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## **KELFRED HOLDINGS LIMITED**

**恒發光學控股有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 1134)**

### **CHANGE IN USE OF PROCEEDS**

Reference is made to the prospectus of Kelfred Holdings Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) dated 29 June 2019 (the “**Prospectus**”) and the interim report of the Company for the six months ended 30 June 2020 (the “**Interim Report**”). Unless otherwise defined, capitalised terms used in this announcement shall have the same meanings as those defined in the Prospectus and the Interim Report.

#### **PLANNED USE OF PROCEEDS**

According to the Interim Report, the actual amount of the net proceeds from the Share Offer after deducting underwriting commission and other relevant expenses was approximately HK\$80.0 million (the “**Net Proceeds**”). As disclosed in the Prospectus, it was intended that the Net Proceeds would be used for the following purposes:

- approximately 54.0% of the Net Proceeds would be used to strengthen the production capacity of the Group;
- approximately 15.5% of the Net Proceeds would be used to repay the Group’s bank borrowings;
- approximately 11.0% of the Net Proceeds would be used to promote the Group’s corporate image and brand building;
- approximately 9.0% of the Net Proceeds would be used to enhance the design and development capabilities of the Group;
- approximately 4.5% of the Net Proceeds would be used to enhance the quality assurance capabilities of the Group; and
- approximately 6.0% of the Net Proceeds would be used as general working capital.

## CHANGE IN USE OF PROCEEDS

As at 30 June 2020 and disclosed in the Interim Report, the Group had used approximately HK\$24.0 million, representing approximately 30.0% of the Net Proceeds, and the remaining balance of the Net Proceeds was approximately HK\$56.0 million (the “Unutilised Net Proceeds”). On 19 November 2020, the Board resolved to change the proposed use of net proceeds from the Listing. Details of the original allocation of the Net Proceeds, the utilised net proceeds as at 30 June 2020 and the revised allocation of the Unutilised Net Proceeds are set out as follows:

	Original allocation of the Net Proceeds as per the Interim Report		Utilised amount of the Net Proceeds as at 30 June 2020	Unutilised Net Proceeds as at 30 June 2020	Revised allocation of the Unutilised Net Proceeds	
	HK\$' million	%	HK\$' million	HK\$' million	HK\$' million	%
Strengthen our production capacity	43.2	54.0	3.7	39.5	22.4	40.0
Repay our bank borrowings	12.4	15.5	12.4	–	–	0.0
Promote corporate image and brand building	8.8	11.0	2.4	6.4	4.5	8.0
Enhance design and development capabilities	7.2	9.0	1.9	5.3	5.3	9.5
Enhance quality assurance capabilities	3.6	4.5	1.2	2.4	1.4	2.5
General working capital	4.8	6.0	2.4	2.4	22.4	40.0
	<u>80.0</u>	<u>100.0</u>	<u>24.0</u>	<u>56.0</u>	<u>56.0</u>	<u>100.0</u>

## REASONS FOR CHANGE IN USE OF PROCEEDS

As disclosed in the Interim Report, given the outbreak of COVID-19 may have considerable impact on the Group’s operating results for the year ending 31 December 2020, the Group has prudently prolonged the timeline for the Group’s business plans (including the expansion of the Group’s production capacity), which would enhance the cash position and liquidity of the Group to respond to the challenging economic environment ahead.

The outbreak of COVID-19 in Europe in 2020 has led to disruption to the eyewear consumer markets in Europe which is the largest market for the products for the Group. The operating environment of the Group has been adversely affected by the outbreak of COVID-19, and the Group recorded a drop in revenue of the Group for the six months ended 30 June 2020 compared to the corresponding period in 2019, and expects a drop in the revenue of the Group for the year ending 31 December 2020. As the development of COVID-19 situation worldwide is still fluctuating, there remains a high degree of uncertainty over the stabilisation of the global outbreak, as well as the pace of the recovery of global economy, including Europe, once the outbreak has been contained. Therefore, the Board is of the view that in order to mitigate the adverse impact from COVID-19, the current priority of the Group shall be to maintain a healthy financial position by, among others, (i) putting on hold expansion plans of the Group to minimise future operating costs; (ii) reviewing the original plan of using the Unutilised Net Proceeds and adjusting the allocation as necessary and appropriate to improve liquidity; and (iii) implementing cost-saving measures.

Based on the above, the Directors have decided to (i) temporarily put on hold the expansion of the Group's production capacity in Jiangxi, the PRC; and (ii) reduce the Unutilised Net Proceeds to be used for the promotion of corporate image and brand building, as well as the enhancement of quality assurance capabilities, and as a result, an aggregate of HK\$20.0 million of the Unutilised Net Proceeds is left idle.

While a part of the Unutilised Net Proceeds is left idle, the Group started to encounter a tighter cashflow since the second half of 2020 due to delayed payments from customers while the Group continued to settle its payment obligations to its suppliers from its existing available cashflow. After conducting a review of the operating expenses of the Group, the Board considers that the allocation of a certain portion of the Unutilised Net Proceeds which is currently left idle to general working capital is conducive to the Group by improve liquidity to support the daily operations of the Group and reduce reliance on external financing.

As such, the Group decides to re-allocate (i) HK\$17.1 million originally intended for the expansion of the Group's production capacity; (ii) HK\$1.9 million originally intended for the promotion of corporate image and brand building; and (iii) HK\$1.0 million originally intended for the enhancement of quality assurance capabilities, as general working capital for the Group.

The Board also believes that the re-allocation of part of the Unutilised Net Proceeds as general working capital, instead of being confined to restricted usage, can also give flexibility to the Group to respond to the changes in the eyewear manufacturing industry.

The Board is of the view that the reallocation of the Net Proceeds is in line with the business strategy of the Group and will not adversely affect the operation and business of the Group and is in the best interest of the Company and the Shareholders as a whole. The Directors will continuously revisit the plans for the use of the Unutilised Net Proceeds and may amend such plans where necessary, to cope with the changing market conditions and strive for better business performance for the Group. Save as disclosed in this announcement, there are no other changes in the use of the Net Proceeds.

**Shareholders and potential investors are advised to exercise caution when dealing in the shares of the Company.**

By order of the Board  
**Kelfred Holdings Limited**  
**Kwok Kwan Fai**  
*Chairman and executive Director*

Hong Kong, 19 November 2020

*As at the date of this announcement, the executive Directors are Mr. Kwok Kwan Fai and Mr. Kwok Kwan Yu, the non-executive Directors are Mr. Kwok Mau Kwan and Ms. Chan Yin Wah, and the independent non-executive Directors are Mr. Hong Sze Lung, Mr. Chu Kin Ming and Mr. Chan Hon Wah.*