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 2018

RESULTS

The board of directors (the "Board") of Four Seas Mercantile Holdings Limited (the "Company") announce the preliminary consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 March 2018, 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 2018

	Notes	**2018**	2017
		HK$'000	*HK$'000*
REVENUE	4	**3,002,437**	2,948,289
Cost of sales		**(2,039,739)**	(2,028,309)
Gross profit		**962,698**	919,980
Other income and gains	4	**338,789**	132,317
Selling and distribution expenses		**(595,794)**	(645,036)
Administrative expenses		**(301,758)**	(297,944)
Other operating expenses		**(12,208)**	(14,903)
Finance costs	5	**(15,496)**	(16,785)
Share of profits and losses of associates		**11,104**	748
PROFIT BEFORE TAX	3 & 6	**387,335**	78,377
Income tax expense	7	**(35,594)**	(24,978)
PROFIT FOR THE YEAR		**351,741**	53,399
Attributable to:			
Equity holders of the Company		**347,703**	50,274
Non-controlling interests		**4,038**	3,125
		351,741	53,399
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
- Basic and diluted	9	**HK90.5 cents**	HK13.1 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 March 2018

	2018	2017
	HK$'000	*HK$'000*
PROFIT FOR THE YEAR	**351,741**	53,399
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:		
Available-for-sale investments:		
Changes in fair value	**100**	39
Reclassification adjustment for gain included in the consolidated statement of profit or loss - gain on disposal	**-**	(16)
	100	23
Exchange differences:		
Exchange differences on translation of foreign operations	**87,271**	(54,789)
Reclassification adjustments for foreign operations disposed of during the year	**-**	(6,067)
Share of other comprehensive income/(loss) of associates	**526**	(3,396)
	87,797	(64,252)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX	**87,897**	(64,229)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR	**439,638**	(10,830)
Attributable to:		
Equity holders of the Company	**432,617**	(12,452)
Non-controlling interests	**7,021**	1,622
	439,638	(10,830)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
31 March 2018

	Notes	2018	2017
		HK$'000	*HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**524,555**	502,319
Investment property		**21,250**	18,607
Prepaid land lease payments		**94,849**	88,277
Goodwill		**46,674**	43,680
Other intangible assets		**2,351**	4,172
Investments in associates		**170,543**	158,735
Available-for-sale investments		**4,788**	1,188
Deposits		**29,359**	30,721
Deferred tax assets		**8,442**	8,629
Total non-current assets		**902,811**	856,328
CURRENT ASSETS			
Inventories		**356,913**	273,836
Trade receivables	10	**587,270**	551,098
Prepayments, deposits and other receivables		**115,291**	142,098
Tax recoverable		**427**	8,211
Financial assets at fair value through profit or loss		**49,545**	47,444
Cash and cash equivalents		**802,085**	839,440
		1,911,531	1,862,127
Assets held for sale	12	**-**	45,307
Total current assets		**1,911,531**	1,907,434
CURRENT LIABILITIES			
Trade payables, other payables and accruals	11	**364,236**	365,034
Interest-bearing bank borrowings		**766,092**	930,120
Tax payable		**18,040**	20,363
Total current liabilities		**1,148,368**	1,315,517
NET CURRENT ASSETS		**763,163**	591,917
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,665,974**	1,448,245

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

31 March 2018

	2018	2017
	HK$'000	*HK$'000*
NON-CURRENT LIABILITIES		
Interest-bearing bank borrowings	**9,141**	82,469
Deferred tax liabilities	**18,700**	18,043
Total non-current liabilities	**27,841**	100,512
Net assets	**1,638,133**	1,347,733
EQUITY		
Equity attributable to equity holders of the Company		
Issued capital	**38,425**	38,425
Reserves	**1,564,011**	1,279,675
	1,602,436	1,318,100
Non-controlling interests	**35,697**	29,633
Total equity	**1,638,133**	1,347,733

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, 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, financial instruments at fair value through profit or loss and certain available-for-sale investments which have been measured at fair value. Non-current assets classified as held for sale in the prior year were stated at the lower of carrying amounts and fair values less costs to sell. 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 2018. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Company:

- has power over the investee;
- 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.

1. BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

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.

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 HKFRSs for the first time for the current year's financial statements.

Amendments to HKAS 7	*Disclosure Initiative*
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
Amendments to HKFRS 12 included in *Annual Improvements to HKFRSs 2014-2016 Cycle*	*Disclosure of Interests in Other Entities: Clarification of the Scope of HKFRS 12*

None of the above amendments to HKFRSs has had a significant financial effect on these financial statements. Disclosure has been made to the financial statements upon the adoption of amendments to HKAS 7, which require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

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, ham and ham-related products, noodles, and the operations of restaurants.

3. OPERATING SEGMENT INFORMATION (continued)

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, 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	
	2018	2017	**2018**	2017	**2018**	2017
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue:						
Sales to external customers*	**2,031,917**	2,030,204	**970,520**	918,085	**3,002,437**	2,948,289
Intersegment sales	**13,950**	11,450	**173,110**	194,868	**187,060**	206,318
	2,045,867	2,041,654	**1,143,630**	1,112,953	**3,189,497**	3,154,607
Reconciliation:						
Elimination of intersegment sales					**(187,060)**	(206,318)
Revenue					**3,002,437**	2,948,289
Segment results	**415,388**	67,589	**(9,682)**	26,952	**405,706**	94,541
Reconciliation:						
Interest income					**5,731**	3,497
Dividend income and unallocated gains					**7,150**	20,257
Finance costs					**(15,496)**	(16,785)
Share of profits and losses of associates					**11,104**	748
Corporate and other unallocated expenses					**(26,860)**	(23,881)
Profit before tax					**387,335**	78,377
Segment assets	**1,113,959**	1,139,995	**1,006,728**	882,392	**2,120,687**	2,022,387
Reconciliation:						
Elimination of intersegment receivables					**(342,175)**	(322,272)
Investments in associates					**170,543**	158,735
Corporate and other unallocated assets					**865,287**	904,912
Total assets					**2,814,342**	2,763,762
Segment liabilities	**370,188**	376,341	**336,223**	310,965	**706,411**	687,306
Reconciliation:						
Elimination of intersegment payables					**(342,175)**	(322,272)
Corporate and other unallocated liabilities					**811,973**	1,050,995
Total liabilities					**1,176,209**	1,416,029
Other segment information:						
Impairment of trade receivables	**49**	79	**1,662**	70	**1,711**	149
Write-down of slow-moving inventories	**132**	990	**6,197**	5,588	**6,329**	6,578
Depreciation and amortisation	**27,387**	28,789	**41,195**	41,955	**68,582**	70,744
Gain on disposal of subsidiaries	**-**	38,306	**-**	61,740	**-**	100,046
Gain on disposal of assets held for sale	**302,300**	-	**-**	-	**302,300**	-
Capital expenditure**	**22,400**	60,561	**31,467**	21,715	**53,867**	82,276
Non-current assets***	**188,426**	195,114	**501,253**	461,941	**689,679**	657,055

* 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.

*** The non-current assets 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

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

	Note	**2018**	2017
		HK$'000	*HK$'000*
Revenue		**3,002,437**	2,948,289
Other income			
Bank interest income		**5,731**	3,497
Commission income		**74**	228
Dividend income		**1,489**	591
Rental income		**1,281**	1,245
Others		**6,079**	6,583
		14,654	12,144
Gains			
Gain on disposal of assets held for sale	12	**302,300**	-
Gain on disposal of subsidiaries		**-**	100,046
Amortisation of deferred gain	12	**15,584**	-
Fair value gain on an investment property		**590**	461
Fair value gains:			
Available-for-sale investments (transfer from equity on disposal)		**-**	16
Financial assets at fair value through profit or loss		**5,661**	19,650
		324,135	120,173
		338,789	132,317

5. FINANCE COSTS

An analysis of finance costs is as follows:

	2018	2017
	HK$'000	*HK$'000*
Interest on bank and trust receipt loans	**15,496**	16,785

6. PROFIT BEFORE TAX

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

	2018	2017
	HK$'000	*HK$'000*
Cost of inventories sold	**2,033,410**	2,021,731
Depreciation	**63,836**	65,971
Amortisation of prepaid land lease payments	**2,925**	2,952
Amortisation of other intangible assets	**1,821**	1,821
Minimum lease payments under operating leases	**175,280**	183,047
Auditors' remuneration#	**4,392**	4,037
Employee benefit expense (excluding directors' and chief executive's remuneration):		
Wages, salaries, allowances and benefits in kind	**363,365**	368,135
Pension scheme contributions*	**16,497**	17,330
	379,862	385,465
Loss on disposal/write-off of items of property, plant and equipment and prepaid land lease payments, net	**1,809**	5,515
Foreign exchange differences, net	**(1,809)**	2,839
Direct operating expenses (including repairs and maintenance) arising from a rental-earning investment property	**821**	782
Impairment of trade receivables**	**1,711**	149
Write-down of slow-moving inventories***	**6,329**	6,578

* At 31 March 2018, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2017: Nil).

** The 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.

Of the above auditors' remuneration, HK$3,199,000 (2017: HK$3,086,000) is payable to the Company's auditor for audit and related services.

7. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 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.

	2018	2017
	HK$'000	*HK$'000*
Current – Hong Kong		
Charge for the year	**26,350**	16,164
Current – Elsewhere		
Charge for the year	**6,188**	10,004
Underprovision/(overprovision) in prior years	**155**	(78)
Deferred	**2,901**	(1,112)
Total tax charge for the year	**35,594**	24,978

The share of tax attributable to associates amounting to HK$2,315,000 (2017: HK$2,710,000) is included in "Share of profits and losses of associates" in the consolidated statement of profit or loss.

8. DIVIDENDS

	2018	2017
	HK$'000	*HK$'000*
Interim – HK3.0 cents (2017: HK3.0 cents) per ordinary share	**11,528**	11,528
Declared special interim dividend – Nil (2017: HK30.0 cents) per ordinary share	**-**	115,277
Proposed final – HK6.5 cents (2017: HK6.5 cents) per ordinary share	**24,977**	24,977
Proposed special dividend – HK25.0 cents (2017: Nil) per ordinary share	**96,064**	-
	132,569	151,782

The proposed final and special dividends for the year are 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 2018 and 2017 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during the years ended 31 March 2018 and 2017.

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

	2018	2017
	HK$'000	*HK$'000*
Earnings		
Profit attributable to ordinary equity holders of the Company, used in the basic and diluted earnings per share calculation	**347,703**	50,274

	Number of shares	
	2018	2017
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**	384,257,640

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 ageing 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:

	2018	2017
	HK$'000	*HK$'000*
Within 1 month	**246,535**	224,648
1 to 2 months	**101,038**	94,584
2 to 3 months	**94,254**	89,117
Over 3 months	**145,443**	142,749
	587,270	551,098

Included in trade receivables is an amount due from a subsidiary of Hong Kong Food Investment Holdings Limited ("HKFH"), a substantial shareholder of the Company, of HK$314,000 as at 31 March 2017, which is 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$197,619,000 (2017: HK$164,943,000). An ageing analysis of the trade payables at the end of the reporting period, based on the invoice date, is as follows:

	2018	2017
	HK$'000	*HK$'000*
Within 1 month	**135,062**	112,067
1 to 2 months	**35,633**	25,884
2 to 3 months	**11,031**	11,710
Over 3 months	**15,893**	15,282
	197,619	164,943

Included in the trade payables are amounts due to the Group's associates of HK$42,085,000 (2017: HK$40,687,000) and a subsidiary of HKFH, a substantial shareholder of the Company, of HK$256,000 (2017: 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. ASSETS HELD FOR SALE, GAIN ON DISPOSAL OF ASSETS HELD FOR SALE AND AMORTISATION OF DEFERRED GAIN

On 20 March 2017, the Group entered into a sale and leaseback agreement with an independent third party to dispose of a property situated in Hong Kong (the "Property") for a cash consideration of HK$368,000,000 (the "Property Disposal"). The transaction was completed on 19 May 2017 (the "Completion Date"). As at 31 March 2017, the relevant leasehold land and building with a carrying amount of HK$45,307,000 included in Hong Kong operating segment was classified as held for sale.

Upon completion of the Property Disposal, the Group and the purchaser entered into a tenancy agreement, whereby the Group leased the Property from the purchaser for its own use for 1 year commencing on the Completion Date. The fair value of the Property near the Completion Date was determined by DTZ Cushman & Wakefield Limited, independent professionally qualified valuer. The excess of consideration over fair value of the Property has been deferred and amortised over the lease period, and the amortisation of the deferred gain amounting to HK$15,584,000 was recognised in the consolidated statement of profit or loss for the year ended 31 March 2018. The remaining balance of unamortised deferred gain amounting to HK$2,416,000 was recognised in the consolidated statement of financial position as at 31 March 2018.

During the year, a gain of HK$302,300,000 on disposal of assets held for sale before tax has been recognised in the consolidated statement of profit or loss.

13. EVENT AFTER THE REPORTING PERIOD

After the end of the reporting period, Elegant Town Investments Limited, an indirect wholly-owned subsidiary of the Company, entered into an agreement for the subscription of newly issued capital of Guangzhou Zaojiu Science And Technology Co., Ltd. ("GZ Zaojiu"), a company incorporated in Mainland China, at a total cash consideration of RMB21,760,000, representing approximately 6.58% of the enlarged capital of GZ Zaojiu. GZ Zaojiu is mainly engaging in the operation of cashier-free convenience stores in Mainland China under the brand name "EasyGo".

PROPOSED DIVIDENDS

The Board recommended the payment of a final dividend of HK6.5 cents in cash per ordinary share and a special dividend of HK25.0 cents in cash per ordinary share for the year ended 31 March 2018. Subject to the approval by the shareholders of the Company at the forthcoming annual general meeting of the Company to be held on Tuesday, 28 August 2018 (the "AGM"), the said final dividend and special dividend will be paid in cash on Thursday, 27 September 2018 to shareholders of the Company whose names appear on the register of members of the Company as at the close of business on Thursday, 6 September 2018. 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 2018 are HK34.5 cents (2017: HK39.5 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 Wednesday, 22 August 2018 to Tuesday, 28 August 2018, 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 should 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 Tuesday, 21 August 2018; and

(ii) from Tuesday, 4 September 2018 to Thursday, 6 September 2018, both days inclusive, for the purpose of ascertaining shareholders' entitlement to the proposed final and special dividends for the year ended 31 March 2018. In order to qualify for the said proposed final and special dividends, unregistered holders of shares of the Company should 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, 3 September 2018. The proposed final and special dividends are subject to the shareholders' approval at the AGM. The record date for entitlement to the proposed final and special dividends is Thursday, 6 September 2018 and the payment of final dividend and special dividend will be made on Thursday, 27 September 2018.

BUSINESS REVIEW AND PROSPECTS

During the year under review, the Group's command of the market and overall strategy made the business profitable and stable. The performance of both Hong Kong and the Mainland China showed progress. In response to global economic volatility and fluctuation in the exchange rate of Japanese Yen, the Group adopted a timely strategy to find a balance between product prices and consumer demand, while also capturing opportunities and successfully maintaining competitiveness and market share, further consolidating market leadership.

RESULTS

In the annual results for the year ended 31 March 2018, the Group's consolidated revenue increased to HK$3,002,437,000 (2017: HK$2,948,289,000). The sales derived from Hong Kong segment amounted to HK$2,031,917,000 (2017: HK$2,030,204,000), accounting for 68% of the Group's total sales. The sales in Mainland China segment amounted to HK$970,520,000 (2017: HK$918,085,000), corresponding to 32% of the Group's total sales. The profit for the year attributable to equity holders of the Company stood at HK$347,703,000 (2017: HK$50,274,000). The increase of profit was mainly attributable to the one-off gain on the completion of disposal of a property located in Sai Kung, New Territories by the Group in the year under review.

BUSINESS REVIEW

Established in 1971, the Group has developed into a well-known brand in Hong Kong and Mainland China over the past half century. Its multifaceted businesses cover food distribution, manufacturing, catering and creating own-brand products aiming at customer segments of all ages, as well as satisfying market demand.

The Group provides many different products from more than 20 countries and regions through its strong distribution network that covers retailers, convenience store chains, supermarkets, department stores, restaurants, hotels and airlines. It also operates Japanese snack stores "Okashi Land", cookie stores "YOKU MOKU", and concept store "Calbee PLUS" in Hong Kong.

BUSINESS REVIEW (continued)

Distribution Business

Food distribution, the core business of the Group, has been developing steadily. Through the comprehensive distribution network, outstanding sales team, effective marketing strategy and shrewd vision, the Group sources unique and high-quality products from all over the world for food lovers. It selects food items from Asia, such as Mainland China, Japan, Korea, Thailand, Indonesia, Malaysia and Singapore. It also supplies food items from Britain, France, Germany, Holland and the United States. Moreover, in order to meet the needs of different customers, a wide variety of products are provided, such as snacks, milk powder, sauces, ham and sausages.

Manufacturing Business

In the field of food product manufacturing, the Group has gained market trust and confidence with its guaranteed quality. The Group has received numerous international accreditations including "HACCP", "ISO 9001", "ISO 22000", "Certification under Hong Kong Q-Mark Product Scheme for over 20 years" and "HKQAA Hong Kong Registration - Cooking Oil Registration Scheme Certification" from the Hong Kong Quality Assurance Agency. The Group has 19 processing plants in Hong Kong and Mainland China. With stringent quality control and sophisticated monitoring systems, the Group produces a wide range of food products that suit different customer needs, and distributes products through its one-stop business platform, consolidating its leadership in the food market.

Retailing and Catering Business

The Group strives for innovation in its retailing and catering business. Early this year, the Group opened a new specialty store "Okashi Galleria" in Tsim Sha Tsui offering famous Japanese brands, including, "Japan Ice-cream House", which is an affiliated store of "Okashi Land" and provides varieties of renowned Japanese ice-cream, such as SEIKA from Kagoshima and Cremia; and also "Qjiki", a well-known innovative Japanese brand of Kagoshima fried fish cake. The Group also successfully launched "Sushiyoshi", a Michelin-2-Starred restaurant from Osaka.

In addition, the Group's other retail specialty stores have recorded solid sales, such as the Japanese snack stores "Okashi Land", cookie stores "YOKU MOKU" and concept store "Calbee PLUS". Attributing to advanced management and high quality catering services, the Group's restaurants in both Hong Kong and Guangdong have become famous, including Japanese style restaurant "Shiki•Etsu", "Kung Tak Lam Shanghai Vegetarian Cuisine", and Japanese style dumpling fast food shop "Osaka Ohsho" in Hong Kong, along with the "Panxi Restaurant" in Guangzhou, while Japanese restaurant "Mori Café" and sushi restaurant "Sushi Oh" are also proving popular in Mainland China.

BRAND DEVELOPMENT

The Group pays extreme care to food hygiene, safety and quality in order to live by its motto “Eating Safely, Eating Happily”, establishing a comprehensive supervisory system to ensure maximum product safety, quality and taste.

The Group has grown up together with Hong Kong, evolving into an acclaimed brand. In the early days, Japanese food distribution was the Group’s major business. After years of consistent effort, the scale of the Group has increased to expand its business into food manufacturing and retailing, establishing the foundation of the “Four Seas” brand. The brand has been so well received that last year the Group was awarded the “Hong Kong Top Brand Mark (Top Mark)” presented by the Hong Kong Brand Development Council and the Chinese Manufacturers’ Association of Hong Kong. It has also received “Hong Kong’s Most Valuable Companies Award 2018” presented by Mediazone Publishing. While striving for growth of local business, the Group is also proactively developing the Mainland China market through its excellent brand image. The Group is dedicated to act as a bridge between Mainland China and the world by introducing overseas cuisine to Mainland China, and also taking the food products of Mainland China to the international arena.

CORPORATE SOCIAL RESPONSIBILITY

In the spirit of “giving back as much as you take from society”, the Group has been devoted to serving the community. It has received the “Caring Company Award” from the Hong Kong Council of Social Service consecutively for 16 years. Last year, it was recognised as a “Manpower Developer 2013-2019” in the Manpower Developer Award Scheme of the Employees Retraining Board; named a “Hong Kong Outstanding Enterprise” and received the “Hong Kong Excellent Enterprise Award” presented by the Economic Digest. In addition, the Group sponsored Four Seas products for Junior Police Call, schools, the elderly, women’s care organisations, Kaifong welfare associations and community organisations in order to support different sectors of the community and share the Group’s spirit of “Eating Happily”.

CORPORATE SOCIAL RESPONSIBILITY (continued)

The Group's various businesses have also been highly appreciated. Calbee Four Seas Company Limited ("Calbee Four Seas") received the "Good MPF Employer Award 2017/18" presented by the Mandatory Provident Fund Schemes Authority; the "Joyful@Healthy Workplace Best Practices Award" from the Occupational Safety & Health Council; the "Supreme Supermarket Brand" and "Star Supermarket Brand (Snack)" of "PARKnSHOP Super Brands Award"; the "Most Favorite Brand of Convenience Stores Award" from 7-Eleven Convenience Store and the "Outstanding Category Performance Award" from Wellcome Supermarket. The specialty store "Okashi Land" and cookie store "YOKU MOKU" were both accredited "QTS Merchant" by the Quality Tourism Services Scheme of the Hong Kong Tourism Board. Four Seas Seaweed received the "Most Popular Snack Series" accolade in the Health Beauty Well-being Awards by Mannings China. The "Kung Tak Lam Shanghai Vegetarian Cuisine" was once again the only vegetarian restaurant honored with a Bib Gourmand Award by "The MICHELIN Guide Hong Kong Macau 2018".

PROSPECTS

"Based in Hong Kong, Reaching for the Mainland" is the Group's future development strategy. While developing its business in the Hong Kong food industry, the Group is determined to explore the potential food market in Mainland China so as to seize unprecedented opportunities.

Business in Hong Kong

Based in Hong Kong, the Group will continue to uphold its leading position in the food market, and introduce more food products to customers to enhance its market share. This year, the Group has successfully launched a Michelin-starred Japanese sushi restaurant "Sushiyoshi" in Tsim Sha Tsui. The restaurant mainly provides traditional Japanese cuisine with the whole menu being decided by the chef, featuring Japanese sushi tradition that has been well received by customers.

In light of the rapid development of the e-sport market, the Group cooperated with Hero Entertainment, a Mainland China mobile electronic sports enterprise, to add new elements to traditional snacks through marketing and brand interaction. This cooperation can enable the Group to expand its business to the Greater China market. The cross-over not only widens the scope of customers in Hong Kong, it also attracts game members in the Mainland China who get to know and buy the Group's products via its online stores. This helps promote the performance of Hong Kong and Mainland China markets and gives a boost to future development. Due to the good response from the cooperation with Hero Entertainment, the Group will continue to look for similar business opportunities. The Group will launch new cross-over products to attract customers, such as the limited edition Four Seas Milk Drink with famous game characters printed on its packaging materials.

PROSPECTS (continued)

Business in Hong Kong (continued)

As the Group's sales continue to grow, Calbee Four Seas will expand its production lines and facilities in its factory premises located in Tseung Kwan O Industrial Estate. Output quantity will be increased to meet the market demand.

In the coming year, the Group will keep introducing various new types of products to customers in order to attract more food lovers. It will also continue to seize opportunities in the market to broaden its sales network and enhance the Group's leading position.

Business in Mainland China

The Group has been steadily committed to explore the Mainland China market, which is enormous with strong potential. In order to grasp new business opportunities and broaden its sales network, including the e-commerce business, the Group will try to increase its international trade of food imports and e-commerce business to keep up with social trends by developing its wholly-owned company in the Nansha New District in the Guangdong Free Trade Zone. Currently, the Group's products are available on a number of e-commerce platforms in Mainland China, such as Taobao, Tmall, Tmall Global and Jingdong, catering for food lovers in the country anytime and anywhere.

The Group has seen growing demand for quality food in the Mainland China, with the Four Seas Milk Drink being well received after proactive market promotion. It will continue to promote the Four Seas brand as well as other brands to the Mainland China. The Group believes that the Mainland China market has profound potential and full of business opportunities.

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 2018, the Group held cash and cash equivalents of HK$802,085,000. As at 31 March 2018, the Group had banking facilities of HK$2,548,062,000 of which 30% had been utilised. The Group had a gearing ratio of 48% as at 31 March 2018. This is expressed as the total bank borrowings to equity attributable to equity holders of the Company. Bank borrowings of the Group, denominated in Hong Kong dollars, Japanese yen and Renminbi, mainly comprise trust receipt loans and bank loans (the "Interest-Bearing Bank Borrowings") at prevailing market interest rates. The Interest-Bearing Bank Borrowings which are classified as current liabilities are repayable on demand or within one year and the Interest-Bearing Bank Borrowings in non-current liabilities are repayable in the second year.

The proceeds from the Property Disposal have been utilised as to (i) approximately HK$115,277,000 for the distribution of the special interim dividend for the year ended 31 March 2017 to the shareholders of the Company; (ii) approximately HK$2,500,000 for the associated direct costs for the Property Disposal; and (iii) approximately HK$250,223,000 for the general working capital of the Group.

STAFF EMPLOYMENT AND REMUNERATION POLICIES

The total number of employees of the Group as at 31 March 2018 was approximately 3,700. 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 2018.

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 of Hong Kong Limited (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.

CORPORATE GOVERNANCE (continued)

Code Provision E.1.2

Under the code provision E.1.2, the chairman of the board should attend the annual general meeting. The chairman of the board of the Company, Mr. TAI Tak Fung, Stephen, was unable to attend the annual general meeting of the Company held on 30 August 2017 ("2017 AGM") as he had another important engagement on the same day. Ms. WU Mei Yung, Quinly, the managing director of the Company, attended and took the chair of the 2017 AGM.

Further information on the Company's corporate governance practices will be set out in the Corporate Governance Report contained in the Company's 2018 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 2018.

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 2018.

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 risk management and internal control systems and financial reporting matters including a review of the Group's consolidated financial statements for the year ended 31 March 2018.

SCOPE OF WORK OF THE COMPANY'S AUDITOR

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 2018 as set out in this preliminary announcement have been agreed by the Company's auditor, 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 2018 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 2018, 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, Mr. NAM Chi Ming, Gibson and Mr. TAI Chun Kit 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, *GBM, GBS, SBS, JP*
Chairman

Hong Kong, 28 June 2018