



Asia Grocery Distribution Limited

亞洲雜貨有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock code : 8413

2021/22

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\$190,512,000 for the nine months ended 31 December 2021 (nine months ended 31 December 2020: approximately HK\$176,930,000).
- Profit attributable to owners of the Company for the nine months ended 31 December 2021 amounted to approximately HK\$277,000 (nine months ended 31 December 2020 amounted to approximately HK\$2,196,000).
- The Directors do not recommend the payment of any dividend for the nine months ended 31 December 2021 (nine months ended 31 December 2020: 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 2021, together with the unaudited comparative figures for the corresponding periods in 2020, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three and nine months ended 31 December 2021

| | Notes | Three months ended 31 December | | Nine months ended 31 December | |
|--|-------|-----------------------------------|---------------------------------|----------------------------------|---------------------------------|
| | | 2021 HK\$'000 (unaudited) | 2020 HK\$'000 (unaudited) | 2021 HK\$'000 (unaudited) | 2020 HK\$'000 (unaudited) |
| Revenue | 3 | 68,808 | 72,570 | 190,512 | 176,930 |
| Costs of sales | | (53,102) | (59,533) | (144,466) | (141,512) |
| Gross profit | | 15,706 | 13,037 | 46,046 | 35,418 |
| Other income | 4 | 47 | 858 | 185 | 2,513 |
| Other gain and losses, net | 4 | – | (3) | (29) | (16) |
| Selling and distribution expenses | | (7,682) | (6,664) | (21,487) | (17,136) |
| Administrative expenses | | (7,879) | (6,167) | (23,381) | (18,060) |
| Finance costs | 5 | (159) | (62) | (369) | (217) |
| Profit before taxation | 6 | 33 | 999 | 965 | 2,502 |
| Income tax expense | 7 | (145) | (89) | (688) | (306) |
| Profit/(Loss) and total comprehensive income/(expense) for the period attributable to owners of the Company | | (112) | 910 | 277 | 2,196 |
| Earnings/(Loss) per share | | | | | |
| Basic (HK cents) | 9 | (0.01) | 0.08 | 0.02 | 0.19 |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended 31 December 2021

| | Attributable to owners of the Company | | | | | |
|--|---------------------------------------|---------------------------|---|----------------------------|---------------------------------|-------------------|
| | Share capital HK\$'000 | Share premium HK\$'000 | Share based-payment reserve HK\$'000 | Other reserves HK\$'000 | Accumulated profits HK\$'000 | Total HK\$'000 |
| At 1 April 2021 (audited) | 11,620 | 62,742 | 15,419 | 5,584 | 8,187 | 103,552 |
| Profit and total comprehensive income for the period | - | - | - | - | 277 | 277 |
| At 31 December 2021 (unaudited) | 11,620 | 62,742 | 15,419 | 5,584 | 8,464 | 103,829 |
| 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 |

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 and provision of food catering services through restaurants 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 2021 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 2021.

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 2021. 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

The Group is principally engaged in the food and beverage grocery distribution business and food catering services business.

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 performance obligations is not disclosed.

| | Three months ended 31 December | | Nine months ended 31 December | |
|--|-----------------------------------|---------------------------------|----------------------------------|---------------------------------|
| | 2021 HK\$'000 (unaudited) | 2020 HK\$'000 (unaudited) | 2021 HK\$'000 (unaudited) | 2020 HK\$'000 (unaudited) |
| Disaggregation of revenue from contracts with customers | | | | |
| An analysis of the Group's revenue arising from sales of food and beverage grocery as follows: | | | | |
| Commodities and cereal products (<i>note a</i>) | 20,626 | 16,087 | 57,131 | 42,317 |
| Packaged food (<i>note b</i>) | 14,247 | 31,249 | 39,130 | 49,171 |
| Sauce and condiment | 14,743 | 11,116 | 40,240 | 30,326 |
| Dairy products and eggs | 8,998 | 7,276 | 25,424 | 20,390 |
| Beverage and wine | 4,903 | 3,476 | 13,234 | 9,676 |
| Kitchen and hygiene products (<i>note c</i>) | 4,523 | 3,366 | 12,923 | 25,050 |
| An analysis of the Group's revenue arising from food catering services as follows: | | | | |
| Restaurants operation (<i>note d</i>) | 768 | – | 2,430 | – |
| | 68,808 | 72,570 | 190,512 | 176,930 |
| Time of revenue recognition within the scope of HKFRS 15: | | | | |
| At a point in time | 68,808 | 72,570 | 190,512 | 176,930 |

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 tissue paper, toothpick and towel, hygiene products such as face masks and gloves.
- (d) The Group opened its first restaurant in Tsim Sha Tsui in April 2021.

4. OTHER INCOME AND GAIN AND LOSSES, NET

| | Three months ended 31 December | | Nine months ended 31 December | |
|-----------------------------------|-----------------------------------|---------------------------------|----------------------------------|---------------------------------|
| | 2021 HK\$'000 (unaudited) | 2020 HK\$'000 (unaudited) | 2021 HK\$'000 (unaudited) | 2020 HK\$'000 (unaudited) |
| Other income | | | | |
| Interest income | 24 | 13 | 59 | 35 |
| Sundry income | 1 | 29 | 60 | 101 |
| COVID-19 Related rent concessions | 22 | 7 | 66 | 89 |
| Government grant (<i>note</i>) | – | 809 | – | 2,288 |
| | 47 | 858 | 185 | 2,513 |
| Other gain and losses, net | | | | |
| Bad debts written off | – | (3) | (29) | (16) |

Note: The government grant for the nine months ended 31 December 2020 represents the grant in relation to the Employment Support Scheme, of which the Group complied with all attached conditions and therefore such grants were recognized as other income during the period.

5. FINANCE COSTS

| | Three months ended 31 December | | Nine months ended 31 December | |
|--------------------------------|-----------------------------------|---------------------------------|----------------------------------|---------------------------------|
| | 2021 HK\$'000 (unaudited) | 2020 HK\$'000 (unaudited) | 2021 HK\$'000 (unaudited) | 2020 HK\$'000 (unaudited) |
| Interests on lease liabilities | 159 | 62 | 369 | 217 |

6. PROFIT BEFORE TAXATION

| | Three months ended 31 December | | Nine months ended 31 December | |
|--|-----------------------------------|---------------------------------|----------------------------------|---------------------------------|
| | 2021 HK\$'000 (unaudited) | 2020 HK\$'000 (unaudited) | 2021 HK\$'000 (unaudited) | 2020 HK\$'000 (unaudited) |
| Profit before taxation has been arrived at after charging: | | | | |
| Directors' remuneration | 1,344 | 1,224 | 4,031 | 3,054 |
| Other staff costs | | | | |
| Salaries and other benefits | 4,100 | 3,300 | 11,814 | 8,961 |
| Retirement benefits scheme contributions | 161 | 139 | 460 | 373 |
| Total staff costs | 5,605 | 4,663 | 16,305 | 12,388 |
| Depreciation of property, plant and equipment | 750 | 511 | 2,078 | 1,549 |
| Depreciation of right-of-use assets | 1,377 | 839 | 3,548 | 2,515 |
| Auditor's remuneration – audit service | 145 | 180 | 435 | 540 |
| Expenses relating to short term lease | 182 | 53 | 435 | 163 |
| Cost of inventories recognised as an expense | 53,102 | 59,533 | 144,466 | 141,512 |

7. INCOME TAX EXPENSE

| | Three months ended 31 December | | Nine months ended 31 December | |
|------------------------|-----------------------------------|---------------------------------|----------------------------------|---------------------------------|
| | 2021 HK\$'000 (unaudited) | 2020 HK\$'000 (unaudited) | 2021 HK\$'000 (unaudited) | 2020 HK\$'000 (unaudited) |
| Hong Kong Profits Tax: | | | | |
| – Current tax | 145 | 89 | 688 | 306 |

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% (2020: 8.25%), and assessable profits above HK\$2,000,000 will be taxed at 16.5% (2020: 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%.

8. DIVIDEND

No dividend has been paid or proposed by the Company during the nine months ended 31 December 2021. The Board does not recommend the payments of any dividend in respect of the nine months ended 31 December 2021 and 2020.

9. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share attributable to the owners of the Company is based on the following data:

| | Three months ended 31 December | | Nine months ended 31 December | |
|---|-----------------------------------|---------------------------------|----------------------------------|---------------------------------|
| | 2021 HK\$'000 (unaudited) | 2020 HK\$'000 (unaudited) | 2021 HK\$'000 (unaudited) | 2020 HK\$'000 (unaudited) |
| Earnings/(Loss): | | | | |
| Earnings/(Loss) for the purpose of calculating basic earnings/(loss) per share | | | | |
| – Profit/(Loss) for the period attributable to owners of the Company | (112) | 910 | 277 | 2,196 |
| | '000 | '000 | '000 | '000 |
| Number of shares | | | | |
| Weighted average number of ordinary shares for the purpose of calculating basic earnings/(loss) per share | 1,162,000 | 1,162,000 | 1,162,000 | 1,162,000 |

No diluted earnings/(loss) per share has been presented as the outstanding share options are anti-dilutive for the nine months ended 31 December 2021 and there were no potential ordinary shares in issue for the nine months ended 31 December 2020.

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 2021 were as follows:

| | Three months ended 31 December | | Nine months ended 31 December | |
|--------------------------|-----------------------------------|---------------------------------|----------------------------------|---------------------------------|
| | 2021 HK\$'000 (unaudited) | 2020 HK\$'000 (unaudited) | 2021 HK\$'000 (unaudited) | 2020 HK\$'000 (unaudited) |
| Short term benefits | 2,213 | 1,926 | 6,490 | 5,173 |
| Post employment benefits | 38 | 38 | 114 | 120 |
| | 2,251 | 1,964 | 6,604 | 5,293 |

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.

Since the outbreak of the Coronavirus Disease ("**COVID-19**") at the start of January 2020, the global business environment has been adversely affected. Although the Group's operations continued as usual, the COVID-19 outbreak caused a temporary slowdown of demand and decrease in sales orders for our food and beverage products from our customers from February 2020 till March 2021.

With the government's financial stimulus through consumption vouchers and the easing of the pandemic situation in Hong Kong since April 2021, the business of the Group recorded a rebound in the current period. Total sales rose considerably by comparison with the previous period, taking the Group back to pre-pandemic levels and reversing the drop in sales recorded in 2020.

Based on the unaudited financial information of our Group, our revenue was approximately HK\$190,512,000 for the nine months ended 31 December 2021, representing an increase of approximately 7.7% as compared to approximately HK\$176,930,000 in the corresponding period of 2020. In 2021, the Group has commenced the business in provision of food catering services through restaurants, revenue generated from such segment accounted for approximately 1.3% of our total revenue for the nine months ended 31 December 2021.

In late December 2021, Hong Kong has confirmed its first community transmission of the Omicron-variant of COVID-19, which is rumored to spread multiple times faster than previous major strains. Therefore, social distancing rules in Hong Kong have been tightened again since 7 January 2022. The Directors expect this will cause a revenue contraction to the Group in the first quarter of 2022, in line with the experience from prior lockdowns. At the current stage, we are unable to estimate what impact this will have for 2022. The Group will closely monitor the market conditions and seek suitable business opportunities in order to minimize the negative effects of the renewed outbreak of COVID-19 to our business.

FINANCIAL REVIEW

Revenue

During the nine months ended 31 December 2021, our revenue increased by approximately HK\$13,582,000 or approximately 7.7% to approximately HK\$190,512,000 (nine months ended 31 December 2020: approximately HK\$176,930,000), mainly due to the increase in sales of our food and beverage products. With the gradual relaxation of government's social distancing measures since mid-February 2021, there was an increase in sales demand for our food and beverage products from local restaurants, hotels and private clubs. However, sales of our kitchen and hygiene products decreased by approximately HK\$12,127,000 to approximately HK\$12,923,000 for the nine months ended 31 December 2021 (nine months ended 31 December 2020: approximately HK\$25,050,000). Our high-quality kitchen and hygiene products included face masks, gloves, bleach, kitchen paper and toilet paper, etc. During the COVID-19 outbreak in 2020, people's awareness of hygiene was raised, there was a sudden excess demand for face masks in Hong Kong. Our Group was able to source large quantity of supply of face masks from oversea suppliers and the sales of face masks contributed approximately HK\$16,126,000 to our revenue during the nine months ended 31 December 2020. During the nine months ended 31 December 2021, the demand for our Group's face masks returned to normal level.

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\$2,954,000 or approximately 2.1% to approximately HK\$144,466,000 for the nine months ended 31 December 2021, as compared to approximately HK\$141,512,000 for the nine months ended 31 December 2020, due to the increased sales volumes, partially offset by cost efficiencies in cost of finished goods purchased from direct manufacturers and suppliers.

Gross profit and gross profit margin

The Group's gross profit increased by approximately 30.0% from approximately HK\$35,418,000 for the nine months ended 31 December 2020 to approximately HK\$46,046,000 for the nine months ended 31 December 2021. The increase in gross profit was due to the combined effect of our increased revenue resulted from the easing COVID-19 restrictions, our enlarged customer base to high-end customers and lower cost of goods purchased from suppliers. For the nine months ended 31 December 2021, the Group's gross profit margin increased to 24.2% as compared with the same period in 2020 at 20.0%.

Other income

Other income represented interest income from bank deposits, rent concession, government grant and sundry income. Other income decreased from approximately HK\$2,513,000 for the nine months ended 31 December 2020 to approximately HK\$185,000 for the nine months ended 31 December 2021 mainly due to no government grant was received during the current period. During the nine months ended 31 December 2020, the Group received government grant of approximately HK\$2,288,000, mainly from 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 net other losses of approximately HK\$29,000 for the nine months ended 31 December 2021 (nine months ended 31 December 2020: approximately HK\$16,000) which was attributable to the written off of bad debts.

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 increase of selling and distribution expenses of the Group were in line with the revenue increment and were mainly due to the increase in transportation expenses. The selling and distribution expenses accounted for approximately 11.3% and 9.7% of the total revenue for the nine months ended 31 December 2021 and 2020 respectively.

Administrative expenses

For the nine months ended 31 December 2021, the Group's administrative expenses primarily comprised staff costs for administrative and management personnel, directors' remuneration, depreciation on property, plant and equipment and depreciation on right-of-use assets. Administrative expenses increased from approximately HK\$18,060,000 for the nine months ended 31 December 2020 to approximately HK\$23,381,000 for the nine months ended 31 December 2021. The increase of administrative expenses of the Group was mainly due to the increase in staff costs as a result of hiring of new staffs and increase in depreciation on right-of-use assets for the newly rented restaurant and Tuen Mun warehouse, partially offset by decrease in legal and professional fees.

Finance costs

Finance costs amounted to approximately HK\$369,000 for the nine months ended 31 December 2021, increased by approximately HK\$152,000 as compared to approximately HK\$217,000 for the nine months ended 31 December 2020. Finance costs of the Group represented interest expenses on lease liabilities.

Income tax expense

For the nine months ended 31 December 2021 and 2020 our income tax expenses were approximately HK\$688,000 and HK\$306,000, respectively.

Profit and total comprehensive income attributable to owners of the Company

For the nine months ended 31 December 2021 and 2020, the Group's profit and total comprehensive income attributable to owners of the Company was approximately HK\$277,000 and HK\$2,196,000, respectively. The decrease of profit and total comprehensive income attributable to owners of the Company was mainly attributable to decrease in receipt of government grant, increase in transportation expenses and staff costs, partially offset by increase in revenue and decrease in legal and professional fees.

Dividend

No dividend was paid, declared or proposed during the period. The Directors do not recommend the payment of any dividend for the nine months ended 31 December 2021 (nine months ended 31 December 2020: nil).

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

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2021, bank balances and cash of the Group amounted to approximately HK\$27,879,000 (as at 31 March 2021: approximately of HK\$38,438,000). The current ratios (current asset divided by current liabilities) of the Group were approximately 5.0 times and 6.7 times as at 31 December 2021 and 31 March 2021 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 2021 were placed as interest bearing deposits with licensed bank in Hong Kong.

GEARING RATIO

The total interest-bearing borrowing (i.e. lease liabilities arising from leased properties) of the Group as at 31 December 2021 was approximately HK\$11,769,000 (31 March 2021: approximately HK\$8,044,000). The Group's gearing ratio as at 31 December 2021 was approximately 11.3% (31 March 2021: approximately 7.8%), which is calculated as the Group's total borrowing over the Group's total equity.

SIGNIFICANT INVESTMENT, MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

During the nine months ended 31 December 2021, the Group did not have any significant investment, material acquisition nor disposal of subsidiaries, associates and joint ventures.

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 change the use of the unutilised net proceeds to deploy its financial resources more efficiently. For details, please refer to the Company's announcements dated 27 March 2019, 14 August 2020 and 18 February 2021. Set out below is the actual utilisation of net proceeds up to the date of this report:

| Intended use of the net proceeds | Allocation of net proceeds before 18 February 2021 HK\$'000 | Revised | Unutilised net proceeds as at the date of 2021 annual report HK\$'000 | Amount | Unutilised net proceeds as at the date of this report HK\$'000 | Expected timeline for full utilisation of the unutilised net proceeds <i>(Note)</i> |
|--|--|---|--|--|---|---|
| | | allocation of net proceeds as at 18 February 2021 HK\$'000 | | utilised from the date of 2021 annual report up to the date of this report HK\$'000 | | |
| Leasing of warehouse facility in Kowloon: | | | | | | |
| – Rental deposits | 900 | – | – | – | – | N/A |
| – Rental payments | 7,400 | 3,278 | 2,547 | (1,096) | 1,451 | On or before 31 December 2022 |
| – Renovation costs | 7,000 | – | – | – | – | N/A |
| – Start-up costs for warehouse facility | 8,100 | – | – | – | – | N/A |
| Development of the business provision of food catering in services through restaurants | – | 9,000 | 7,186 | (792) | 6,394 | On or before 31 December 2022 |
| Upgrade of Enterprise Resource Planning ("ERP") system | 12,560 | 8,330 | 8,149 | (291) | 7,858 | On or before 31 December 2022 |
| Conducting sales and marketing activities | 5,540 | 4,444 | 4,391 | (34) | 4,357 | On or before 31 December 2022 |
| Installation of new repackaging equipment | 3,500 | – | – | – | – | N/A |
| General working capital | 3,500 | 5,211 | 4,675 | (510) | 4,165 | On or before 31 December 2022 |
| | 48,500 | 30,263 | 26,948 | (2,723) | 24,225 | |

Note: The expected timeline for utilising the unutilised net proceeds is based on the best estimation of the future market conditions made by the Group. It is subject to change based on the current and future development of the market condition.

As disclosed in the prospectus of the Company dated 31 March 2017 (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.

In view of the conditions and expansion of the existing business, there is no urgent need to lease another warehouse facility as the current warehouse facility has met the needs of the Group. Therefore, on 18 February 2021, the Board has resolved to reallocate all utilised net proceeds for leasing of warehouse facility in Kowloon to develop the business in provision of food catering services through restaurants and general working capital, except that approximately HK\$3,278,000 of the net proceeds are remained to settle the rental expenses of the Yau Tong premise. Up to 18 February 2021, a total of approximately HK\$5,052,000 was spent on rental deposits, renovation costs and start-up costs for the warehouse facility. Up to the date of this report, approximately HK\$5,949,000 was spent on rental payments.

The Group has 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\$4,702,000 was spent on consultancy services and software and hardware acquisition for the upgrade of the ERP system.

The Group has 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\$1,183,000 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 company for upcoming new sales campaign.

The Group has planned to use approximately HK\$3,500,000 to purchase new repackaging equipment to further automate the repackaging process and increase efficiency. Since outsourcing the repackaging is more cost-effective compared to acquiring and installing new repackaging equipment under the current market conditions, the Board has resolved to reallocate all unutilised net proceeds for installation of new repackaging equipment to develop the business in provision of food catering services through restaurants and general working capital on 18 February 2021. Up to 18 February 2021, a total of approximately HK\$237,000 was spent on purchasing new automatic repackaging machines.

In early 2021, the Group was planning to develop the business in provision of food catering services through restaurants in view of the low market rent under current economic conditions. Around 5 restaurants are planned to be opened before 31 December 2022, the first restaurant was opened in Tsim Sha Tsui in April 2021. The Board is of the view that such vertical expansion would give us a competitive advantage, given that it allows us to have better cost control of the supplies for the new restaurant business and improve the performance of our existing business. Approximately HK\$9,000,000 of the net proceeds is allocated for the start-up costs and renovation costs for the restaurants. Up to the date of this report, a total of approximately HK\$2,606,000 was spent on renovation and start-up of the new restaurant in Tsim Sha Tsui.

An addition of HK\$5,211,000 of the net proceeds is allocated for the general working capital to support the daily operation of the Group, such as rental deposits and rental payments for restaurants and to maintain sufficient working capital in preparation of any market upheaval. Among such amount, a total of approximately HK\$1,046,000 was utilised as general working capital up to the date of this report.

Looking forward, the Group is still reasonably optimistic to sustain the core business given all the economic uncertainties with the latest outbreak of the Omicron-variant. 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 2021, 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 have taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register kept by the Company; 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/ Nature of interest | Number of Shares | Approximate percentage of shareholding ⁽¹⁾ |
|---------------------------------|------------------------------------|---------------------|---|
| Mr. Wong Siu Man ⁽²⁾ | Interest in controlled corporation | 602,800,000 | 51.88% |
| Mr. Wong Siu Wa ⁽²⁾ | 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 2021.
- (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 2021, 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 2021, 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

| Name of shareholder | Capacity/ Nature of interest | Number of Shares | Approximate percentage of shareholding ⁽¹⁾ |
|---------------------------------------|---|-----------------------------|--|
| Sky Alpha ⁽²⁾ | Legal and beneficial owner | 602,800,000 | 51.88% |
| Ms. Fan Wing ^{(2) & (3)} | Interest of spouse | 602,800,000 | 51.88% |
| Ms. Chu Man ^{(2) & (4)} | 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 2021.
- (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 2021, the Directors were not aware of any other person (other than the Directors or chief executive of the Company) 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

A share option scheme was adopted by the Company on 27 March 2017 (the “**Share Option Scheme**”).

On 19 February 2021, a total of 112,000,000 share options were granted to the employees of the Group under the Share Option Scheme at an exercise price of HK\$0.30 per Share. The validity period of the share options is 19 February 2021 to 18 February 2023 (both days inclusive). The share options were vested immediately at date of grant. The closing price of the Shares immediately before the date of grant was HK\$0.32.

No share options was granted, exercised, lapsed or cancelled under the Share Option Scheme during the nine months ended 31 December 2021. As at 1 April 2021 and 31 December 2021, there were 112,000,000 outstanding share options.

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 2021.

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 2021.

MANAGEMENT CONTRACTS

During the nine months ended 31 December 2021, other than a contract of service with any Director or any person under the full-time employment of the Company, the Company did not enter into or have any management and administration contracts in respect of the whole or any substantial part of the business of the Company.

COMPETING INTEREST

To the best of the Directors’ knowledge, 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 had any other conflicts of interest with the Group during the nine months ended 31 December 2021.

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 during the nine months ended 31 December 2021.

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 2021.

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 2021.

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 2021 and up to the date of this report.

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.

The Audit Committee currently 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 quarterly 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 2021 and is of the opinion that such report and results have been prepared in compliance 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, 9 February 2022

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.