. Besides, it developed not only a chain of offline stores but also a platform of online shops. Such move fully demonstrated the synergistic effect of the Group's business. Today, the Group's business has expanded beyond Hong Kong to Mainland China.

The Group produces and distributes various food products, covering different customers in terms of age and segment. Its strong distribution network covers supermarkets, convenience store chains, department stores, fast food chains, wholesalers, retailers, restaurants, hotels, bars and airlines. It also operates Japanese snack store "Okashi Land" and cookie store "YOKU MOKU" as well as specialty store, Calbee PLUS, which is brand new to Hong Kong.

BUSINESS REVIEW AND PROSPECTS (continued)

BUSINESS REVIEW (continued)

Distribution Business

The Group's distribution business is well developed in terms of depth and breadth. It has strong sales teams, well-established global network and effective marketing strategy to offer supreme food products from different parts of the world. It covers famous food brands from countries like Japan, China, Korea, Malaysia, Indonesia, Thailand, the Philippines, Australia, New Zealand, Britain, Ireland, France, Germany, Holland, Belgium, South Africa and the United States. Besides, in order to satisfy the demand of different customers, the Group provides a wide range of food products, including snacks, milk powder, health food, beverages, sauce, seasonings, ham and sausages.

Manufacturing Business

Apart from food distribution, the Group also manufactures food products under its own brands. There are now a total of 20 manufacturing plants under the Group. Owing to its stringent and advanced monitoring system in production, the Group's manufacturing plants meet international standards and received numerous accreditations, including "HACCP", "ISO 9001", "ISO 22000" and "Hong Kong Q-Mark Product Scheme Certification". Supported by the Group's strong sales network, their products are well received in the market.

Retailing and Catering Businesses

The Group has initiated continuous innovation in its retailing and catering businesses. This year, the Group introduced Blue Brick Bistro by YOKU MOKU, a high-end western cuisine restaurant, to Hong Kong, which is the first branch store of this brand outside Japan. Moreover, Calbee PLUS, a retail outlet chain of Calbee in Japan, was introduced to Hong Kong by the Group this year. The Group set up the first Calbee PLUS concept store in Hong Kong. Other retail specialty stores of the Group, such as Japanese snack store "Okashi Land" and cookie store "YOKU MOKU", also achieved desirable sales performance. For the catering business, restaurants of the Group in both Hong Kong and Guangdong are gaining popularities. Japanese style restaurant "Shiki•Etsu", Shanghai vegetarian cuisine "Kung Tak Lam", Japanese style dumpling fast food shop "Osaka Ohsho" in Hong Kong, together with "Panxi Restaurant" in Guangzhou, Japanese restaurant "Mori Café" as well as sushi restaurant chain "Sushi Oh" in the Mainland are well received by customers because of their superior management and high-quality catering service.

BUSINESS REVIEW AND PROSPECTS (continued)

BUSINESS REVIEW (continued)

Retailing and Catering Businesses (continued)

During the year under review, the Group acquired Murray Catering Company Limited, a lunch box and tuck shop services provider for schools in Hong Kong. This company is accredited with ISO 22000 and HACCP. Through its central food processing centre in Tuen Mun and its extensive distribution network among schools, the food business of the Group is further enriched. With its unique characteristics, synergistic effect with other businesses of the Group is created which can further enhance the business development of the Group.

BRAND DEVELOPMENT

Living by its motto "Eating Safely, Eating Happily", the Group has paid extreme care on food hygiene, safety and quality. Embracing a discreet and responsible attitude, the Group has established a comprehensive supervisory system to ensure product safety, quality and tastiness.

The Group has reached a new stage of development after years of consistent effort and refinement in response to the ever-changing business environment. While pursuing growth in local market, the Group is proactively developing the Mainland market through its excellent brand image that allows it to play the role of "food ambassador" to bridge the Mainland and the world. The Group is devoted to bringing more supreme quality food products into the Mainland, offering the Mainlanders more choices and enjoyments. In parallel, it also facilitates the Mainland products to enter the overseas markets.

CORPORATE SOCIAL RESPONSIBILITY

The Group has been dedicated to community services. Last year, it participated in community services actively by sponsoring different parties, including Junior Police Call, schools, elderly and women organisations, youth organisations, Kaifong welfare organisations and federations of associations. Such move allowed the people from all walks of life to enjoy the Group's delicate products, and share its spirit of "Eating Happily".

The Group's business has been well recognised. It has received numerous awards, including "Hong Kong's Most Valuable Companies Awards 2016" presented by Mediazone, "Best Partner Award 2016" presented by Citi Commercial Bank, and "Hong Kong Outstanding Enterprise 2015" presented by Economic Digest. Besides, members of the Group are accredited "QTS Merchant" of the Quality Tourism Services Scheme by Hong Kong Tourism Board, "Good MPF Employer Award 2014/15" by Mandatory Provident Fund Schemes Authority, "Caring Company Award" by the Hong Kong Council of Social Service, and "Manpower Developer 2013-2017" of Manpower Developer Award Scheme by Employees Retraining Board.

In addition, the Group's catering business has been highly appreciated. The "Kung Tak Lam Shanghai Vegetarian Cuisine" was once again nominated as the only vegetarian restaurant in Michelin Guide Hong Kong Macau 2016. "Shiki•Etsu Japanese Restaurant" received the "Best-Ever Japanese Restaurant" by the "Best-Ever Dining Awards 2015". For the distribution and manufacturing businesses, members of the Group won the "Excellent Enterprise" in the processed meat category and "Supreme Supermarket Brand" by PARKnSHOP Super Brands Award 2015, "7-Eleven Most Favourite Convenience Store Brand 2015", and "Health & Beauty Award" in snacks by Mannings China.

PROSPECTS

In future, the Group will adhere to the strategy of "Based in Hong Kong, Yearning for Mainland". While expanding its market share in Hong Kong food industry, the Group is determined to explore the food business market in Mainland China.

Business in Hong Kong

Based in Hong Kong, the Group will continue to uphold its leading position in the food market, and introduce more variety of food products to consumers. Recently, the Group has successfully introduced Blue Brick Bistro by YOKU MOKU and Calbee PLUS concept store in Lee Tung Avenue, Wan Chai. Menu of Blue Brick Bistro features a combination of western cooking style and Japanese cuisine's concept, which is designed by the Japanese head office of YOKU MOKU and local chefs. On the other hand, Calbee PLUS concept store gains great popularity by offering cook-to-order snacks with local flavors, pre-packaged snacks and related gifts. It is encouraging that Calbee PLUS has been well received by the consumers. On 21 March 2016, the opening day of Calbee PLUS concept store, a queue of people with 200 meters long were waiting outside the store despite the thunder storm and bad weather, according to the media report. Due to the positive market response, the Group is planning for its future expansion.

The Group will continue to source and produce various food products for snack lovers. It will seize market opportunities to expand its network in order to allow more customers to enjoy its products.

Business in Mainland

The Mainland market is huge with strong potentials. The Group will seize all business opportunities to expand its market network there. This year, the Group officially established the Four Seas Okashi Land Foreign Flagship Store in Tmall Global, a comprehensive online shopping platform covering the whole country. Through this platform, Mainland customers located anywhere can overcome the boundary restriction and enjoy one-stop services to buy the great variety of food products of the Group through internet. Since its launch, the online flagship store has received favorable and encouraging market responses.

Besides, the Group is enhancing the business at Nansha New District in Guangdong Free Trade Zone by operating its own e-commerce platform and setting up a cross-border e-commerce direct purchase store in trial. The attention of the customers is attracted with the fusion of the benefits of an experience store and online shopping store. Customers can buy numerous imported food products distributed by the Group in the direct purchase store. Many such food products are being sold directly in the Mainland market for the first time.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operations with internally generated cash flows and facilities granted by its principal bankers. As at 31 March 2016, the Group held cash and cash equivalents of HK$799,432,000. As at 31 March 2016, the Group had banking facilities of HK$2,823,381,000 of which 39% had been utilised. The Group had a gearing ratio of 81% as at 31 March 2016. This is expressed as the total bank borrowings to equity attributable to equity holders of the Company. Bank borrowings of the Group, denominated in Hong Kong dollars, Japanese yen, Renminbi and United States dollars, mainly comprise trust receipt loans and bank loans (the "Interest-Bearing Bank Borrowings") at prevailing market interest rates. The Interest-Bearing Bank Borrowings which are classified as current liabilities are repayable on demand or within one year and the Interest-Bearing Bank Borrowings in non-current liabilities are repayable in the second to third years.

STAFF EMPLOYMENT

The total number of employees of the Group as at 31 March 2016 was approximately 4,200. Remuneration packages are generally structured by reference to market terms and individual qualifications. Salaries and wages are normally reviewed annually based on performance appraisals and other relevant factors.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 March 2016.

CORPORATE GOVERNANCE

The Company and management are committed to maintaining good corporate governance with an emphasis on the principles of transparency, accountability and independence to all shareholders. The Company believes that good corporate governance is essential to continual growth and enhancement of shareholders' value. The Company periodically reviews its corporate governance practices with reference to the latest development of corporate governance. Throughout the year under review, the Company has applied the principles of and complied with most of the code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") except for the following deviations:

Code Provision A.4.1

Under the code provision A.4.1, non-executive directors should be appointed for a specific term, subject to re-election.

Currently, all independent non-executive directors of the Company are not appointed for a specific term but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the articles of association of the Company (the "Articles of Association"). As such, the Board considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the CG Code.

Code Provision A.4.2

Under the code provision A.4.2, all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their 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, any director appointed to fill a casual vacancy shall hold office only until the next following annual general meeting and shall then be eligible for re-election. The Board considers that such a deviation is not material as casual vacancy seldom appears and interval between the appointment made to fill casual vacancy and the immediate following annual general meeting is short.

Further information on the Company's corporate governance practices will be set out in the Corporate Governance Report contained in the Company's 2016 Annual Report, which will be sent to the shareholders in due course.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as the Company's code of conduct regarding securities transactions by directors of the Company (the "Code of Conduct"). Having made specific enquiry of all directors of the Company, the directors have confirmed that they have complied with the required standard of dealings as set out in the Code of Conduct throughout the year ended 31 March 2016.

The Company has also established the Code for Securities Transactions by Relevant Employees (the "Employees Code") on no less exacting terms than the Model Code for securities transactions by the employees who are likely to be in possession of inside information of the Company. No incident of non-compliance of the Employees Code by the employees was noted by the Company throughout the year ended 31 March 2016.

AUDIT COMMITTEE

The Audit Committee of the Company comprises all the three independent non-executive directors, namely Ms. Leung Mei Han (Chairperson of the Audit Committee), Mr. Chan Yuk Sang, Peter and Mr. Tsunao Kijima. The Audit Committee has considered and reviewed the accounting principles and practices adopted by the Group and has discussed with the management in relation to internal controls and financial reporting matters including a review of the Group's consolidated financial statements for the year ended 31 March 2016.

SCOPE OF WORK OF THE COMPANY'S AUDITORS

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 March 2016 as set out in this preliminary announcement have been agreed by the Company's auditors, Ernst & Young, to the amounts set out in the Group's consolidated financial statements for the year. The work performed by Ernst & Young in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently, no assurance has been expressed by Ernst & Young on this preliminary announcement.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

The Company's 2016 annual results announcement is published on the website of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk and the Company's website at www.fourseasgroup.com.hk. The annual report of the Company for the year ended 31 March 2016, containing information required by the Listing Rules, will be despatched to shareholders and published on the above websites in due course.

APPRECIATION

The Board of the Company would like to take this opportunity to thank our shareholders and business partners for their continuous support and the fellow directors and our staff for their dedication and hard work throughout the reporting year.

THE BOARD

As at the date of this announcement, the directors of the Company are Mr. TAI Tak Fung, Stephen, Ms. WU Mei Yung, Quinly, Mr. MAN Wing Cheung, Ellis, Mr. WU Wing Biu and Mr. NAM Chi Ming, Gibson as executive directors, Ms. LEUNG Mei Han, Mr. CHAN Yuk Sang, Peter and Mr. Tsunao KIJIMA as independent non-executive directors.

On behalf of the Board
Four Seas Mercantile Holdings Limited
TAI Tak Fung, Stephen, *GBS, SBS, JP*
Chairman

Hong Kong, 29 June 2016