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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)

CHANGE IN USE OF PROCEEDS

Reference is made to the prospectus dated 31 March 2017 (the “**Prospectus**”) issued by Asia Grocery Distribution Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) and the announcement of the Company dated 27 March 2019 (the “**Announcement**”) in relation to the listing of the shares of the Company on GEM of The Stock Exchange of Hong Kong Limited and update on use of proceeds, supplement by the announcement of the Company dated 14 August 2020. Unless the context requires otherwise, capitalised terms used in this announcement shall have the same meanings as those defined in the Announcement.

It was disclosed in the paragraph headed “Reasons for the Share Offer and Use of Proceeds” under the section headed “Statement of Business Objective and Use of Proceeds” in the Prospectus and the Announcement that the Company intended to use the Net Proceeds for the following purposes:

- approximately 48.3% of the Net Proceeds, or approximately HK\$23.4 million, will be used to lease warehouse facilities in Kowloon;
- approximately 26.0% of the Net Proceeds, or approximately HK\$12.6 million, will be used to upgrade our Enterprise Resource Planning (“**ERP**”) system;
- approximately 11.3% of the Net Proceeds, or approximately HK\$5.5 million, will be used to conduct sales and marketing activities;
- approximately 7.2% of the Net Proceeds, or approximately HK\$3.5 million, will be used to install new repackaging equipment and develop packaging design; and
- approximately 7.2% of the Net Proceeds, or approximately HK\$3.5 million, will be used for general working capital purposes.

As at the date of this announcement, approximately HK\$18.2 million of the Net Proceeds had been used and applied for those intended uses and approximately HK\$30.3 million of the Net Proceeds remain unutilized.

The Board has resolved to change the proposed use of the Net Proceeds for reasons set out in the paragraph below headed “Reasons for the Change in Use of Proceeds” of this announcement. Breakdown of the original allocation of the Net proceeds, breakdown of the Net Proceeds utilized and unutilized up to the date of this announcement, and the revised allocation of the Net Proceeds are summarized as follows:

	Original/ revised allocation <i>(HK\$'000)</i>	Amount utilised up to the date of this announcement <i>(HK\$'000)</i>	Amount unutilised up to the date of this announcement <i>(HK\$'000)</i>	Revised allocation <i>(HK\$'000)</i>	Expected timeline of full utilisation of the unutilised proceeds
Leasing of warehouse facility in Kowloon					
– Rental deposits	900	(570)	330	–	–
– Rental payments	7,400	(4,122)	3,278	3,278	On or before 31 December 2022
– Renovation costs	7,000	(3,607)	3,393	–	–
– Start-up costs for warehouse facility	8,100	(875)	7,225	–	–
Development of the business in provision of food catering services through restaurants	–	–	–	9,000	On or before 31 December 2022
Upgrade of Enterprise Resource Planning System	12,560	(4,230)	8,330	8,330	On or before 31 December 2022
Conducting sales and marketing activities	5,540	(1,096)	4,444	4,444	On or before 31 December 2022
Installation of new repackaging equipment	3,500	(237)	3,263	–	–
General working capital	3,500	(3,500)	–	5,211	On or before 31 December 2022
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Total	<u>48,500</u>	<u>(18,237)</u>	<u>30,263</u>	<u>30,263</u>	

REASONS FOR THE CHANGE IN USE OF PROCEEDS

In 2019, the Company has established a new warehouse in Kowloon 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. In addition, outsourcing the repackaging is more cost-effective compared to acquiring and installing new repackaging equipment under the current market conditions. As such, the Board is of the view that the use of the unutilised Net Proceeds should be appropriately adjusted to better cope with the current economic conditions and business development of the Group.

Recently, the Group is planning to develop the business in provision of food catering services through restaurants in view of the lower market rent under current economic conditions. Around 5 restaurants are currently planned to be opened before 31 December 2022 with the first restaurant targeted to be opened in Tsim Sha Tsui in or around 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. Among the unutilised Net Proceeds, approximately HK\$9.0 million is allocated for the start-up costs and renovation costs for restaurants and approximately HK\$5.2 million 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.

In view of the foregoing, the Board (including the independent non-executive Directors) considers that the change in use of the Net Proceeds, which deploys the Group's idle funds to expand its business could in turn further enhance the Group's overall revenue, is in the interests of the Group and the shareholders of the Company as a whole.

Save as aforesaid, there is no other change in use of the Net Proceeds.

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

Hong Kong, 18 February 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, for which the Directors 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 of Hong Kong Limited 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.

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.