

# Asia Grocery Distribution Limited

## 亞洲雜貨有限公司

*(Incorporated in the Cayman Islands with limited liability)*

Stock code : 8413



2020/21

THIRD  
QUARTERLY  
REPORT

## CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

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*This report, for which the directors (the “**Directors**”) of Asia Grocery Distribution Limited (the “**Company**”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “**GEM Listing Rules**”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.*

## HIGHLIGHTS

- The Group recorded revenue of approximately HK\$176,930,000 for the nine months ended 31 December 2020 (nine months ended 31 December 2019: approximately HK\$149,084,000).
- Profit attributable to owners of the Company for the nine months ended 31 December 2020 amounted to approximately HK\$2,196,000 (nine months ended 31 December 2019 amounted to approximately HK\$678,000).
- The Directors do not recommend the payment of any dividend for the nine months ended 31 December 2020 (nine months ended 31 December 2019: nil).

## THIRD QUARTERLY RESULTS

The board (the “Board”) of Directors is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the three and nine months ended 31 December 2020, together with the unaudited comparative figures for the corresponding periods in 2019, as follows:

### CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three and nine months ended 31 December 2020

|                                                                                                           | Notes | Three months ended<br>31 December |                                 | Nine months ended<br>31 December |                                 |
|-----------------------------------------------------------------------------------------------------------|-------|-----------------------------------|---------------------------------|----------------------------------|---------------------------------|
|                                                                                                           |       | 2020<br>HK\$'000<br>(unaudited)   | 2019<br>HK\$'000<br>(unaudited) | 2020<br>HK\$'000<br>(unaudited)  | 2019<br>HK\$'000<br>(unaudited) |
| <b>Revenue</b>                                                                                            | 3     | <b>72,570</b>                     | 50,479                          | <b>176,930</b>                   | 149,084                         |
| Costs of sales                                                                                            |       | <b>(59,533)</b>                   | (38,232)                        | <b>(141,512)</b>                 | (112,827)                       |
| <b>Gross profit</b>                                                                                       |       | <b>13,037</b>                     | 12,247                          | <b>35,418</b>                    | 36,257                          |
| Other income                                                                                              | 4     | <b>858</b>                        | 162                             | <b>2,513</b>                     | 408                             |
| Other gain and losses, net                                                                                | 4     | <b>(3)</b>                        | (34)                            | <b>(16)</b>                      | (960)                           |
| Selling and distribution expenses                                                                         |       | <b>(6,664)</b>                    | (5,628)                         | <b>(17,136)</b>                  | (16,961)                        |
| Administrative expenses                                                                                   |       | <b>(6,167)</b>                    | (5,521)                         | <b>(18,060)</b>                  | (17,672)                        |
| Finance costs                                                                                             | 5     | <b>(62)</b>                       | (2)                             | <b>(217)</b>                     | (6)                             |
| <b>Profit before taxation</b>                                                                             | 6     | <b>999</b>                        | 1,224                           | <b>2,502</b>                     | 1,066                           |
| Income tax expense                                                                                        | 7     | <b>(89)</b>                       | (244)                           | <b>(306)</b>                     | (388)                           |
| <b>Profit and total comprehensive income<br/>for the period attributable to<br/>owners of the Company</b> |       | <b>910</b>                        | 980                             | <b>2,196</b>                     | 678                             |
| <b>Earnings per share</b>                                                                                 |       |                                   |                                 |                                  |                                 |
| Basic (HK cents)                                                                                          | 9     | <b>0.08</b>                       | 0.08                            | <b>0.19</b>                      | 0.06                            |

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended 31 December 2020

|                                                      | Attributable to owners of the Company |                           |                            |                                 |                   |
|------------------------------------------------------|---------------------------------------|---------------------------|----------------------------|---------------------------------|-------------------|
|                                                      | Share capital<br>HK\$'000             | Share premium<br>HK\$'000 | Other reserves<br>HK\$'000 | Accumulated profits<br>HK\$'000 | Total<br>HK\$'000 |
| At 1 April 2020 (audited)                            | 11,620                                | 62,742                    | 5,584                      | 22,805                          | 102,751           |
| Profit and total comprehensive income for the period | –                                     | –                         | –                          | 2,196                           | 2,196             |
| At 31 December 2020 (unaudited)                      | 11,620                                | 62,742                    | 5,584                      | 25,001                          | 104,947           |
| At 1 April 2019 (audited)                            | 11,620                                | 62,742                    | 5,584                      | 26,378                          | 106,324           |
| Profit and total comprehensive income for the period | –                                     | –                         | –                          | 678                             | 678               |
| At 31 December 2019 (unaudited)                      | 11,620                                | 62,742                    | 5,584                      | 27,056                          | 107,002           |

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 1. GENERAL INFORMATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands under the Companies Law (2016 Revision) of the Cayman Islands on 29 September 2016. The shares of the Company (the “**Shares**”) have been listed on the GEM of the Stock Exchange (the “**Listing**”) since 13 April 2017. Its ultimate and immediate holding company is Sky Alpha Investments Limited (“**Sky Alpha**”), an entity incorporated in the British Virgin Islands. The address of the Company’s registered office and principal place of business in Hong Kong is P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands and The Whole of Upper Ground Floor, Mai Tong Industrial Building, No.22 Sze Shan Street, Kowloon, Hong Kong, respectively.

The Company is an investment holding company. The Group is principally engaged in trading and distribution of food and beverage grocery products in Hong Kong.

The unaudited condensed consolidated financial statements are presented in Hong Kong dollars (“**HK\$**”) which is also the functional currency of the Company.

## 2. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements for nine months ended 31 December 2020 are prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”) which is a collective term that includes all applicable individual HKFRSs, Hong Kong Accounting Standards (“**HKASs**”), and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”). The unaudited consolidated financial statements also include the applicable disclosure requirements of the Hong Kong Companies Ordinance and the GEM Listing Rules.

The accounting policies and methods of computation used in the preparation of the unaudited condensed consolidated financial statements are consistent with those adopted in preparing the audited financial statements for the year ended 31 March 2020.

In the current period, the Group has adopted all the new and revised HKFRSs, amendments to HKASs and Interpretations (hereinafter collectively referred to as “**new and revised HKFRSs**”) issued by HKICPA that are relevant to the Group and effective for accounting periods beginning on or after 1 April 2020. The adoption of these new and revised HKFRSs did not result in significant changes to the Group’s accounting policies and amounts reported for the current and prior periods.

The Group has not early adopted the new and revised HKFRSs issued by HKICPA that have been issued but are not yet effective for the current period.

The unaudited condensed consolidated financial statements have been prepared under the historical cost basis except for certain financial instruments that are measured at fair values as appropriate. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

The preparation of the unaudited condensed consolidated financial statements in conformity with the HKFRSs requires the use of certain critical accounting estimates. It also requires the management to exercise their judgements in the process of applying the Group's accounting policies.

The unaudited condensed consolidated financial statements have not been audited by the Company's independent auditor, but have been reviewed by the Company's audit committee.

### 3. REVENUE

All revenue contracts are for period of one year or less, as permitted by practical expedient under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

|                                                                      | Three months ended<br>31 December |                                 | Nine months ended<br>31 December |                                 |
|----------------------------------------------------------------------|-----------------------------------|---------------------------------|----------------------------------|---------------------------------|
|                                                                      | 2020<br>HK\$'000<br>(unaudited)   | 2019<br>HK\$'000<br>(unaudited) | 2020<br>HK\$'000<br>(unaudited)  | 2019<br>HK\$'000<br>(unaudited) |
| Disaggregation of revenue from contracts with customers              |                                   |                                 |                                  |                                 |
| An analysis of the Group's turnover is by types of goods as follows: |                                   |                                 |                                  |                                 |
| Commodities and cereal products ( <i>Note a</i> )                    | 16,087                            | 14,015                          | 42,317                           | 41,358                          |
| Packaged food ( <i>Note b</i> )                                      | 31,249                            | 11,463                          | 49,171                           | 33,554                          |
| Sauce and condiment                                                  | 11,116                            | 11,424                          | 30,326                           | 34,095                          |
| Dairy products and eggs                                              | 7,276                             | 7,365                           | 20,390                           | 21,830                          |
| Beverage and wine                                                    | 3,476                             | 3,489                           | 9,676                            | 10,047                          |
| Kitchen and hygiene products ( <i>Note c</i> )                       | 3,366                             | 2,723                           | 25,050                           | 8,200                           |
| Total revenue at a point in time                                     | 72,570                            | 50,479                          | 176,930                          | 149,084                         |
| Time of revenue recognition                                          |                                   |                                 |                                  |                                 |
| At a point in time                                                   | 72,570                            | 50,479                          | 176,930                          | 149,084                         |
| Over time                                                            | –                                 | –                               | –                                | –                               |
|                                                                      | 72,570                            | 50,479                          | 176,930                          | 149,084                         |

The customers of the Group is solely in Hong Kong. Contract with the Group's customers are fixed price contracts.

Notes:

- (a) Commodities and cereal products include rice, wheat flour, noodle products such as ramen and pasta, edible oil as well as sugar and salt.
- (b) Packaged food includes processed products such as meat and vegetables in preserved, canned, frozen and other forms, as well as snacks and pre-packaged food items.
- (c) Kitchen and hygiene products include food wrap and food related products such as cling film, baking sheet, foil, cleaning products such as detergent, bleach, liquid soap and others such as face masks, tissue paper, toothpick and towel.

#### 4. OTHER INCOME AND GAIN AND LOSSES, NET

|                                                               | Three months ended<br>31 December |                                 | Nine months ended<br>31 December |                                 |
|---------------------------------------------------------------|-----------------------------------|---------------------------------|----------------------------------|---------------------------------|
|                                                               | 2020<br>HK\$'000<br>(unaudited)   | 2019<br>HK\$'000<br>(unaudited) | 2020<br>HK\$'000<br>(unaudited)  | 2019<br>HK\$'000<br>(unaudited) |
| <b>Other income</b>                                           |                                   |                                 |                                  |                                 |
| Interest income                                               | 13                                | 119                             | 35                               | 359                             |
| Sundry income                                                 | 29                                | 43                              | 101                              | 49                              |
| Rent concession                                               | 7                                 | –                               | 89                               | –                               |
| Government subsidy                                            | 809                               | –                               | 2,288                            | –                               |
|                                                               | <b>858</b>                        | 162                             | <b>2,513</b>                     | 408                             |
| <b>Other gain and losses, net</b>                             |                                   |                                 |                                  |                                 |
| Bad debts written off                                         | (3)                               | (34)                            | (16)                             | (34)                            |
| Bad debts reversal                                            | –                                 | –                               | –                                | 1                               |
| Loss on disposal of items of property,<br>plant and equipment | –                                 | –                               | –                                | (927)                           |

#### 5. FINANCE COSTS

|                                                                   | Three months ended<br>31 December |                                 | Nine months ended<br>31 December |                                 |
|-------------------------------------------------------------------|-----------------------------------|---------------------------------|----------------------------------|---------------------------------|
|                                                                   | 2020<br>HK\$'000<br>(unaudited)   | 2019<br>HK\$'000<br>(unaudited) | 2020<br>HK\$'000<br>(unaudited)  | 2019<br>HK\$'000<br>(unaudited) |
| Interests on lease liabilities/obligation<br>under finance leases | 62                                | 2                               | 217                              | 6                               |



## 6. PROFIT BEFORE TAXATION

|                                                                                | Three months ended<br>31 December |                                 | Nine months ended<br>31 December |                                 |
|--------------------------------------------------------------------------------|-----------------------------------|---------------------------------|----------------------------------|---------------------------------|
|                                                                                | 2020<br>HK\$'000<br>(unaudited)   | 2019<br>HK\$'000<br>(unaudited) | 2020<br>HK\$'000<br>(unaudited)  | 2019<br>HK\$'000<br>(unaudited) |
| Profit before taxation has been arrived at after charging:                     |                                   |                                 |                                  |                                 |
| Directors' remuneration                                                        | 1,224                             | 907                             | 3,054                            | 2,731                           |
| Other staff costs                                                              |                                   |                                 |                                  |                                 |
| Salaries and other benefits                                                    | 3,300                             | 2,952                           | 8,961                            | 8,471                           |
| Retirement benefits scheme contributions                                       | 139                               | 117                             | 373                              | 350                             |
| Total staff costs                                                              | 4,663                             | 3,976                           | 12,388                           | 11,552                          |
| Depreciation of property, plant and equipment                                  | 511                               | 566                             | 1,549                            | 1,644                           |
| Depreciation of right-of-use assets                                            | 839                               | –                               | 2,515                            | –                               |
| Auditor's remuneration – audit service                                         | 180                               | 359                             | 540                              | 679                             |
| Minimum lease payments under operating leases in respect of land and buildings | –                                 | 916                             | –                                | 3,709                           |
| Expenses relating to short term lease                                          | 53                                | –                               | 163                              | –                               |
| Cost of inventories recognised as an expense                                   | 59,533                            | 38,232                          | 141,512                          | 112,827                         |

## 7. INCOME TAX EXPENSE

|                        | Three months ended<br>31 December |                                 | Nine months ended<br>31 December |                                 |
|------------------------|-----------------------------------|---------------------------------|----------------------------------|---------------------------------|
|                        | 2020<br>HK\$'000<br>(unaudited)   | 2019<br>HK\$'000<br>(unaudited) | 2020<br>HK\$'000<br>(unaudited)  | 2019<br>HK\$'000<br>(unaudited) |
| Hong Kong Profits Tax: |                                   |                                 |                                  |                                 |
| – Current tax          | 89                                | 244                             | 306                              | 388                             |

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK\$2,000,000 of assessable profits of qualifying corporations will be taxed at 8.25%, and assessable profits above HK\$2,000,000 will be taxed at 16.5%. The assessable profits of corporations not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

Accordingly, the Hong Kong profits tax for the nine months ended 31 December 2020 is calculated at 8.25% on the first HK\$2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK\$2 million.

## 8. DIVIDEND

No dividend has been paid or proposed by the Company during the nine months ended 31 December 2020. The Directors do not recommend the payment of any dividend for the nine months ended 31 December 2020 (nine months ended 31 December 2019: nil).

## 9. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the following data:

|                                                                                                    | Three months ended<br>31 December |                                 | Nine months ended<br>31 December |                                 |
|----------------------------------------------------------------------------------------------------|-----------------------------------|---------------------------------|----------------------------------|---------------------------------|
|                                                                                                    | 2020<br>HK\$'000<br>(unaudited)   | 2019<br>HK\$'000<br>(unaudited) | 2020<br>HK\$'000<br>(unaudited)  | 2019<br>HK\$'000<br>(unaudited) |
| <b>Earnings:</b>                                                                                   |                                   |                                 |                                  |                                 |
| Earnings for the purpose of calculating basic earnings per share                                   |                                   |                                 |                                  |                                 |
| – Profit for the period attributable to owners of the Company                                      | 910                               | 980                             | 2,196                            | 678                             |
|                                                                                                    | '000                              | '000                            | '000                             | '000                            |
| <b>Number of shares</b>                                                                            |                                   |                                 |                                  |                                 |
| Weighted average number of ordinary shares for the purpose of calculating basic earnings per share | 1,162,000                         | 1,162,000                       | 1,162,000                        | 1,162,000                       |

Diluted and basic earnings per share were the same for both periods as there were no potential ordinary shares in issue for both periods.

## 10. MATERIAL RELATED PARTY TRANSACTIONS

The Group did not enter into any material related party transactions during both periods.

### Compensation of key management personnel

The remuneration of directors and other members of key management during the nine months ended 31 December 2020 were as follows:

|                          | Three months ended<br>31 December |                                 | Nine months ended<br>31 December |                                 |
|--------------------------|-----------------------------------|---------------------------------|----------------------------------|---------------------------------|
|                          | 2020<br>HK\$'000<br>(unaudited)   | 2019<br>HK\$'000<br>(unaudited) | 2020<br>HK\$'000<br>(unaudited)  | 2019<br>HK\$'000<br>(unaudited) |
| Short term benefits      | 1,926                             | 1,593                           | 5,173                            | 4,768                           |
| Post employment benefits | 38                                | 38                              | 120                              | 114                             |
|                          | 1,964                             | 1,631                           | 5,293                            | 4,882                           |

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

The Group is an established food and beverage grocery distributor in Hong Kong with over 40 years of experience in the food and beverage grocery distribution industry. The Group's customers include restaurants, non-commercial dining establishments, hotels and private clubs, food processing operators and wholesalers in Hong Kong. The Group also offers product sourcing, repackaging, quality assurance, warehousing and storage, transportation as well as other value-added services to provide one-stop food and beverage grocery distribution solutions to the customers. The Group's product portfolio ranges from food commodities, specialty food ingredients to kitchen products which can be broadly categorised into (i) commodities and cereal products; (ii) packaged food; (iii) sauce and condiment; (iv) dairy products and eggs; (v) beverage and wine; and (vi) kitchen and hygiene products.

The Group's business model, revenue structure and cost structure basically remain unchanged after the Listing. Based on the unaudited financial information of our Group, our revenue was approximately HK\$176,930,000 for the nine months ended 31 December 2020, representing an increase of approximately 18.7% as compared to approximately HK\$149,084,000 in the corresponding period of 2019.

Year 2020 was a very difficult period for Hong Kong's food and beverage industry as a whole. Since the beginning of January 2020, the outbreak of Coronavirus Disease 2019 ("**COVID-19 outbreak**") has adversely affected the global business environment. Although the Group's operations continue as usual, the COVID-19 outbreak has caused temporary slowdown of demand and decrease in sales orders for our food and beverage products from our customers after the 2020 Chinese New Year. The Directors expect that it will take some time for the Hong Kong economy to recover to normal, and the COVID-19 outbreak will adversely affect the Group's results in the first half year of 2021. The Group will closely monitor the market conditions and seek suitable business opportunities in order to minimize the negative effects of the COVID-19 outbreak to our business.

## FINANCIAL REVIEW

### Revenue

During the nine months ended 31 December 2020, our revenue increased by approximately HK\$27,846,000 or approximately 18.7% to approximately HK\$176,930,000 (nine months ended 31 December 2019: approximately HK\$149,084,000), mainly due to the sharp increase in sales of our kitchen and hygiene products and packaged food. Our high-quality kitchen and hygiene products included face masks, gloves, bleach, kitchen paper and toilet paper, etc. The sales of kitchen and hygiene products increased by approximately HK\$16,850,000 to approximately HK\$25,050,000 for the nine months ended 31 December 2020 (nine months ended 31 December 2019: approximately HK\$8,200,000). Due to the COVID-19 outbreak in year 2020, people's awareness of hygiene was raised, there was an excess demand for face masks in Hong Kong. Our Group was able to source large quantity of supply of face masks from oversea suppliers. The sales of face masks contributed approximately HK\$16,126,000 to our revenue during the nine months ended 31 December 2020, compensated the decrease in sales of our food and beverage products. The sales of packaged food increased by approximately HK\$15,617,000 to approximately HK\$49,171,000 for the nine months ended 31 December 2020 (nine months ended 31 December 2019: approximately HK\$33,554,000) due to sales of our high-value packaged food, which included *ophiocordyceps sinensis* and wild ginseng in December 2020.

## Cost of sales

Our cost of sales solely represented cost of inventories sold, which represented the cost of finished goods purchased by us from suppliers. Our cost of sales represents the costs of products, net of discounts and rebates, charged by our suppliers. Our cost of sales increased by approximately HK\$28,685,000 or approximately 25.4% to approximately HK\$141,512,000 for the nine months ended 31 December 2020, as compared to approximately HK\$112,827,000 for the nine months ended 31 December 2019, due to the increased sales volumes and increase in cost of finished goods purchased from suppliers.

## Gross profit and gross profit margin

The Group's gross profit decreased by approximately 2.3% from approximately HK\$36,257,000 for the nine months ended 31 December 2019 to approximately HK\$35,418,000 for the nine months ended 31 December 2020. Gross profit decreased despite the sharp increase in revenue as the sales margins for face masks and high-value packaged food were low. The decrease in gross profit caused by decrease in sales of our food and beverage products outweighed the increase in gross profit generated by sales of face masks and high-value packaged food. For the nine months ended 31 December 2020, the Group's gross profit margin decreased to 20.0% as compared with the same period in 2019 at 24.3%.

## Other income

Other income represented interest income from bank deposits, rent concession, government subsidy and sundry income. Other income increased from approximately HK\$408,000 for the nine months ended 31 December 2019 to approximately HK\$2,513,000 for the nine months ended 31 December 2020 mainly due to the receipt of subsidy from the Employment Support Scheme launched by the government to provide time-limited financial support to employers to retain their employees who will otherwise be made redundant.

## Other gain and losses, net

The Group recorded other net losses of approximately HK\$16,000 for the nine months ended 31 December 2020 which was attributable to the written off of bad debts. During the nine months ended 31 December 2019, other net losses of approximately HK\$960,000 was recorded mainly due to the loss on disposal of items of property, plant and equipment. Since the Group reallocated its headquarters and principal place of business to newly rented office and warehouse in Yau Tong in May 2019, the Group disposed items of property, plant and equipment which included leasehold improvement, plant and machinery and furniture and equipment in the offices and warehouses in Kwun Tong during the nine months ended 31 December 2019.

## Selling and distribution expenses

Our selling and distribution expenses mainly comprised transportation expenses, commission expenses to sales persons based on a certain percentage of the gross profit on successful sales, staff costs for our sales team, advertising and marketing expenses. The slight increase of selling and distribution expenses of the Group were mainly due to increase in transportation expenses and advertising expenses, partially offset by decrease in entertainment expenses. The selling and distribution expenses accounted for approximately 9.7% and 11.4% of the total revenue for the nine months ended 31 December 2020 and 2019 respectively.

## Administrative expenses

For the nine months ended 31 December 2020, the Group's administrative expenses primarily comprised legal and professional fees, staff costs for administrative and management personnel, directors' remuneration, depreciation and insurance. Administrative expenses increased from approximately HK\$17,672,000 for the nine months ended 31 December 2019 to approximately HK\$18,060,000 for the nine months ended 31 December 2020. The increase of administrative expenses of the Group was mainly due to increase in staff costs, directors' remuneration and legal and professional fees, partially offset by decrease in rental expenses.

## Finance costs

Finance costs amounted to approximately HK\$217,000 for the nine months ended 31 December 2020, increased by approximately HK\$211,000 as compared to approximately HK\$6,000 for the nine months ended 31 December 2019. Finance costs of the Group represented interest expenses on finance leases.

## Income tax expense

For the nine months ended 31 December 2020 and 2019, our income tax expenses were approximately HK\$306,000 and HK\$388,000, respectively.

## Profit and total comprehensive income attributable to owners of the Company

For the nine months ended 31 December 2020 and 2019, the Group's profit and total comprehensive income attributable to owners of the Company was approximately HK\$2,196,000 and HK\$678,000. The increase of profit and total comprehensive income attributable to owners of the Company was mainly attributable to the decrease in disposal loss of items of property, plant and equipment and the receipt of government subsidy, partially offset by the increase in staff costs and legal and professional fees. Since the Group reallocated its headquarters and principal place of business to newly rented office and warehouse in Yau Tong in May 2019 and disposed large amount of items of property, plant and equipment in the existing offices and warehouses in Kwun Tong, therefore, a one-off loss on disposal of items of property, plant and equipment amounted to approximately HK\$927,000 was recorded during the nine months ended 31 December 2019. No such loss was recorded during the current period.

## Dividend

No dividend was paid, declared or proposed during the nine months ended 31 December 2020. The Directors do not recommend the payment of any dividend for the nine months ended 31 December 2020 (nine months ended 31 December 2019: nil).

No shareholder of the Company has waived or agreed to waive any dividends during the aforesaid period.

## LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2020, bank balances and cash of the Group amounted to approximately HK\$34,415,000 (as at 31 March 2020: approximately of HK\$54,001,000). The current ratios (current asset divided by current liabilities) of the Group were 7.8 times and 8.3 times as at 31 December 2020 and 31 March 2020 respectively. The Group generally financed its daily operations from internally generated cash flows. The Group financed its business expansion and new business opportunities from the net proceeds from the Listing. The remaining unused net proceeds as at 31 December 2020 were placed as interest bearing deposits with licensed bank in Hong Kong.

## GEARING RATIO

The total interest-bearing borrowing (i.e. finance leases) of the Group as at 31 December 2020 was HK\$3,891,000 (31 March 2020: HK\$6,297,000). The Group's gearing ratio as at 31 December 2020 was 3.7% (31 March 2020: 6.1%), which is calculated as the Group's total borrowing over the Group's total equity.

## SIGNIFICANT INVESTMENT, MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES

On 30 September 2020, Perfect Epoch Enterprises Limited, a wholly-owned subsidiary of the Company, and the vendors, who in aggregate hold 100% of the equity interests in Car-T (Shanghai) Biotech Co., Ltd ("**Car-T Biotech**"), mutually agreed to terminate the sale and purchase agreement in respect of the sale interests of Car-T Biotech. For further details, please refer to the announcement of the Company dated 30 September 2020.

During the nine months ended 31 December 2020, save for the abovementioned, the Group did not have any significant investment, material acquisition nor disposal of subsidiaries and affiliated companies.

## USE OF PROCEEDS AND ACTUAL PROGRESS OF THE GROUP'S BUSINESS OBJECTIVES

The net proceeds from the Listing (after deducting the underwriting fees and related expenses) amounted to approximately HK\$48,500,000. Following the Listing, in response to changing business environment and business development requirement of the Group, the Board has resolved to update the proposed use of the net proceeds for reasons as more fully explained in the paragraph headed "Reasons for the Update on Use of Proceeds" in the announcement of update on use of proceeds dated 27 March 2019 and supplemented by the announcement of the Company dated 14 August 2020. Set out below is the actual utilisation of net proceeds up to the date of this report:

|                                                           | Updated<br>use of net<br>proceeds<br>HK\$'000 | Utilised<br>HK\$'000 | Unutilised<br>HK\$'000 | Expected timeline<br>of full utilisation<br>of the unutilised<br>proceeds |
|-----------------------------------------------------------|-----------------------------------------------|----------------------|------------------------|---------------------------------------------------------------------------|
| Leasing of warehouse facility in Kowloon:                 |                                               |                      |                        |                                                                           |
| – Rental deposits                                         | 900                                           | (570)                | 330                    | On or before<br>31 December 2022                                          |
| – Rental payments                                         | 7,400                                         | (3,756)              | 3,644                  | On or before<br>31 December 2022                                          |
| – Renovation costs                                        | 7,000                                         | (3,607)              | 3,393                  | On or before<br>31 December 2022                                          |
| – Start-up costs for warehouse facility                   | 8,100                                         | (875)                | 7,225                  | On or before<br>31 December 2022                                          |
| Upgrade of Enterprise Resource Planning<br>("ERP") system | 12,560                                        | (4,164)              | 8,396                  | On or before<br>31 December 2022                                          |
| Conducting sales and marketing activities                 | 5,540                                         | (1,096)              | 4,444                  | On or before<br>31 December 2022                                          |
| Installation of new repackaging equipment                 | 3,500                                         | (237)                | 3,263                  | On or before<br>31 December 2022                                          |
| General working capital                                   | 3,500                                         | (3,500)              | –                      |                                                                           |
|                                                           | 48,500                                        | (17,805)             | 30,695                 |                                                                           |

As disclosed in the Prospectus, the Group's principal business objectives are to strengthen its position in the food and beverage grocery distribution industry and further expand its business operations with a view to creating long-term shareholders' value. The Directors intend to achieve the objectives by (a) increasing warehouse facilities strategically located in certain districts of Hong Kong in proximity to the Group's customers; (b) upgrading the ERP system to enhance the Group's operation efficiency; (c) further penetrating the food and beverage grocery distribution market through sales and marketing activities and the Group's quality value-added services; and (d) attracting and retaining quality personnel.

In light of the rise in number of customers and purchase orders, the Group had planned to lease two warehouse facilities, one in the New Territories and another on the Hong Kong Island for accommodating the increased inventory level. However, since the second half of 2017, the rent and the rent price index in the factory building rental market in Hong Kong showed a continuous uptrend and the Group had not yet identified suitable premises for the warehouse facilities in both areas, therefore the leasing was not yet commenced up to March 2019.

In early 2019, the Group surveyed a premise in Yau Tong, Kowloon, which size and location are suitable for our warehousing, and additionally, the proposed rental fee is relatively cost effective. The Board evaluated that the premise in Yau Tong, Kowloon is meeting the Group's requirements for fair and efficient use of financial resources. Therefore, the Board had decided to establish a new warehouse at the above mentioned premise and migrated all inventory from the existing warehouses to the new location. Up to the date of this report, a total of approximately HK\$8,808,000 was spent on rental deposits, rental payments, renovation costs and start up costs for the warehouse facility.

The Group had planned to use approximately HK\$12,560,000 of the net proceeds to upgrade the ERP system, which is used to monitor the inventory level and minimise incidences of overstocking, so as to enhance the operational efficiency of the Group. Up to the date of this report, the Group selected a new ERP software for implementation and a total of approximately HK\$4,164,000 was spent on consultancy services and software and hardware acquisition for the upgrade of the ERP system.

The Group had planned to use approximately HK\$5,540,000 of the net proceeds to conduct sales and marketing activities to attract more customers and strengthen customer loyalty so as to further penetrate the food and beverage grocery distribution market. Up to the date of this report, a total of approximately HK\$1,096,000 was spent on advertising and participating in domestic food exhibition and sales exhibition to showcase our products to potential buyers. The Group is currently recruiting new marketing staff for upcoming new sales campaign.

The Group had planned to use approximately HK\$3,500,000 to purchase new repackaging equipment to further automate the repackaging process and increase efficiency. Up to the date of this report, a total of approximately HK\$237,000 was spent on purchasing new automatic repackaging machines.

Looking forward, the Group is still reasonably optimistic to sustain the core business given all the economic uncertainties with the COVID-19 outbreak. However, the Directors are actively assessing and managing the uncertainties, and implementing, if necessary, measures to conquer this challenging time. At the same time, the Group remains committed to the strategies that we have promised our shareholders before being listed and will continue to seek for the best possible opportunities to grow our business by leveraging our current client base, offering a wide spectrum of products for customers and exercising careful cost controls.

The principal strategic, operational and financial risks faced by the Group are market competition, employee commitment and satisfaction, warehouse disruption, credit risk of customers and fund investments and returns. With the Group's proven track record, plus its experienced management team and reputation in the market, the Directors consider that the Group is well-positioned to compete against its competitors. The Directors will also continue to explore opportunities to diversify the Group's operation so that the customer base could be strengthened and diversified. The Directors will continue to review and evaluate the business objectives and strategies and make timely execution taking into account the business risks and market uncertainties. The Directors believe that the Group will continue to expand to become one of the leading food and beverage grocery distributors in Hong Kong.



## OTHER INFORMATION

### DISCLOSURE OF INTEREST

#### Directors' and chief executive's interests and short positions in shares and underlying shares and debentures of the Company and its associated corporations

As at 31 December 2020, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of Securities and Futures Ordinance (the "SFO")) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of part XV of the SFO (including interests and short positions in which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be recorded in the register referred to therein; or (c) have to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, were as follows:

#### Long positions

| Name of Director                | Capacity/<br>Nature of interest    | Number of<br>Shares | Approximate<br>percentage of<br>shareholding <sup>(1)</sup> |
|---------------------------------|------------------------------------|---------------------|-------------------------------------------------------------|
| Mr. Wong Siu Man <sup>(2)</sup> | Interest in controlled corporation | 602,800,000         | 51.88%                                                      |
| Mr. Wong Siu Wa <sup>(2)</sup>  | Interest in controlled corporation | 602,800,000         | 51.88%                                                      |

Notes:

- (1) The percentage has been computed based on 1,162,000,000 shares, being the total number of ordinary shares of the Company in issue as at 31 December 2020.
- (2) This represents the Shares held by Sky Alpha, a company beneficially owned as to 58.38% by Mr. Wong Siu Man, 38.92% by Mr. Wong Siu Wa and 2.7% by Glory Concord Limited respectively, therefore, Mr. Wong Siu Man and Mr. Wong Siu Wa are deemed to be interested in 602,800,000 Shares held under the SFO.

Save as disclosed above, as at 31 December 2020, none of the Directors or chief executive of the Company had an interest or short position in any shares or underlying shares and/or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of part XV of the SFO (including interests and short positions in which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be recorded in the register referred to therein; or (c) have to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules.

## Substantial shareholders' interests and short positions in shares and underlying shares of the Company

As at 31 December 2020, the persons (other than Directors or chief executive of the Company) who had interests and short positions in the shares or underlying share of the Company as recorded in the register required to be kept pursuant to section 336 of the SFO were as follows:

### Long positions

| <b>Name of shareholder</b>            | <b>Capacity/<br/>Nature of interest</b> | <b>Number of<br/>Shares</b> | <b>Approximate<br/>percentage of<br/>shareholding <sup>(1)</sup></b> |
|---------------------------------------|-----------------------------------------|-----------------------------|----------------------------------------------------------------------|
| Sky Alpha <sup>(2)</sup>              | Legal and Beneficial owner              | 602,800,000                 | 51.88%                                                               |
| Ms. Fan Wing <sup>(2) &amp; (3)</sup> | Interest of spouse                      | 602,800,000                 | 51.88%                                                               |
| Ms. Chu Man <sup>(2) &amp; (4)</sup>  | Interest of spouse                      | 602,800,000                 | 51.88%                                                               |

Notes:

- (1) The percentage has been computed based on 1,162,000,000 Shares, being the total number of ordinary shares of the Company in issue as at the 31 December 2020.
- (2) Sky Alpha is beneficially owned as to 58.38% by Mr. Wong Siu Man, an executive Director, 38.92% by Mr. Wong Siu Wa, an executive Director, and 2.7% by Glory Concord Limited, respectively. Mr. Wong Siu Man and Mr. Wong Siu Wa are therefore deemed to be interested in 602,800,000 Shares under the SFO.
- (3) Ms. Fan Wing is the spouse of Mr. Wong Siu Man. Under the SFO, Ms. Fan Wing is deemed to be interested in the same number of Shares in which Mr. Wong Siu Man is interested.
- (4) Ms. Chu Man is the spouse of Mr. Wong Siu Wa. Under the SFO, Ms. Chu Man is deemed to be interested in the same number of Shares in which Mr. Wong Siu Wa is interested.

Save as disclosed above, as at 31 December 2020, the Directors were not aware of any other person (other than the Directors or chief executive of the Company as disclosed in the section headed "Directors' and chief executive's interests and short positions in shares and underlying shares and debentures of the Company and its associated corporations" above) who had or is deemed to have interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

## SHARE OPTION SCHEME

Share option scheme of the Company was adopted by the Company on 27 March 2017 (the “**Share Option Scheme**”). The principal terms of the Share Option Scheme is summarised in Appendix IV to the Prospectus and are in accordance with the provisions of Chapter 23 of the GEM Listing Rules.

During the nine months ended 31 December 2020 and up to the date of this report, no share options were granted, exercised, lapsed or cancelled under the Share Option Scheme and there were no outstanding share options under the Share Option Scheme as at 31 December 2020 and as at the date of this report.

## DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules (the “**Model Code**”). Having made specific enquiry of all the Directors, each of the Directors have confirmed that they have complied with the Model Code during the nine months ended 31 December 2020.

In addition, the Company has also adopted provisions of the Model Code as written guidelines for relevant employees in respect of their dealings in the securities of the Company. Such relevant employees did and would abide by the provisions of the Model Code. Besides, the Company has adopted internal control policy in relation to the disclosure of inside information of the Company (the “**Inside Information Policy**”).

No incident of non-compliance of the Model Code and/or the Inside Information Policy was noted by the Company during the nine months ended 31 December 2020.

## COMPETING INTEREST

During the nine months ended 31 December 2020, none of the Directors or the controlling shareholders of the Company or their close associates (as defined in the GEM Listing Rules) had interest in any business which competes or may compete, either directly or indirectly, with the business of the Group nor any conflicts of interest which has or may have with the Group.

## DEED OF NON-COMPETITION

The controlling shareholders of the Company, namely Mr. Wong Siu Man, Mr. Wong Siu Wa, Sky Alpha and Glory Concord Limited (the “**Controlling Shareholders**”) entered into a deed of non-competition dated 27 March 2017 (“**Deed of Non-competition**”) in favour of the Company (for itself and as trustee for each of its subsidiaries). For details of the Deed of Non-competition, please refer to the section headed “Relationship with Controlling Shareholders – Non-competition Undertaking” in the Prospectus. Each of the Controlling Shareholders has confirmed that none of them is engaged in, or interested in any business (other than the Group) which, directly or indirectly, competes or may compete with the business of the Group.

The independent non-executive Directors have also reviewed the status of compliance and confirmed that all the undertakings under the Deed of Non-competition have been complied with by each of the Controlling Shareholders since the Listing and up to the date of this report.

## **PURCHASE, SALES OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

Neither the Company, nor any of its subsidiaries have purchased, sold or redeemed any listed securities of the Company during the nine months ended 31 December 2020.

## **CORPORATE GOVERNANCE PRACTICES**

The Company is committed to maintaining high standards of corporate governance. The Company believes that sound corporate governance practices are essential to the effective and transparent operation of the Company and to its ability to safeguard the interest of the shareholders of the Company. The Company has applied the principles and code provisions as set out in Corporate Governance Code and Corporate Governance Report (the "CG Code") as contained in Appendix 15 to the GEM Listing Rules to ensure that the Group's business activities and decision-making processes are regulated in a proper and prudent manner.

In the opinion of the Board, the Company has complied with the CG Code during the nine months ended 31 December 2020.

## **CHANGE IN INFORMATION OF DIRECTOR**

With effect from 12 October 2020, Mr. Wong Garrick Jorge Kar Ho has resigned as an independent non-executive Director and ceased to be the chairman of the nomination committee of the Company and a member of each of the audit committee and remuneration committee of the Company, and Ms. Chan Hoi Yee has been appointed as an independent non-executive Director, the chairlady of the nomination committee of the Company and a member of each of the audit committee and remuneration committee of the Company. Please refer to the announcement of the Company dated 12 October 2020 for further details.

## **EVENT AFTER THE REPORTING PERIOD**

The Directors are not aware of any significant event which had material effect on the Group subsequent to 31 December 2020 and up to the date of this report.

## **INTEREST OF THE COMPLIANCE ADVISER**

As informed by Sorrento Capital Limited, neither Sorrento Capital Limited nor any of its directors or employees or associates, has or may have, any interest in the Group as at 31 December 2020, which is required to be notified to the Company pursuant to Rule 6A.32 of the GEM Listing Rules, except for the compliance adviser agreement entered into between the Company and Sorrento Capital Limited.

## AUDIT COMMITTEE

The Group has established an audit committee (the “**Audit Committee**”) pursuant to a resolution of the Directors passed on 27 March 2017 in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules and with written terms of reference in compliance with the CG Code.

The principle duties of the Audit Committee are to (i) monitor integrity of the Company’s financial statements, financial reports and accounts and to review the financial and accounting policies and practices of the Company; (ii) assist the Board in providing an independent view of the effectiveness of the Group’s financial controls, internal control and risk management systems; and (iii) to make recommendations to the Board on the appointment, re-appointment and removal of external auditors.

As at the date of this report, the Audit Committee consists of all three of our independent non executive Directors, namely Mr. Ng Fan Kay Frankie, Mr. Wang Zhaobin and Ms. Chan Hoi Yee and the chairman is Mr. Ng Fan Kay Frankie, who holds the appropriate professional qualifications as required under Rules 5.05(2) and 5.28 of the GEM Listing Rules.

The financial information contained in this report has not been audited by the auditor of the Company, but the Audit Committee has reviewed this report and the unaudited consolidated results of the Group for the nine months ended 31 December 2020 and is of the opinion that the preparation of such results complied with the applicable accounting standards, the requirements under the GEM Listing Rules and other applicable legal requirements, and that adequate disclosures had been made.

By order of the Board  
**Asia Grocery Distribution Limited**  
**Wong Siu Man**  
*Chairman and Executive Director*

Hong Kong, 8 February 2021

*As at the date of this report, the executive Directors are Mr. Wong Siu Man (Chairman), Mr. Wong Siu Wa (Chief Executive Officer) and Mr. Yip Kam Cheong (Compliance Officer), the non-executive Director is Mr. Wong Chun Hung Hanson and the independent non-executive Directors are Mr. Ng Fan Kay Frankie, Mr. Wang Zhaobin and Ms. Chan Hoi Yee.*