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Asia Grocery Distribution Limited

亞洲雜貨有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 8413)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2021

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

GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.

Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

*This announcement, 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 announcement 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 announcement misleading.*

HIGHLIGHTS

- The Group recorded revenue of approximately HK\$121,704,000 for the six months ended 30 September 2021 (six months ended 30 September 2020: approximately HK\$104,360,000).
- Profit attributable to owners of the Company for the six months ended 30 September 2021 amounted to approximately HK\$389,000 (six months ended 30 September 2020 amounted to approximately HK\$1,286,000).
- The Directors do not recommend the payment of any interim dividend for the six months ended 30 September 2021 (six months ended 30 September 2020: nil).

INTERIM 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 six months ended 30 September 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 six months ended 30 September 2021

	<i>Notes</i>	Three months ended 30 September		Six months ended 30 September	
		2021 <i>HK\$'000</i> (unaudited)	2020 <i>HK\$'000</i> (unaudited)	2021 <i>HK\$'000</i> (unaudited)	2020 <i>HK\$'000</i> (unaudited)
Revenue	3	63,760	43,328	121,704	104,360
Costs of sales		(47,769)	(32,749)	(91,364)	(81,979)
Gross profit		15,991	10,579	30,340	22,381
Other income	4	94	586	138	1,655
Other gain and losses, net	4	(9)	(13)	(29)	(13)
Selling and distribution expenses		(7,113)	(5,277)	(13,805)	(10,472)
Administrative expenses		(8,327)	(5,733)	(15,502)	(11,893)
Finance costs	5	(113)	(72)	(210)	(155)
Profit before taxation	6	523	(70)	932	1,503
Income tax expense	7	(326)	(34)	(543)	(217)
Profit and total comprehensive income for the period attributable to owners of the Company		197	36	389	1,286
Earnings per share					
Basic (HK cents)	9	0.02	0.00	0.03	0.11

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2021

	<i>Notes</i>	As at 30 September 2021 <i>HK\$'000</i> (unaudited)	As at 31 March 2021 <i>HK\$'000</i> (audited)
Non-current Assets			
Property, plant and equipment	<i>10</i>	4,052	4,308
Right-of-use assets		12,685	7,849
Rental and other deposits	<i>11</i>	1,729	1,206
		18,466	13,363
Current Assets			
Inventories – merchandise at cost		34,655	32,280
Trade receivables	<i>11</i>	38,300	38,210
Other receivables, deposits and prepayments	<i>11</i>	5,732	1,772
Bank balances and cash		35,005	38,438
		113,692	110,700
Current Liabilities			
Trade payables	<i>12</i>	10,771	7,947
Other payables and accrued charges	<i>12</i>	3,534	3,790
Contract liabilities		305	636
Tax payable		637	94
Lease liabilities		5,158	4,149
		20,405	16,616
Net current assets		93,287	94,084
Total asset less current liabilities		111,753	107,447
Non-current Liabilities			
Lease liabilities		7,812	3,895
Net assets		103,941	103,552
Capital and reserves			
Share capital	<i>13</i>	11,620	11,620
Reserves		92,321	91,932
Equity attributable to owners of the Company		103,941	103,552

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, Uglan 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 the six months ended 30 September 2021 are prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”) which is a collective term 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. Information reported to the Group's management for the purpose of resource allocation and performance assessment focuses on the operating results of the Group as a whole as the Group's resources are integrated and no discrete operating segment financial information is available. Accordingly, no operating segment information is presented.

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		Six months ended	
	30 September		30 September	
	2021	2020	2021	2020
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(unaudited)	(unaudited)	(unaudited)	(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>)	18,956	13,110	36,505	26,230
Packaged food (<i>note b</i>)	13,402	8,743	24,883	17,922
Sauce and condiment	13,174	9,353	25,497	19,210
Dairy products and eggs	8,742	6,265	16,426	13,114
Beverage and wine	4,405	3,035	8,331	6,200
Kitchen and hygiene products (<i>note c</i>)	4,233	2,822	8,400	21,684
An analysis of the Group's revenue arising from food catering services as follows:				
Restaurants operation (<i>note d</i>)	848	–	1,662	–
	63,760	43,328	121,704	104,360
Time of revenue recognition within the scope of HKFRS 15:				
At a point in time	63,760	43,328	121,704	104,360

The customers of the Group are 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		Six months ended	
	30 September		30 September	
	2021	2020	2021	2020
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Other income				
Interest income	17	11	35	22
Sundry income	55	15	59	72
COVID-19 Related rent concessions	22	37	44	82
Government grant (<i>note</i>)	–	523	–	1,479
	<u>94</u>	<u>586</u>	<u>138</u>	<u>1,655</u>
Other gain and losses, net				
Bad debts written off	<u>9</u>	<u>13</u>	<u>29</u>	<u>13</u>

Note: The government grant for the six months ended 30 September 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		Six months ended	
	30 September		30 September	
	2021	2020	2021	2020
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Interests on lease liabilities	<u>113</u>	<u>72</u>	<u>210</u>	<u>155</u>

6. PROFIT BEFORE TAXATION

	Three months ended		Six months ended	
	30 September		30 September	
	2021	2020	2021	2020
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Profit before taxation has been arrived at after charging:				
Directors' remuneration	1,343	917	2,687	1,830
Other staff costs				
Salaries and other benefits	3,884	2,900	7,714	5,661
Retirement benefits scheme contributions	157	122	299	234
Total staff costs	<u>5,384</u>	<u>3,939</u>	<u>10,700</u>	<u>7,725</u>
Depreciation of property, plant and equipment	676	529	1,328	1,038
Depreciation of right-of-use assets	1,138	838	2,171	1,676
Auditor's remuneration				
– audit service	145	180	290	360
Expenses relating to short term lease	149	37	253	110
Cost of inventories recognised as an expense	<u>47,769</u>	<u>32,749</u>	<u>91,364</u>	<u>81,979</u>

7. INCOME TAX EXPENSE

	Three months ended		Six months ended	
	30 September		30 September	
	2021	2020	2021	2020
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Hong Kong Profits Tax:				
– Current tax	<u>326</u>	<u>34</u>	<u>543</u>	<u>217</u>

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 six months ended 30 September 2021. The Board does not recommend the payments of any dividend in respect of the six months ended 30 September 2021 and 2020.

9. EARNINGS PER SHARE

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

	Three months ended 30 September		Six months ended 30 September	
	2021	2020	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Earnings:				
Earnings for the purpose of calculating basic earnings per share				
– Profit for the period attributable to owners of the Company	<u>197</u>	<u>36</u>	<u>389</u>	<u>1,286</u>
	<i>'000</i>	<i>'000</i>	<i>'000</i>	<i>'000</i>
Number of shares				
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	<u>1,162,000</u>	<u>1,162,000</u>	<u>1,162,000</u>	<u>1,162,000</u>

No diluted earnings per share has been presented as the outstanding share options are anti-dilutive for the six months ended 30 September 2021 and there were no potential ordinary shares in issue for the six months ended 30 September 2020.

10. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 September 2021, the Group acquired property, plant and equipment at a total cost of approximately HK\$1,072,000 (six months ended 30 September 2020: approximately HK\$552,000). Such additions were mainly comprised of leasehold improvements of approximately HK\$731,000 (six months ended 30 September 2020: approximately HK\$85,000) and furniture and equipment of approximately HK\$189,000 (six months ended 30 September 2020: approximately HK\$56,000). The additions of property, plant and equipment during the current period were mainly related to the opening of the new restaurant in Tsim Sha Tsui in April 2021. During the six months ended 30 September 2021, the Group did not write off or dispose any property, plant and equipment (six months ended 30 September 2020: nil).

11. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	30 September 2021 HK\$'000 (unaudited)	31 March 2021 HK\$'000 (audited)
Trade receivables	38,300	38,210
Rental and utilities deposits	1,756	1,227
Prepayments to suppliers	4,417	961
Other prepayments	358	658
Deposits paid for acquisition of property, plant and equipment	742	–
Other receivables	188	132
	45,761	41,188
Presented as non-current assets	1,729	1,206
Presented as current assets	44,032	39,982
	45,761	41,188

The Group grants credit terms of 0-90 days to its customers from the date of invoices. An ageing analysis of the trade receivables is presented based on the invoice date, which approximates the date of delivery of goods, at the end of the reporting periods.

	30 September 2021 <i>HK\$'000</i> (unaudited)	31 March 2021 <i>HK\$'000</i> (audited)
0 – 30 days	16,858	14,019
31 – 60 days	8,335	5,925
61 – 90 days	1,597	1,145
Over 90 days	11,510	17,121
	<u>38,300</u>	<u>38,210</u>

12. TRADE AND OTHER PAYABLES AND ACCRUED CHARGES

	30 September 2021 <i>HK\$'000</i> (unaudited)	31 March 2021 <i>HK\$'000</i> (audited)
Trade payables	10,771	7,947
Accrued charges	1,230	2,017
Salaries and bonus payables	2,304	1,773
	<u>14,305</u>	<u>11,737</u>

The average credit period for purchases of goods is 0 to 60 days. The following is an ageing analysis of trade payables presented based on the invoice date at the end of each reporting period:

	30 September 2021 <i>HK\$'000</i> (unaudited)	31 March 2021 <i>HK\$'000</i> (audited)
0 – 30 days	10,098	7,823
31 – 60 days	192	96
Over 60 days	481	28
	<u>10,771</u>	<u>7,947</u>

13. SHARE CAPITAL

The share capital of the Company as at 31 March 2021 and 30 September 2021 is as follows:

	Number of shares	HK\$'000
Authorised:		
At 1 April 2020, 31 March 2021, 1 April 2021 and 30 September 2021	<u>2,000,000,000</u>	<u>20,000</u>
Issue and fully paid:		
At 1 April 2020, 31 March 2021, 1 April 2021 and 30 September 2021	<u>1,162,000,000</u>	<u>11,620</u>

14. 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 six months ended 30 September 2021 were as follows:

	Three months ended		Six months ended	
	30 September		30 September	
	2021	2020	2021	2020
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Short term benefits	2,163	1,585	4,277	3,247
Post employment benefits	38	38	76	82
	<u>2,201</u>	<u>1,623</u>	<u>4,353</u>	<u>3,329</u>

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.

In 2021, the Group has commenced the business in provision of food catering services through restaurants, revenue generated from such segment accounted for approximately 1.4% of our total revenue for the six months ended 30 September 2021. Based on the unaudited financial information of our Group, our revenue was approximately HK\$121,704,000 for the six months ended 30 September 2021, representing an increase of approximately 16.6% as compared to approximately HK\$104,360,000 in the corresponding period of 2020.

The past year 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") 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 since the 2020 Chinese New Year. The Directors expect that it will take some time for the Hong Kong economy to recover to normal. With the development of COVID-19 vaccine in Hong Kong, the Directors expected that the daily life of the public will gradually return to normal. 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 six months ended 30 September 2021, our revenue increased by approximately HK\$17,344,000 or approximately 16.6% to approximately HK\$121,704,000 (six months ended 30 September 2020: approximately HK\$104,360,000), mainly due to the sharp 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\$13,284,000 to approximately HK\$8,400,000 for the six months ended 30 September 2021 (six months ended 30 September 2020: approximately HK\$21,684,000). Our high-quality kitchen and hygiene products included face masks, gloves, bleach, kitchen paper and toilet paper, etc. Due to the COVID-19 outbreak in year 2020, people's awareness of hygiene was raised, there was a sudden excess demand for face masks in Hong Kong last year. Our Group was able to source large quantity of supply of face masks from overseas suppliers and the sales of face masks contributed approximately HK\$16,037,000 to our revenue during the six months ended 30 September 2020. During the six months ended 30 September 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\$9,385,000 or approximately 11.4% to approximately HK\$91,364,000 for the six months ended 30 September 2021, as compared to approximately HK\$81,979,000 for the six months ended 30 September 2020, due to the increased sales volumes, 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 35.6% from approximately HK\$22,381,000 for the six months ended 30 September 2020 to approximately HK\$30,340,000 for the six months ended 30 September 2021. The increase in gross profit was due to our enlarged customer base to high-end customers and lower cost of goods purchased from suppliers. For the six months ended 30 September 2021, the Group's gross profit margin increased to 24.9% as compared with the same period in 2020 at 21.4%.

Other income

Other income represented interest income from bank deposits, rent concession, government grant and sundry income. Other income decreased from approximately HK\$1,655,000 for the six months ended 30 September 2020 to approximately HK\$138,000 for the six months ended 30 September 2021 mainly due to no government grant was received during the current period. During the six months ended 30 September 2020, the Group received government grant of approximately HK\$1,479,000, mainly 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 six months ended 30 September 2021 (six months ended 30 September 2020: approximately HK\$13,000) 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 commission and bonus to sales persons and transportation expenses. The selling and distribution expenses accounted for approximately 11.3% and 10.0% of the total revenue for the six months ended 30 September 2021 and 2020 respectively.

Administrative expenses

For the six months ended 30 September 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\$11,893,000 for the six months ended 30 September 2020 to approximately HK\$15,502,000 for the six months ended 30 September 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, partially offset by decrease in legal and professional fees.

Finance costs

Finance costs amounted to approximately HK\$210,000 for the six months ended 30 September 2021, increased by approximately HK\$55,000 as compared to approximately HK\$155,000 for the six months ended 30 September 2020. Finance costs of the Group represented interest expenses on lease liabilities.

Income tax expense

For the six months ended 30 September 2021 and 2020, our income tax expenses were approximately HK\$543,000 and HK\$217,000, respectively.

Profit and total comprehensive income attributable to owners of the Company

For the six months ended 30 September 2021 and 2020, the Group's profit and total comprehensive income attributable to owners of the Company was approximately HK\$389,000 and HK\$1,286,000, 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 six months ended 30 September 2021 (six months ended 30 September 2020: nil).

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

Trade and other receivables

Trade receivables increased slightly from approximately HK\$38,210,000 as at 31 March 2021 to approximately HK\$38,300,000 as at 30 September 2021. The increase was mainly attributable to the increased sales demand near the period end.

Other receivables, deposits and prepayment increased by approximately HK\$3,960,000 from approximately HK\$1,772,000 as at 31 March 2021 to approximately HK\$5,732,000 as at 30 September 2021. The increase was mainly due to the increase in prepayments to suppliers near the period end. In addition, the Group rented a new warehouse in Tuen Mun in September 2021 and approximately HK\$742,000 was paid as deposits for acquisition of property, plant and equipment.

Trade and other payables

Trade payables increased by approximately 35.5% from approximately HK\$7,947,000 as at 31 March 2021 to approximately HK\$10,771,000 as at 30 September 2021. The increase was mainly due to the increased purchase near period end in view of the increase in sales demand.

Other payables and accrued charges decreased by approximately HK\$256,000 from approximately HK\$3,790,000 as at 31 March 2021 to approximately HK\$3,534,000 as at 30 September 2021. The decrease was mainly due to the decrease in accrued audit fee.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 September 2021, bank balances and cash of the Group amounted to approximately HK\$35,005,000 (As at 31 March 2021: approximately of HK\$38,438,000). The current ratios (current asset divided by current liabilities) of the Group were 5.6 times and 6.7 times as at 30 September 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 30 September 2021 were placed as interest bearing deposits with licensed bank in Hong Kong.

CAPITAL STRUCTURE

The Shares were successfully listed on GEM on 13 April 2017. There has been no change in the capital structure of the Group since then. The share capital of the Group only comprises ordinary shares.

As at 30 September 2021, the Company's issued share capital was HK\$11,620,000 and the number of its issued ordinary shares was 1,162,000,000 of HK\$0.01 each.

FOREIGN EXCHANGE EXPOSURE RISKS

Our exposures to currency risk arise from its sales to and purchases from overseas, which are primarily denominated in United States Dollars and Euro. These are not the functional currencies of our entities to which these transactions relate. We currently do not have a group foreign currency hedging policy. However, our management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

FINANCIAL POLICIES

The Group is exposed to liquidity risk in respect of settlement of its trade payables and financing obligations, and also in respect of its cash flow management. The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

GEARING RATIO

The total interest-bearing borrowing (i.e. lease liabilities arising from leased properties) of the Group as at 30 September 2021 was approximately HK\$12,970,000 (31 March 2021: approximately HK\$8,044,000). The Group's gearing ratio as at 30 September 2021 was approximately 12.5% (31 March 2021: approximately 7.8%), which is calculated as the Group's total borrowing over the Group's total equity.

CAPITAL EXPENDITURE

During the six months ended 30 September 2021, the Group invested approximately HK\$1,072,000 (During the six months ended 30 September 2020: approximately HK\$552,000) in property, plant and equipment, mainly represented an increase in leasehold improvements of approximately HK\$731,000 for the newly rented restaurant which was opened in Tsim Sha Tsui in April 2021.

CAPITAL COMMITMENTS

As at 30 September 2021, the Group had no significant capital commitments (31 March 2021: nil).

CHARGES ON THE GROUP'S ASSETS

There were no charges on the Group's assets as at 30 September 2021. As at 31 March 2021, one of the motor vehicle with carrying amount of approximately HK\$207,000 was charged to financial institution. Such motor vehicle has been disposed during the current period.

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

During the six months ended 30 September 2021, the Group did not have any significant investment, material acquisition nor disposal of subsidiaries, associates and joint ventures.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save as disclosed in this announcement, the Group did not have other future plans for material investments or capital assets.

CONTINGENT LIABILITIES

As at 30 September 2021, the Group did not have any significant contingent liabilities (31 March 2021: nil).

INFORMATION ON EMPLOYEES

As at 30 September 2021, the Group employed 60 employees (31 March 2021: 50 employees) with total staff cost of approximately HK\$10,700,000 incurred for the six months ended 30 September 2021 (six months ended 30 September 2020: approximately HK\$7,725,000). The Group's remuneration packages are generally structured with reference to market terms and individual merits.

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 announcement:

Intended use of the net proceeds	Allocation of net proceeds before 18 February 2021 HK\$'000	Revised allocation of net proceeds as at 18 February 2021 HK\$'000	Unutilised net proceeds as at the date of 2021 annual report HK\$'000	Amount utilised from the date of 2021 annual report up to the date of this announcement HK\$'000	Unutilised net proceeds as at the date of this announcement HK\$'000	Expected timeline for full utilisation of the unutilised net proceeds (Note)
Leasing of warehouse facility in Kowloon:						
– Rental deposits	900	–	–	–	–	N/A
– Rental payments	7,400	3,278	2,547	(731)	1,816	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 in provision of food catering services through restaurants	–	9,000	7,186	(417)	6,769	On or before 31 December 2022
Upgrade of Enterprise Resource Planning (“ERP”) system	12,560	8,330	8,149	(146)	8,003	On or before 31 December 2022
Conducting sales and marketing activities	5,540	4,444	4,391	(19)	4,372	On or before 31 December 2022
Installation of new repackaging equipment	3,500	–	–	–	–	N/A
General working capital	3,500	5,211	4,675	(340)	4,335	On or before 31 December 2022
	<u>48,500</u>	<u>30,263</u>	<u>26,948</u>	<u>(1,653)</u>	<u>25,295</u>	

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 announcement, approximately HK\$5,584,000 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 announcement, the Group selected a new ERP software for implementation and a total of approximately HK\$4,557,000 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 announcement, a total of approximately HK\$1,168,000 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 announcement, a total of approximately HK\$2,231,000 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\$876,000 was utilised as general working capital up to the date of this announcement.

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

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 six months ended 30 September 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 six months ended 30 September 2021.

COMPETING INTEREST

During the six months ended 30 September 2021, 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.

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 six months ended 30 September 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 six months ended 30 September 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 six months ended 30 September 2021.

EVENT AFTER THE REPORTING PERIOD

The Directors are not aware of any significant event which had material effect on the Group subsequent to 30 September 2021 and up to the date of this announcement.

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 announcement has not been audited by the auditor of the Company, but the Audit Committee has reviewed this announcement and the unaudited consolidated results of the Group for the six months ended 30 September 2021 and is of the opinion that such announcement 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 November 2021

As at the date of this announcement, 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.

This announcement will remain on the GEM website at www.hkgem.com on the “Latest Listed Company Information” page for at least 7 days from the date of its posting and on the website of the Company at www.agdl.com.hk.