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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)

**THIRD QUARTERLY RESULTS ANNOUNCEMENT
FOR THE NINE MONTHS ENDED 31 DECEMBER 2019**

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\$149,084,000 for the nine months ended 31 December 2019 (nine months ended 31 December 2018: approximately HK\$146,582,000).
- Profit attributable to owners of the Company for the nine months ended 31 December 2019 amounted to approximately HK\$678,000 (nine months ended 31 December 2018 amounted to approximately HK\$2,378,000).
- The Directors do not recommend the payment of any dividend for the nine months ended 31 December 2019 (nine months ended 31 December 2018: nil).

THIRD QUARTERLY RESULTS

The board (the “**Board**”) of Directors of the Company is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively, the “**Group**”) for the three and nine months ended 31 December 2019, together with the unaudited comparative figures for the corresponding periods in 2018, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three and nine months ended 31 December 2019

	Notes	Three months ended 31 December		Nine months ended 31 December	
		2019 HK\$'000 (unaudited)	2018 HK\$'000 (unaudited)	2019 HK\$'000 (unaudited)	2018 HK\$'000 (unaudited)
Revenue	3	50,479	53,230	149,084	146,582
Costs of sales		(38,232)	(40,408)	(112,827)	(111,394)
Gross profit		12,247	12,822	36,257	35,188
Other income	4	162	121	408	284
Other gain and losses, net	4	(34)	–	(960)	11
Selling and distribution expenses		(5,628)	(5,262)	(16,961)	(15,283)
Administrative expenses		(5,521)	(5,568)	(17,672)	(16,838)
Finance costs	5	(2)	–	(6)	–
Profit before taxation	6	1,224	2,113	1,066	3,362
Income tax expense	7	(244)	(472)	(388)	(984)
Profit and total comprehensive income for the period attributable to owners of the Company		980	1,641	678	2,378
Earnings per share					
Basic (HK cents)	9	0.08	0.14	0.06	0.20

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY*For the nine months ended 31 December 2019*

	Attributable to owners of the Company				Total <i>HK\$'000</i>
	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Other reserves <i>HK\$'000</i>	Accumulated profits <i>HK\$'000</i>	
At 1 April 2019 (audited)	11,620	62,742	5,584	26,378	106,324
Profit and total comprehensive income for the period	<u>-</u>	<u>-</u>	<u>-</u>	<u>678</u>	<u>678</u>
At 31 December 2019 (unaudited)	11,620	62,742	5,584	27,056	107,002
At 1 April 2018 (audited)	11,620	62,742	5,584	22,469	102,415
Profit and total comprehensive income for the period	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,378</u>	<u>2,378</u>
At 31 December 2018 (unaudited)	<u>11,620</u>	<u>62,742</u>	<u>5,584</u>	<u>24,847</u>	<u>104,793</u>

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 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 nine months ended 31 December 2019 are prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”) which is a collective term that includes all applicable individual HKFRSs, Hong Kong Accounting Standards (“**HKASs**”), and Interpretations issued by the 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 2019.

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 2019. 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, which are measured at fair values. 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.

3. REVENUE

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

	Three months ended		Nine months ended	
	31 December		31 December	
	2019	2018	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Disaggregation of revenue from contracts with customers				
An analysis of the Group's turnover is by types of goods as follows:				
Commodities and cereal products <i>(Note a)</i>	14,015	14,281	41,358	39,900
Packaged food <i>(Note b)</i>	11,463	13,092	33,554	36,743
Sauce and condiment	11,424	11,282	34,095	32,376
Dairy products and eggs	7,365	6,687	21,830	18,704
Beverage and wine	3,489	4,293	10,047	10,889
Kitchen products <i>(Note c)</i>	2,723	3,595	8,200	7,970
	<hr/>	<hr/>	<hr/>	<hr/>
Total revenue at a point in time	50,479	53,230	149,084	146,582
	<hr/>	<hr/>	<hr/>	<hr/>
Time of revenue recognition				
At a point in time	50,479	53,230	149,084	146,582
Over time	–	–	–	–
	<hr/>	<hr/>	<hr/>	<hr/>
	50,479	53,230	149,084	146,582
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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

Notes:

- Commodities and cereal products include rice, wheat flour, noodle products such as ramen and pasta, edible oil as well as sugar and salt.
- 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.
- Kitchen 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.

4. OTHER INCOME AND GAIN AND LOSSES, NET

	Three months ended		Nine months ended	
	31 December		31 December	
	2019	2018	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Other income				
Interest income	119	121	359	222
Sundry income	43	–	49	62
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Other gain and losses, net				
Allowance for bad and doubtful debts	(34)	–	(34)	–
Reversal of bad and doubtful debts	–	–	1	11
Loss on disposal of items of property, plant and equipment	–	–	(927)	–
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

5. FINANCE COSTS

	Three months ended		Nine months ended	
	31 December		31 December	
	2019	2018	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Interests on obligation under finance lease	2	–	6	–
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

6. PROFIT BEFORE TAXATION

	Three months ended		Nine months ended	
	31 December		31 December	
	2019	2018	2019	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Profit before taxation has been arrived at after charging:				
Directors' remuneration	907	924	2,731	2,746
Other staff costs				
Salaries and other benefits	2,952	2,547	8,471	7,205
Retirement benefits scheme contributions	117	98	350	280
	<u>3,976</u>	<u>3,569</u>	<u>11,552</u>	<u>10,231</u>
Total staff costs				
Depreciation of property, plant and equipment	566	343	1,644	945
Auditor's remuneration – audit service	359	150	679	450
Minimum lease payments under operating leases in respect of land and buildings	916	1,468	3,709	4,404
Cost of inventories recognised as an expense	38,232	40,408	112,827	111,394

7. INCOME TAX EXPENSE

	Three months ended		Nine months ended	
	31 December		31 December	
	2019	2018	2019	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Hong Kong Profits Tax:				
– Current tax	244	472	388	984

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

Accordingly, the Hong Kong profits tax for the for the nine months ended 31 December 2019 is calculated at 8.25% on the first HK\$2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK\$2 million.

8. DIVIDEND

No dividend has been paid or proposed by the Company since its incorporation. The Directors do not recommend the payments of any dividend in respect of the for the nine months ended 31 December 2019 and 2018.

9. EARNINGS PER SHARE

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

	Three months ended		Nine months ended	
	31 December		31 December	
	2019	2018	2019	2018
	<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>980</u>	<u>1,641</u>	<u>678</u>	<u>2,378</u>
	'000	'000	'000	'000
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>

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

10. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the consolidated financial statements, the Group had entered into the following transaction with its related party during the reporting period:

	Three months ended		Nine months ended	
	31 December		31 December	
	2019	2018	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Nature of transaction				
Sales of goods to Good Days Store Limited (<i>Note i</i>)	<u>–</u>	<u>46</u>	<u>–</u>	<u>225</u>

Note:

- (i) Good Days Store Limited is a limited entity incorporated in Hong Kong on 22 June 2018 which is 100% owned by Mr. Wong Siu Man. During the nine months ended 31 December 2018, Good Days Store Limited purchased goods from a subsidiary of the Group. Transactions were conducted with terms mutually agreed with Good Days Store Limited.

Compensation of key management personnel

The remuneration of directors and other members of key management during the nine months ended 31 December 2019 were as follows:

	Three months ended		Nine months ended	
	31 December		31 December	
	2019	2018	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Short term benefits	1,593	1,605	4,768	4,805
Post employment benefits	38	38	114	114
	1,631	1,643	4,882	4,919

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 widely 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 products.

On 13 April 2017, the Shares were successfully listed on the GEM (the "Listing") when 322,000,000 shares were allotted and issued at HK\$0.23 each. The Group's business model, revenue structure and cost structure basically remain unchanged after the Listing. Based on the unaudited financial information of our Group, our revenue was approximately HK\$149,084,000 for the nine months ended 31 December 2019, representing a slight increase of approximately 1.7% as compared to approximately HK\$146,582,000 in the corresponding period of 2018.

Year 2019 was a difficult period for Hong Kong's food and beverage industry as a whole. The industry faced a lot of challenges such as the social unrest, high upfront costs, skyrocketing rentals and increasing labor costs, as well as difficulty in retaining talent in an increasingly competitive market. Therefore, during the nine months ended 31 December 2019, the Group consistently adhered to the principle of maintaining profitability while striving for better results, and continued to step up its efforts in controlling expenditure, and at the same time enhancing its presence in the food and beverage grocery distribution market by devoting more resources to sales and marketing activities and actively facilitating the business development of new products. Despite this, the Directors expect that the competition of the market will continue to be intense.

FINANCIAL REVIEW

Revenue

During the nine months ended 31 December 2019, our revenue increased by approximately HK\$2,502,000 or approximately 1.7% to approximately HK\$149,084,000 (nine months ended 31 December 2018: approximately HK\$146,582,000), mainly due to increased demand from our customers as a result of successful sales campaign.

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\$1,433,000 or approximately 1.3% to approximately HK\$112,827,000 for the nine months ended 31 December 2019, as compared to approximately HK\$111,394,000 for the nine months ended 31 December 2018, due to increased sales volumes, offset by cost efficiencies in cost of finished goods purchased from direct manufacturers and end suppliers.

Gross profit and gross profit margin

The Group's gross profit increased by approximately 3.0% from approximately HK\$35,188,000 for the nine months ended 31 December 2018 to approximately HK\$36,257,000 for the nine months ended 31 December 2019. 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 nine months ended 31 December 2019, the Group's gross profit margin increased to 24.3% as compared with the same period in 2018 at 24.0%.

Other income

Other income consisted of interest income from bank deposits and sundry income. Other income increased from approximately HK\$284,000 for the nine months ended 31 December 2018 to approximately HK\$408,000 for the nine months ended 31 December 2019 mainly due to increase in interest income from fixed bank deposits.

Other gain and losses, net

The Group recorded net losses of approximately HK\$960,000 for the nine months ended 31 December 2019, which was mainly attributable to the loss on disposal of items of property, plant and equipment. Since the Group reallocate 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 existing offices and warehouses in Kwun Tong during the period.

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 11.4% and 10.4% of the total revenue for the nine months ended 31 December 2019 and 2018 respectively.

Administrative expenses

For the nine months ended 31 December 2019, the Group's administrative expenses primarily comprised legal and professional fees, rent, rates and management fee for office and warehouses, staff costs for administrative and management personnel, directors' remuneration, depreciation and insurance. Administrative expenses increased from approximately HK\$16,838,000 for the nine months ended 31 December 2018 to approximately HK\$17,672,000 for the nine months ended 31 December 2019. The increase of administrative expenses of the Group was mainly due to the increase in salaries of administrative staff. Also, the Group renovated and purchased new furniture and equipment for the new office and warehouse which incurred additional depreciation.

Finance costs

Finance costs of approximately HK\$6,000 for the nine months ended 31 December 2019 represented interest expenses on obligation under finance lease incurred for a truck purchased.

Income tax expense

For the nine months ended 31 December 2019 and 2018, our income tax expenses were approximately HK\$388,000 and HK\$984,000, respectively.

Profit and total comprehensive income attributable to owners of the Company

For the nine months ended 31 December 2019 and 2018, the Group's profit and total comprehensive income attributable to owners of the Company was approximately HK\$678,000 and HK\$2,378,000, respectively. The decrease of profit and total comprehensive income attributable to owners of the Company was mainly attributable to the loss on disposal of items of property, plant and equipment and increase in selling and distribution expenses offset by increased revenue. Since the Group reallocated its headquarters and principal place of business to newly rented office and warehouse in Yau Tong in May 2019 and disposed large amount of items of property, plant and equipment in the existing offices and warehouses in Kwun Tong, therefore, a one-off loss on disposal of items of property, plant and equipment amounted to approximately HK\$927,000 was recorded during the period.

Dividend

No dividend was paid, declared or proposed during the period. The Directors do not recommend the payment of any dividend for the nine months ended 31 December 2019 (nine months ended 31 December 2018: nil).

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2019, bank balances and cash of the Group amounted to approximately HK\$53,856,000 (As at 31 March 2019: approximately of HK\$64,745,000). The current ratios (current asset divided by current liabilities) of the Group were 9.9 times and 13.6 times as at 31 December 2019 and 31 March 2019 respectively. The Group generally financed its daily operations from internally generated cash flows. The Group financed its business expansion and new business opportunities from the net proceeds from the Listing. The remaining unused net proceeds as at 31 December 2019 were placed as interest bearing deposits with licensed bank in Hong Kong.

GEARING RATIO

The total interest-bearing borrowing of the Group as at 31 December 2019 was HK\$235,000 (31 March 2019: HK\$285,000). The Group's gearing ratio as at 31 December 2019 was 0.2% (31 March 2019: 0.3%), which is calculated as the Group's total borrowing over the Group's total equity.

SIGNIFICANT INVESTMENT, MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES

During the nine months ended 31 December 2019, the Group did not have any significant investment, material acquisition nor disposal of subsidiaries and affiliated companies.

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

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

	Updated use of net proceeds <i>HK\$'000</i>	Utilised <i>HK\$'000</i>	Unutilised <i>HK\$'000</i>
Leasing of warehouse facility in Kowloon:			
– Rental deposits	900	(570)	330
– Rental payments	7,400	(1,520)	5,880
– Renovation costs	7,000	(3,518)	3,482
– Start-up costs for warehouse facility	8,100	(875)	7,225
Upgrade of Enterprise Resource Planning ("ERP") system	12,560	(3,160)	9,400
Conducting sales and marketing activities	5,540	(429)	5,111
Installation of new repackaging equipment	3,500	(237)	3,263
General working capital	3,500	(3,500)	–
	48,500	(13,809)	34,691

Looking forward, the Group will further enhance the capabilities of offering a wide spectrum of products for customers and continue to exercise careful cost controls to withstand the keen competition in the food and beverage grocery distribution industry.

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. As at 31 December 2019, a total of approximately HK\$6,483,000 was spent on rental deposits, rental payments, renovation costs and start-up costs for the warehouse facility.

The Group had planned to use approximately HK\$12,560,000 of the net proceeds to upgrade the ERP system, which is used to monitor the inventory level and minimise incidences of overstocking, so as to enhance the operational efficiency of the Group. As at 31 December 2019, the Group selected a new ERP software for implementation and a total of approximately HK\$3,160,000 was spent on consultancy services and software and hardware acquisition for the upgrade of the ERP system.

The Group had planned to use approximately HK\$5,540,000 of the net proceeds to conduct sales and marketing activities to attract more customers and strengthen customer loyalty so as to further penetrate the food and beverage grocery distribution market. As at 31 December 2019, a total of approximately HK\$429,000 was spent on participating in domestic food exhibition and sales exhibition to showcase our products to potential buyers. The Group is currently recruiting new marketing staff for upcoming new sales campaign.

The Group had planned to use approximately HK\$3,500,000 to purchase new repackaging equipment to further automate the repackaging process and increase efficiency. As at 31 December 2019, a total of approximately HK\$237,000 was spent on purchasing new automatic repackaging machines. The Group will continue to install more repackaging equipment and develop packaging design.

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 nine months ended 31 December 2019.

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

No incident of non-compliance of the Model Code and/or the Inside Information Policy was noted by the Company during the nine months ended 31 December 2019.

COMPETING INTEREST

During the nine months ended 31 December 2019, none of the Directors or the controlling shareholders of the Company or their close associates (as defined in the GEM Listing Rules) had interest in any business which competes or may compete, either directly or indirectly, with the business of the Group nor any conflicts of interest which has or may have with the Group.

DEED OF NON-COMPETITION

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

The independent non-executive Directors have also reviewed the status of compliance and confirmed that all the undertakings under the Deed of Non-competition have been complied with by each of the Controlling Shareholders during the nine months ended 31 December 2019.

PURCHASE, SALES OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES

Neither the Company, nor any of its subsidiaries have purchased, sold or redeemed any securities of the Company during the nine months ended 31 December 2019.

CORPORATE GOVERNANCE PRACTICES

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

In the opinion of the Board, the Company has complied with the CG Code during the nine months ended 31 December 2019 except for the deviation from code provisions A.5.5(2) as explained below:

Pursuant to code provision A.5.5(2) of the CG Code, where the board proposes a resolution to elect an individual as an independent non-executive director at the general meeting, it should set out in the circular to shareholders why the board believes that an independent non-executive director holding his seventh or more listed company directorship will still be able to devote sufficient time to the board. The information as required under code provision A.5.5(2) of the CG Code was not provided in the circular of the Company dated 25 June 2019. Mr. To Yan Ming, Edmond (“Mr. To”) was holding directorships in more than seven public companies and was re-elected as an independent non-executive Director at the Company’s annual general meeting on 8 August 2019. The Board focus on the ability of a director to commit sufficient time to discharge his responsibilities as a board member rather than the number of directorships held, and as such they are of the view that Mr. To was able to devote sufficient time and attention to the Company’s affairs having regard to his previous attendance at all Board and other committee meetings held in the past years.

EVENT AFTER THE REPORTING PERIOD

The Directors are not aware of any significant event which had material effect on the Group subsequent to 31 December 2019 and up to the date of this announcement.

INTEREST OF THE COMPLIANCE ADVISER

The Company has changed the compliance adviser from LY Capital Limited (“**LY Capital**”) to Sorrento Capital Limited (“**Sorrento Capital**”) as LY Capital and the Company could not reach an agreement on the adjustment of fee to be payable by the Company to LY Capital, effective on 10 July 2019. As informed by Sorrento Capital, neither Sorrento Capital nor any of its directors or employees or associates, has or may have, any interest in the Group as at 31 December 2019, which is required to be notified to the Company pursuant to Rule 6A.32 of the GEM Listing Rules, except for the compliance adviser agreement entered into between the Company and Sorrento Capital dated 10 July 2019.

CHANGE IN DIRECTORS’ INFORMATION

Pursuant to Rule 17.50A(1) of the GEM Listing Rules, the changes of information of Directors since the publication of the Annual Report 2019 of the Company and up to the date of this announcement are set out below:

Mr. To ceased to act as independent non-executive directors of Wai Chun Bio-Technology Limited (stock code: 660), Wai Chun Group Holdings Limited (stock code: 1013), Tianli Holdings Group Limited (stock code: 117), SH Group (Holdings) Limited (stock code: 1637), Birmingham Sports Holdings Limited (stock code: 2309), EPI (Holdings) Limited (stock code: 689) and Courage Investment Group Limited (stock code: 1145), companies listed on the Main Board of the Stock Exchange and Sinopharm Tech Holdings Limited (formerly known as China Vanguard You Champion Holdings Limited) (stock code: 8156), a company listed on GEM of the Stock Exchange, due to his death on 28 August 2019.

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 primary duties of the Audit Committee include (i) review and discussion of the quarterly, interim and annual financial statements, results announcements and reports, the related accounting principles and practices adopted by the Group and the relevant audit findings; (ii) review and discussion of the risk management and internal control system of the Group; (iii) discussion and recommendation of the re-appointment of external auditor; and (iv) review of the Group’s continuing connected transactions for the nine months ended 31 December 2019 pursuant to the GEM Listing Rules.

Mr. To, an independent non-executive Director, passed away on 28 August 2019. Mr. Wang Zhaobin has been appointed as an independent non-executive Director, the chairman of the remuneration committee of the Company, a member of each of the audit committee and the nomination committee of the Company with effect from 27 November 2019.

The Audit Committee now comprises three independent non-executive Directors, namely Mr. Ng Fan Kay Frankie, Mr. Wang Zhaobin and Mr. Wong Garrick Jorge Kar Ho 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 unaudited condensed consolidated financial statements have not been audited by the auditor of the Company, but have been reviewed by the Audit Committee and the Audit Committee is of the opinion that the preparation of such results complied with the applicable accounting standards, the requirements under the GEM Listing Rules and other applicable legal requirements, and that adequate disclosures had been made.

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

Hong Kong, 13 February 2020

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 Mr. Wong Garrick Jorge Kar Ho.