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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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 MARCH 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.

ANNUAL RESULTS

The board of Directors (the “Board”) of the Company is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively referred to as the “Group” or “us” or “we” or “our”) for the year ended 31 March 2021, together with the comparative audited figures for the year ended 31 March 2020, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 March 2021

	<i>Notes</i>	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Revenue	3	227,709	204,368
Cost of sales		(179,639)	(156,750)
Gross profit		48,070	47,618
Other income	4	2,580	554
Other gain and losses, net	4	(200)	(1,012)
Selling and distribution expenses		(24,859)	(23,345)
Administrative and other expenses		(39,670)	(26,657)
Finance costs	5	(297)	(438)
Loss before taxation	6	(14,376)	(3,280)
Income tax expense	7	(242)	(293)
Loss and total comprehensive expense for the year		(14,618)	(3,573)
Loss and total comprehensive expense for the year attributable to:			
Owners of the Company		(14,618)	(3,573)
		<i>HK Cents</i>	<i>HK Cents</i>
Loss per share			
Basic	9	(1.26)	(0.31)
Diluted		N/A	N/A

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2021

	<i>Notes</i>	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Non-Current Assets			
Property, plant and equipment		4,308	4,579
Right-of-use assets		7,849	6,352
Rental and other deposits	<i>11</i>	1,206	678
		13,363	11,609
Current Assets			
Inventories – merchandise at cost		32,280	29,993
Trade receivables	<i>10</i>	38,210	19,587
Other receivables, deposits and prepayments	<i>11</i>	1,772	2,449
Tax recoverable		–	1,281
Bank balances and cash		38,438	54,001
		110,700	107,311
Current Liabilities			
Trade payables	<i>12</i>	7,947	4,850
Other payables and accrued charges	<i>13</i>	3,790	4,783
Contract liabilities		636	239
Tax payable		94	–
Lease liabilities		4,149	3,039
		16,616	12,911
Net Current Assets		94,084	94,400
Total Asset less Current Liabilities		107,447	106,009
Non-Current Liabilities			
Lease liabilities		3,895	3,258
Net Assets		103,552	102,751
Capital and Reserves			
Share capital	<i>14</i>	11,620	11,620
Reserves		91,932	91,131
Equity Attributable to Owners of the Company		103,552	102,751

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

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 GEM of The Stock Exchange of Hong Kong Limited (“Stock Exchange”) 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 “BVI”). 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 consolidated financial statements are presented in Hong Kong Dollars (“HK\$”), which is also the functional currency of the Company.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

New and Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) for the first time in the current year:

HKAS 1 and HKAS 8 (Amendment)	Definition of Material
HKAS 39, HKFRS 7 and HKFRS 9 (Amendment)	Interest Rate Benchmark Reform
HKFRS 3 (Amendment)	Definition of a Business
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting

The application of the new and amendments to HKFRSs and an interpretation in the current year has had no material impact on the Group’s financial performance and position for the current and prior years and/or the disclosures set out in these consolidated financial statements.

New and revised HKFRSs in issue but not yet effective

Other than the amendments to HKFRS 16, COVID-19 Related Rent Concessions, the Group has not applied any new and revised HKFRSs that have been issued but are not yet effective for the financial year beginning 1 April 2020. These new and revised HKFRSs include the following which may be relevant to the Group:

		Effective for accounting periods beginning on or after
HKAS 16 (Amendment)	Property, plant and equipment: Proceed before intended use	1 January 2022
HKAS 37 (Amendment)	Onerous Contracts – cost of fulfilling a contract	1 January 2022
Annual Improvements Project	Annual Improvements to HKFRSs 2018-2020	1 January 2022
HKFRS 3, HKAS 16 and HKAS 37 (Amendment)	Narrow-scope Amendments	1 January 2022
HKAS 1 (Amendment)	Classification of Liabilities as Current or Non-current	1 January 2023
HKFRS 10 and HKAS 28 (Amendment)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined
HKFRS 16 (Amendment)	COVID-19 Related Rent Concessions beyond 30 June 2021	1 April 2021

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application so far, the directors of the Company anticipate that the application of these new and amendments to HKFRSs will likely have no material impact on the consolidated financial statements in the foreseeable future.

3. REVENUE AND SEGMENTAL INFORMATION

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.

	2021	2020
	HK\$'000	HK\$'000
Disaggregation of revenue from contracts with customers		
An analysis of the Group's revenue is by types of goods as follows:		
Commodities and cereal products (<i>note a</i>)	58,019	53,707
Packaged food (<i>note b</i>)	60,076	46,809
Sauce and condiment	41,420	43,728
Dairy products and eggs	27,052	27,684
Beverage and wine	12,689	12,791
Kitchen and hygiene products (<i>note c</i>)	28,453	19,649
	227,709	204,368
Time of revenue recognition within the scope of HKFRS 15:		
At a point in time	227,709	204,368

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.

Segment information

The Group's operation is solely derived from sales of goods in Hong Kong for both years. For the purposes of resources allocation and performance assessment, the chief operation decision maker (i.e. the executive directors of the Company) (the "CODM") reviews the overall results and financial position of the Group as a whole which is prepared based on the Group's accounting policies. Accordingly, the Group has only one single operating segment and no further analysis of this single segment is presented.

Geographical information

No geographical segment information is presented as the Group's revenue are all derived from Hong Kong based on the location of transactions and the Group's property, plant and equipment and right-of-use assets amounting to HK\$4,308,000 and HK\$7,849,000 respectively (2020: HK\$4,579,000 and HK\$6,352,000) as at 31 March 2021 are all located in Hong Kong by physical location of assets.

For both years, no single customer accounted for 10% or more of the Group's total revenue.

4. OTHER INCOME AND GAIN AND LOSSES, NET

Other income

	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest income	54	475
Government grant (<i>note</i>)	2,288	–
Sundry income	132	59
COVID-19 Related rent concessions	106	20
	<hr/>	<hr/>
	2,580	554
	<hr/> <hr/>	<hr/> <hr/>

Note: The government grant for the year ended 31 March 2021 represents the grant in relation to the Employment Support Scheme, of which the Group complied with all attached conditions and therefore such grants were recognised as other income during the year.

Other gain and losses, net

	2021 HK\$'000	2020 <i>HK\$'000</i>
Bad debts written off	(200)	(85)
Loss on disposal of property, plant and equipment	—	(927)
	<u>(200)</u>	<u>(1,012)</u>

5. FINANCE COSTS

	2021 HK\$'000	2020 <i>HK\$'000</i>
Interest on lease liabilities	<u>297</u>	<u>438</u>

6. LOSS BEFORE TAXATION

	2021 HK\$'000	2020 <i>HK\$'000</i>
Loss before taxation has been arrived at after charging:		
Directors' remuneration	4,575	3,845
Other staff costs		
Salaries and other benefits	12,146	10,842
Equity-settled share-based payment expense	15,419	—
Retirement benefits scheme contributions	528	474
	<u>32,668</u>	<u>15,161</u>
Total staff costs		
Depreciation of property, plant and equipment	2,130	2,020
Depreciation of right-of-use assets	3,504	3,428
Auditor's remuneration		
– audit service	570	750
– under provision in prior year	80	—
Expenses relating to short term lease	274	1,197
Cost of inventories recognised as an expense	<u>179,639</u>	<u>156,750</u>

7. INCOME TAX EXPENSE

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Hong Kong Profits Tax:		
– Current tax	330	293
– Overprovision in prior years	<u>(88)</u>	<u>–</u>
	<u>242</u>	<u>293</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 final dividend has been paid or proposed by the Company since its incorporation. The board of directors does not recommend the payments of any dividend in respect of the years ended 31 March 2021 and 2020.

9. LOSS PER SHARE

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

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Loss		
Loss for the purpose of calculating basic earnings per share		
– Loss for the year attributable to owners of the Company	<u>(14,618)</u>	<u>(3,573)</u>
	2021 <i>'000</i>	2020 <i>'000</i>
Number of shares:		
Number of ordinary shares for the purpose of calculating basic loss per share	<u>1,162,000</u>	<u>1,162,000</u>

No diluted loss per share has been presented as the outstanding share options are anti-dilutive for the year ended 31 March 2021 and there were no potential ordinary shares in issue for the year ended 31 March 2020.

10. TRADE RECEIVABLES

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.

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
0 – 30 days	14,019	9,615
31 – 60 days	5,925	4,216
61 – 90 days	1,145	5,077
Over 90 days	17,121	679
	<u>38,210</u>	<u>19,587</u>

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer. Credit limits attributable to customers are reviewed regularly. Approximately 84% (2020: 78%) of trade receivables as at 31 March 2021 that are neither past due nor impaired have good credit quality. In addition, trade receivables of HK\$4,797,000 was overdue for 0-30 days, HK\$1,052,000 was overdue for 31-60 days, HK\$224,000 was overdue for 61-90 days and HK\$48,000 was overdue 90 days as at 31 March 2021. These customers have no default of payment in the past.

The Group has a policy for allowance of expected credit losses which is based on the evaluation of collectibility and ageing analysis of accounts and on management's judgement including the creditworthiness and the past collection history of each client.

The Group has recognised written off of approximately HK\$200,000 on trade receivable (2020: HK\$85,000), during the year ended 31 March 2021, as the directors of the Company considered that credit quality of these debtors are in doubt. The loss has been included in "other gain and losses, net" in the consolidated statement of profit or loss and other comprehensive income. Amounts charged to the allowance account are generally written off when there is no expectation of recovery.

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables and measures the lifetime ECL on shared credit risk characteristics.

11. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Rental and utilities deposits	1,227	972
Prepayments to suppliers	961	833
Other prepayments	658	1,225
Other receivables	132	97
	<u>2,978</u>	<u>3,127</u>
Presented as non-current assets	1,206	678
Presented as current assets	1,772	2,449
	<u>2,978</u>	<u>3,127</u>

12. TRADE PAYABLES

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:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
0 – 30 days	7,823	4,711
31 – 60 days	96	136
Over 60 days	28	3
	<u>7,947</u>	<u>4,850</u>

13. OTHER PAYABLES AND ACCRUED CHARGES

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Accrued charges	2,017	3,478
Salaries and bonus payables	1,773	1,305
	<u>3,790</u>	<u>4,783</u>

14. SHARE CAPITAL

The share capital of the Group as at 31 March 2021 represented the share capital of the Company and details are disclosed as follows:

	Number of shares	<i>HK\$'000</i>
Authorised:		
Ordinary shares of HK\$0.01 each		
At 1 April 2019, 31 March 2020, 1 April 2020 and 31 March 2021	<u>2,000,000,000</u>	<u>20,000</u>
Issue and fully paid:		
Ordinary shares of HK\$0.01 each		
At 1 April 2019, 31 March 2020, 1 April 2020 and 31 March 2021	<u>1,162,000,000</u>	<u>11,620</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.

On 13 April 2017, the shares of the Company (the "Share") were successfully listed on GEM (the "Listing"). The Group's business model, revenue structure and cost structure basically remain unchanged after the Listing. Based on the audited financial information of our Group, our revenue was approximately HK\$227,709,000 for the year ended 31 March 2021, representing an increase of approximately 11.4% as compared to approximately HK\$204,368,000 in the corresponding period of 2020.

Year 2020 was a very difficult period for Hong Kong's food and beverage industry as a whole. Since the beginning of January 2020, the outbreak of Coronavirus Disease 2019 ("COVID-19") 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 expect 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

The following table sets forth the breakdown of the Group's revenue for the years ended 31 March 2021 and 2020:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>	Change %
Commodities and cereal products	58,019	53,707	8.0%
Packaged food	60,076	46,809	28.3%
Sauce and condiment	41,420	43,728	-5.3%
Dairy products and eggs	27,052	27,684	-2.3%
Beverage and wine	12,689	12,791	-0.8%
Kitchen and hygiene products	28,453	19,649	44.8%
	<u>227,709</u>	<u>204,368</u>	11.4%

During the years ended 31 March 2021 and 2020, commodities and cereal products, packaged food and sauce and condiment were the major food and beverage grocery categories sold by us, in aggregate, accounting for approximately 70.1% and 70.6% respectively, of our total revenue.

Our sales of commodities and cereal products increased by approximately 8.0% for the year ended 31 March 2021 as compared to the previous year mainly due to increased orders received for steady growth of existing products. Revenue generated from sales of commodities and cereal products for the years ended 31 March 2021 and 2020 accounted for approximately 25.5% and 26.3% of our total revenue respectively.

Revenue generated from sales of packaged food, which becomes our largest contributing product types for the year ended 31 March 2021, accounted for approximately 26.4% and 22.9% of our total revenue respectively for the years ended 31 March 2021 and 2020. Sales of packaged food increased by approximately 28.3% for the year ended 31 March 2021 as compared to the previous year as a result of sales of our high-value packaged food, which included ophiocordyceps sinensis and wild ginseng.

Our sales of kitchen and hygiene products increased sharply by approximately 44.8% for the year ended 31 March 2021 as compared to the previous year. 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 an excess demand for face masks in Hong Kong. Our Group was able to source large quantity of supply of face masks from oversea suppliers. The sales of face masks contributed approximately HK\$16,129,000 to our revenue during year ended 31 March 2021.

Set aside the effect of the sales of masks, ophiocordyceps sinensis and wild ginseng, revenue generated from sales of our food and beverage products generally decreased for the year ended 31 March 2021 as compared to the previous year. It was mainly due to the decrease in sales orders from local restaurants, hotels and private clubs. The business environment of the food and beverage industry has deteriorated in the last two years. A drastic decline in tourists was recorded in Hong Kong due to the outbreak of social incidents and COVID-19 outbreak. Restaurants and hotels in tourist districts suffered the most, with popular tourist destinations like Tsim Sha Tsui, Causeway Bay and Mong Kok facing a steep sales decline during the current year which led to dramatic decrease in demand for our Group's products. Also, the government's strict enforcement actions to reduce social contacts and gatherings reduced the overall customer traffic of restaurants and therefore, our customers ordered less food and beverage products from us to avoid accumulation of stocks.

Revenue generated from sales of sauce and condiment and sales of dairy products and eggs decreased by approximately 5.3% and 2.3% for the year ended 31 March 2021 as compared to the previous year mainly due to decreased demand from customers.

Our sales of beverage and wine remained relatively stable for the year ended 31 March 2021 as compared to the previous year.

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\$22,889,000 or approximately 14.6% to approximately HK\$179,639,000 for the year ended 31 March 2021 as compared to approximately HK\$156,750,000 for the year ended 31 March 2020 was due to the increased sales volumes and increase in cost of finished goods purchased from suppliers.

Gross profit and gross profit margin

The Group's gross profit increased from approximately HK\$47,618,000 for the year ended 31 March 2020 to approximately HK\$48,070,000 for the year ended 31 March 2021. Only slight increase in gross profit was recorded despite the sharp increase in revenue as the sales margins for face masks and high-value packaged food were low. The increase in gross profit generated by sales of face masks and high-value packaged food just compensated the decrease in sales of our food and beverage products. For the year ended 31 March 2021, the Group's gross profit margin decreased to 21.1% as compared with previous year at 23.3%.

Other income

Other income represented interest income from bank deposits, rent concessions, government grant and sundry income. Other income increased from approximately HK\$554,000 for the year ended 31 March 2020 to approximately HK\$2,580,000 for the year ended 31 March 2021 mainly due to the receipt of government grant 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\$200,000 for the year ended 31 March 2021 which was mainly attributable to the written off of bad debts. During the year ended 31 March 2020, net other losses of approximately HK\$1,012,000 was recorded mainly due to the loss on disposal of items of property, plant and equipment. Since the Group reallocated its headquarters and principal place of business to newly rented office and warehouse in Yau Tong in May 2019, the Group disposed items of property, plant and equipment which included leasehold improvement, plant and machinery and furniture and equipment in the offices and warehouses in Kwun Tong during the year ended 31 March 2020.

Selling and distribution expenses

Our selling and distribution expenses mainly comprised transportation expenses, commission expenses to sales person 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 mainly due to increase in transportation expenses and advertising expenses, partially offset by decrease in entertainment expenses. The selling and distribution expenses accounted for approximately 10.9% and 11.4% of the total revenue for the years ended 31 March 2021 and 2020 respectively.

Administrative expenses

For the year ended 31 March 2021, the Group's administrative expenses primarily comprised equity-settled share-based payment, legal and professional fees, 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\$26,657,000 for the year ended 31 March 2020 to approximately HK\$39,670,000 for the year ended 31 March 2021. The increase of administrative expenses of the Group was mainly due to the equity-settled share-based payment of approximately HK\$15,419,000 incurred in the current year and the increase in staff costs and directors' remuneration, partially offset by the decrease in legal and professional fees and short term lease expenses.

Finance costs

Finance costs amounted to approximately HK\$297,000 for the year ended 31 March 2021, decreased by approximately HK\$141,000 as compared to approximately HK\$438,000 for the year ended 31 March 2020. Finance costs of the Group represented interest expenses on lease liabilities.

Income tax expense

For the years ended 31 March 2021 and 2020, our income tax expense were approximately HK\$242,000 and HK\$293,000, respectively.

Loss and total comprehensive expense attributable to owners of the Company

For the year ended 31 March 2021 and 2020, the Group's loss and total comprehensive expense attributable to owners of the Company was approximately HK\$14,618,000 and HK\$3,573,000. The increase of loss and total comprehensive expense attributable to owners of the Company was mainly attributable to the equity-settled share-based payment of approximately HK\$15,419,000 incurred in the current year and the increase in staff costs, directors' remuneration and transportation expenses, partially offset by the one-off effect in loss on disposal of property, plant and equipment incurred in 2020 due to reallocation of headquarter and warehouse, the receipt of government grant in 2021 and decrease in legal and professional fees.

Dividend

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

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

Trade and other receivables

Trade receivables increased by 95.1% from approximately HK\$19,587,000 as at 31 March 2020 to approximately HK\$38,210,000 as at 31 March 2021. The increase was mainly attributable to the increased sales demand near the year end as the government relaxed some restrictions on restaurant dining services and eased some restrictions on social gatherings in Hong Kong near the current year end.

Other receivables decreased by approximately HK\$677,000 from approximately HK\$2,449,000 as at 31 March 2020 to approximately HK\$1,772,000 as at 31 March 2021. The decrease was mainly due to the decrease in prepayments near the year end.

Trade and other payables

Trade payables increased from approximately HK\$4,850,000 as at 31 March 2020 to approximately HK\$7,947,000 as at 31 March 2021. The increase was mainly due to the increased purchase near year end in view of the increase in sales demand.

Other payables decreased by approximately HK\$993,000 from approximately HK\$4,783,000 as at 31 March 2020 to approximately HK\$3,790,000 as at 31 March 2021. The decrease was mainly due to the decrease in accrued legal and professional fees and accrued transportation expenses.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 March 2021, bank balances and cash of the Group amounted to approximately HK\$38,438,000 (As at 31 March 2020: approximately HK\$54,001,000). The current ratios (current asset divided by current liabilities) of the Group were 6.7 times and 8.3 times as at 31 March 2021 and 31 March 2020 respectively. The Group generally financed its daily operations from internally generated cash flows. The Group financed its business expansion and new business opportunities from the net proceeds from the Listing. The remaining unused net proceeds as at 31 March 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 31 March 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 (lease liabilities arising from leased properties and motor vehicles) of the Group as at 31 March 2021 was approximately HK\$8,044,000 (31 March 2020: approximately HK\$6,297,000). The Group's gearing ratio as at 31 March 2021 was approximately 7.8% (as at 31 March 2020: approximately 6.1%), which is calculated as the Group's total borrowing over the Group's total equity.

CAPITAL EXPENDITURE

During the year ended 31 March 2021, the Group invested approximately HK\$1,859,000 (During the year ended 31 March 2020: approximately HK\$4,579,000) in property, plant and equipment, mainly represented an increase in leasehold improvements of approximately HK\$1,213,000 for the newly rented restaurant which was opened in Tsim Sha Tsui in April 2021. In additions, two motor vehicles with total cost of approximately HK\$488,000 were bought in July 2020 and February 2021.

CAPITAL COMMITMENTS

As at 31 March 2021, the Group had no significant capital commitments (As at 31 March 2020: nil).

CHARGES ON THE GROUP'S ASSETS

One of the motor vehicle with carrying amount of approximately HK\$207,000 was charged to a financial institution as at 31 March 2021. (As at 31 March 2020: HK\$397,000).

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

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

During the year ended 31 March 2021, the Group did not have any significant investment, material acquisition nor disposal of subsidiaries, associates and joint venture.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

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

CONTINGENT LIABILITIES

As at 31 March 2021, the Group did not have any significant contingent liabilities (As at 31 March 2020: nil).

INFORMATION ON EMPLOYEES

As at 31 March 2021, the Group employed 50 employees (As at 31 March 2020: 44 employees) with total staff cost of approximately HK\$32,668,000 incurred for the year ended 31 March 2021 (for the year ended 31 March 2020: approximately HK\$15,161,000). 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 annual report:

Intended use of the net proceeds	Allocation of net proceeds before 18 February 2021 HK\$'000	Unutilised net proceeds as at the date of 2020 annual report HK\$'000	Amount utilised from the date of 2020 annual report to 18 February 2021 HK\$'000	Revised allocation of net proceeds as at 18 February 2021 HK\$'000	Amount utilised from 19 February 2021 to the date of this annual report HK\$'000	Unutilised net proceeds as at the date of this annual report HK\$'000	Expected timeline for full utilisation of the unutilised net proceeds (Note)
Leasing of warehouse facility in Kowloon:							
– Rental deposits	900	330	–	–	–	–	N/A
– Rental payments	7,400	4,740	(1,462)	3,278	(731)	2,547	On or before 31 December 2022
– Renovation costs	7,000	3,482	(89)	–	–	–	N/A
– Start-up costs for warehouse facility	8,100	7,225	–	–	–	–	N/A
Development of the business in provision of food catering services through restaurants	–	–	–	9,000	(1,814)	7,186	On or before 31 December 2022
Upgrade of Enterprise Resource Planning (“ERP”) system	12,560	9,182	(852)	8,330	(181)	8,149	On or before 31 December 2022
Conducting sales and marketing activities	5,540	5,092	(648)	4,444	(53)	4,391	On or before 31 December 2022
Installation of new repackaging equipment	3,500	3,263	–	–	–	–	N/A
General working capital	3,500	–	–	5,211	(536)	4,675	On or before 31 December 2022
	<u>48,500</u>	<u>33,314</u>	<u>(3,051)</u>	<u>30,263</u>	<u>(3,315)</u>	<u>26,948</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 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 unutilised 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\$4,853,000 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\$4,411,000 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\$1,149,000 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 currently 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\$1,814,000 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\$536,000 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

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 “Shareholder(s)”). 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 year ended 31 March 2021. Key corporate governance principles and practices of the Company are summarised below.

Audit Committee

The Group has established an audit committee of the Directors (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 AC 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. Wang Zhaobin, Mr. Ng Fan Kay Frankie 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 audited consolidated financial statements of the Group for the year ended 31 March 2021 had been reviewed by the Audit Committee, which was of the opinion that the audited consolidated financial statements have been prepared in compliance with the applicable accounting standards and the GEM Listing Rules.

Event after the reporting period

On 30 April 2021, the Company entered into a non-legally binding memorandum of understanding (“MOU”) with Beijing Douguo Yangtian Internet Technology Co., Limited (the “Vendor”), a company established in the PRC with limited liability, in relation to the possible acquisition of certain percentage of issued share capital of the Beijing Douguo Information Technology Co., Limited (the “Target Company”) and its subsidiaries.

Pursuant to the MOU, the Company intends to acquire and the Vendor intends to sell certain percentage in the issued share capital of the Target Company. The Target Company together with its subsidiaries, is principally engaged in operating a food and cooking guide app and website and as well as online shopping platform in the PRC.

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 year ended 31 March 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 year ended 31 March 2021.

Purchase, sales or redemption of the listed securities of the Company

Neither the Company, nor any of its subsidiaries have purchased, sold or redeemed any listed securities of the Company during the year ended 31 March 2021.

Scope of work of Messrs. McMillan Woods (Hong Kong) CPA Limited

The figures in respect of the Group’s consolidated statement of the financial position, consolidated statement of profit or loss and other comprehensive income, and the related notes thereto for the year ended 31 March 2021 as set out in this preliminary announcement have been agreed by the Group’s auditor, Messrs. McMillan Woods (Hong Kong) CPA Limited, to the amounts set out in the Group’s audited consolidated financial statements for the year ended 31 March 2021. The work performed by McMillan Woods (Hong Kong) CPA Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. McMillan Woods (Hong Kong) CPA Limited on this preliminary announcement.

Publication of the 2021 annual report on the websites of the Stock Exchange and the Company

Pursuant to the requirements of the GEM Listing Rules, the 2021 annual report of the Company will set out all information required by the GEM Listing Rules and will be published on the GEM website at www.hkgem.com and the Company's website at www.agdl.com.hk on or before 30 June 2021.

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

Hong Kong, 24 June 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 "Latest Company Announcements" page of the GEM website at www.hkgem.com for at least seven days from the date of its posting and on the Company's website at www.agdl.com.hk.