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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)

SUPPLEMENTAL ANNOUNCEMENT FURTHER CHANGE IN USE OF PROCEEDS

References are made to the prospectus of Kelfred Holdings Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) dated 29 June 2019 (the “**Prospectus**”) and the announcements of the Company dated 19 November 2020 and 8 December 2021 (the “**2nd Announcement**”) in relation to, amongst others, the initial and further changes in use of net proceeds from the Listing (collectively, the “**Announcements**”). Unless the context otherwise requires, capitalised terms used in this announcement shall have the same meanings as those defined in the Prospectus and the Announcements.

The Company would like to provide its Shareholders with further information on the reasons for the further change in use of the Net Proceeds.

As disclosed in the 2nd Announcement, the Group has decided to re-allocate (i) HK\$12.9 million originally intended for the expansion of the Group’s production capacity; (ii) HK\$1.1 million originally intended for the promotion of corporate image and brand building; and (iii) HK\$2.8 million originally intended for the enhancement of quality assurance capabilities, as general working capital for the Group. The Board considers that the re-allocation of the unutilised Net Proceeds to general working capital is conducive to the Group by way of improving liquidity to support the daily operations of the Group and reducing reliance on external financing.

The Company utilizes its bank and cash balances towards the settlement of trade related payments. As at 30 November 2021, bank and cash balances of the Group was approximately HK\$39.2 million, representing a decrease of more than HK\$20 million as compared to the bank and cash balance of approximately HK\$60.5 million as at 30 June 2021. Without taking into account the unutilized Net Proceeds re-allocated as general working capital, there is expected to be substantial net cash outflow for the Group in the aggregate sum of approximately HK\$37.6 million for the period from December 2021 to February 2022, representing net increase in working capital, predominantly comprising trade expenses and payables expected to be utilized towards the acquisition of raw materials arising in the ordinary and usual course of business of the Group. It is estimated that the Group will begin to record a net cash inflow from March 2022. Therefore, the Company considers the re-allocation of the Net Proceeds as general working capital would create additional cash flow for the Group and would give flexibility to the Group in light of its financial condition.

As the global eyewear industry has shown a mild trend of recovery in 2021 from the impact of COVID-19, the Group recorded a decrease in the loss for the period from approximately HK\$8.4 million for the six months ended 30 June 2020 to approximately HK\$2.8 million for the six months ended 30 June 2021, mainly due to improvement of sales performance with an increase in revenue. It is expected that the sales performance would be improved for the year ending 31 December 2021 as compared to the year ended 31 December 2020. In light of seasonality and the increase in orders, the Group estimates that more financial resources are required to be allocated to satisfy the additional costs of sales to be incurred by the Group from December 2021 to February 2022, thereby resulting in an expected net cash outflow. As disclosed in the interim report of the Company published on 2 September 2021, the Directors have conducted a review and made reference to a research report on the eyewear industry, which indicate that the global eyewear market is expected to grow in the next five years at a compound annual growth rate of 8% from 2021 to 2026. As a result, the Group remains to be committed to the development and optimisation of its eyewear business, being the core business of the Group.

In light of the market conditions and circumstance which have rapidly changed when compared to those at the time of the Share Offer and consequently the current cash flow position and liquidity needs of the Group, it is the priority of the Group to maintain a healthy financial position and conduct its operations in a prudent and stable manner so as to maintain viability and sustainability. It is therefore the business strategy of the Group to prudently prolong the timeline for the Group's business plans so as to mitigate short term risks and fluctuations faced by the Group. Notwithstanding such postponement, it remains to be the Director's aim to strive for better business performance for the Group. The Directors will continuously and closely monitor the market conditions of the eyewear industry, and will revisit and adjust the Company's business plans as and when appropriate, including the resumption of its original business expansion plan (i.e. expansion of the Group's production capacity in Jiangxi, the PRC, promotion of corporate image and brand building and enhancement of quality assurance capabilities).

In view of the reasons disclosed in the 2nd Announcement and this announcement, in particular, (i) the high degree of uncertainty casted by COVID-19 pertaining to global economy and the eyewear industry as a whole; (ii) the estimated working capital and liquidity position of the Group; and (iii) the current business strategy of the Group; the Board is of the view that the re-allocation of the Net Proceeds is in the best interest of the Company and the Shareholders as a whole.

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, 21 December 2021

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