

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



KELFRED HOLDINGS LIMITED

恒發光學控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1134)

**ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2020**

The board of directors (the “**Board**”) of Kelfred Holdings Limited (the “**Company**”) is pleased to announce the audited consolidated financial results of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the year ended 31 December 2020, together with comparative figures for the year ended 31 December 2019. The information should be read in conjunction with the prospectus of the Company dated 29 June 2019 (the “**Prospectus**”).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2020

		2020	2019
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	4	354,183	413,395
Cost of sales		<u>(294,043)</u>	<u>(317,106)</u>
Gross profit		60,140	96,289
Other income	5	6,550	3,091
Other gains and losses	6	(7,406)	3,658
Impairment loss for trade receivables		(1,684)	–
Selling and distribution expenses		(14,407)	(21,300)
Administrative and other operating expenses		<u>(54,792)</u>	<u>(66,095)</u>
(Loss)/profit from operations		(11,599)	15,643
Finance costs, net	7	<u>(591)</u>	<u>(1,903)</u>
(Loss)/profit before tax		(12,190)	13,740
Income tax expenses	8	<u>(1,331)</u>	<u>(4,637)</u>
(Loss)/profit for the year	9	<u>(13,521)</u>	<u>9,103</u>
Attributable to:			
Owners of the Company		(13,402)	8,377
Non-controlling interests (“NCI”)		<u>(119)</u>	<u>726</u>
		<u>(13,521)</u>	<u>9,103</u>
(Loss)/earnings per share for (loss)/profit attributable to owners of the Company			
– Basic and diluted	11	<u>(HK2.68 cents)</u>	<u>HK1.94 cents</u>

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
(Loss)/profit for the year	(13,521)	9,103
Other comprehensive income:		
<i>Items that may be reclassified to profit or loss:</i>		
Exchange differences on translating foreign operations	<u>7,535</u>	<u>(1,669)</u>
Other comprehensive income for the year, net of tax	<u>7,535</u>	<u>(1,669)</u>
Total comprehensive income for the year	<u>(5,986)</u>	<u>7,434</u>
Attributable to:		
Owners of the Company	(5,867)	6,708
NCI	<u>(119)</u>	<u>726</u>
	<u>(5,986)</u>	<u>7,434</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

		2020	2019
	Note	HK\$'000	HK\$'000
Non-current assets			
Property, plant and equipment		33,438	36,053
Right-of-use assets		8,035	8,197
Deposits paid for property, plant and equipment		578	529
		<u>42,051</u>	<u>44,779</u>
Current assets			
Inventories		59,732	74,059
Trade receivables	12	94,646	90,266
Prepayments, deposits and other receivables		14,345	12,473
Amount due from ultimate parent		16	— ⁽ⁱ⁾
Pledged bank deposits		—	5,000
Bank and cash balances		76,384	83,713
		<u>245,123</u>	<u>265,511</u>
Current liabilities			
Trade payables	13	66,665	55,409
Other payables and accruals	13	17,222	17,174
Contract liabilities	13	4,108	3,744
Lease liabilities		2,936	1,958
Bank borrowings		8,000	15,822
Current tax liabilities		266	3,965
		<u>99,197</u>	<u>98,072</u>
Net current assets		<u>145,926</u>	<u>167,439</u>
Total assets less current liabilities		<u>187,977</u>	<u>212,218</u>

(i) Represent the amount due from ultimate parent less than HK\$1,000.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

		2020	2019
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current liabilities			
Lease liabilities		2,556	3,711
Deferred tax liabilities		198	198
		2,754	3,909
NET ASSETS		185,223	208,309
Capital and reserves			
Share capital	14	5,000	5,000
Reserves		180,223	202,008
		185,223	207,008
NCI		–	1,301
TOTAL EQUITY		185,223	208,309

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on 20 April 2018 as an exempted company with limited liability. The address of its registered office is Windward 3, Regatta Office Park, PO Box 1350, Grand Cayman KY1-1108, Cayman Islands. The address of its principal place of business is Room 1606, 16/F., Block B, New Trade Plaza, 6 On Ping Street, Sha Tin, New Territories, Hong Kong. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

The Company is an investment holding company. The Group is principally engaged in manufacturing and sales of eyewear products.

In the opinion of the directors of the Company (the "**Directors**"), Conquer Holding Limited, a company incorporated in the British Virgin Islands ("**BVI**"), is the immediate and ultimate parent, and Mr. Kwok Kwan Fai, Mr. Kwok Kwan Yu and Ms. Chan Yin Wah are the ultimate controlling parties of the Company.

2. GROUP REORGANISATION AND BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**"). HKFRSs comprise Hong Kong Financial Reporting Standards ("**HKFRS**"); Hong Kong Accounting Standards ("**HKAS**"); and Interpretations. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") and with the disclosure requirements of the Hong Kong Companies Ordinance (Cap. 622).

The HKICPA has issued a number of new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these consolidated financial statements.

3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

(a) Application of new and revised HKFRSs

The Group has applied the Amendments to Reference to the Conceptual Framework in HKFRS Standards and the following amendments to HKFRSs issued by the HKICPA for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the consolidated financial statements:

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

The application of the Amendments to References to the Conceptual Framework in HKFRS Standards and the amendments to HKFRSs in the current year had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

(b) New and revised HKFRSs in issue but not yet effective

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 January 2020. These new and revised HKFRSs include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKFRS 16, COVID-19 Related Rents Concessions	1 June 2020
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 Interest Rate Benchmark Reform – Phase 2	1 January 2021
Amendments to HKFRS 3 Reference to the Conceptual Framework	1 January 2022
Amendments to HKAS 16 Property, plant and equipment: proceeds before intended use	1 January 2022
Amendments to HKAS 37 Onerous contracts – cost of fulfilling a contract	1 January 2022
Annual Improvements to HKFRSs 2018–2020 Cycle	1 January 2022
Amendments to HKAS 1 Classification of liabilities as current or non-current	1 January 2023

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 it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

4. REVENUE AND SEGMENT INFORMATION

Revenue represents the amounts received and receivable from sales of eyewear products recognised at a point in time during the year ended 31 December 2020.

Segment information

The executive directors of the Company (the “**Executive Directors**”), being the chief operating decision makers, regularly review revenue analysis by customers and by locations. The Executive Directors considered the operating activities of designing, manufacturing and sales of eyewear products as a single operating segment. The operating segment has been identified on the basis of internal management reports prepared and is regularly reviewed by the Executive Directors. The Executive Directors review the overall results, assets and liabilities of the Group as a whole to make decisions about resources allocation. Accordingly, no analysis of this single operating segment is presented.

Geographical information

Revenue from external customers, based on location of delivery to the customers is as follows:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Revenue		
United Kingdom	78,777	65,349
Italy	69,302	124,252
Hong Kong	59,109	43,413
Netherlands	56,860	57,818
Spain	32,283	28,526
United States	15,749	14,408
Hungary	3,641	15,180
France	2,200	20,790
Others	36,262	43,659
	<u>354,183</u>	<u>413,395</u>

An analysis of the Group's non-current assets by their physical geographical location is as follows:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Hong Kong	5,284	2,324
The People's Republic of China ("PRC")	36,189	41,926
	41,473	44,250

Information about major customers

Revenue from the customers contributing over 10% of the total revenue of the Group is as follows:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Customer a	106,299	107,211
Customer b	45,932	80,724
Customer c	56,419	60,521
Customer d	37,145	48,993

5. OTHER INCOME

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Government grants	3,180	246
Income from sales of scrap and rework services	1,304	875
Product services fee income	1,163	1,421
Others	903	549
	6,550	3,091

6. OTHER GAINS AND LOSSES

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Foreign exchange (losses)/gains, net	(7,366)	3,713
Net losses on disposal of property, plant and equipment	<u>(40)</u>	<u>(55)</u>
	<u>(7,406)</u>	<u>3,658</u>

7. FINANCE COSTS, NET

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Finance income:		
Bank interest income	<u>252</u>	<u>243</u>
Finance expenses:		
Interest on bank borrowings	(303)	(1,099)
Interest on lease liabilities	(316)	(337)
Interest on factoring of trade receivables	(220)	(706)
Others	<u>(4)</u>	<u>(4)</u>
	<u>(843)</u>	<u>(2,146)</u>
	<u>(591)</u>	<u>(1,903)</u>

8. INCOME TAX EXPENSE

Income tax has been recognised in profit or loss as following:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Current tax		
Hong Kong Profits Tax		
– Provision for the year	2,357	2,418
– Over provision in prior years	(193)	–
	<u>2,164</u>	<u>2,418</u>
PRC Enterprise Income Tax (“PRC EIT”)		
– Provision for the year	90	1,896
– (Over)/under provision in prior years	(923)	323
	<u>(833)</u>	<u>2,219</u>
	<u><u>1,331</u></u>	<u><u>4,637</u></u>

Under the two-tiered Profits Tax regime, the first HK\$2 million of profits of the qualifying group entity established in Hong Kong will be taxed at 8.25%, and profits above that amount will be subject to the tax rate of 16.5%. The profits of the group entities not qualifying for the two-tiered Profit Tax rate regime will continue to be taxed at a rate of 16.5%.

Pursuant to the PRC EIT Law and the respective regulations, the subsidiaries which operate in the PRC are subject to corporate income tax at a rate of 25% on the taxable income. Preferential tax treatment is available to the Group’s PRC subsidiaries.

Yingtan Euro-Asia Enterprise Limited (“**Yingtan Euro-Asia**”), a wholly-owned subsidiary of the Group, was qualified as a Small and Low-profit Enterprise for the years ended 31 December 2019 and 2020 and was subject to income tax at a preferential tax rate of 20%. Besides, pursuant to Caishui [2017] No. 43, Yingtan Euro-Asia was also entitled to a further deduction of 50% of the tax income for the years ended 31 December 2019 and 2020.

Jiangxi Huaqing Glasses Co., Limited (“**Jiangxi Huaqing**”), a wholly-owned subsidiary of the Group, was qualified as an Advanced Technology Service Enterprise and was subject to income tax at a preferential tax rate of 15% for the years ended 31 December 2019 and 2020. Besides, Jiangxi Huaqing was also qualified as a High and New Technology Enterprise and its research and development activities were entitled to claim 175% (2019: 175%) of their qualified research and development expenses so incurred as tax deductible expenses when determining their assessable profits for the years ended 31 December 2019 and 2020.

Tax charged on profits assessable elsewhere has been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretation and practices in respect thereof.

9. (LOSS)/PROFIT FOR THE YEAR

The Group’s (loss)/profit for the year is stated after charging/(crediting) the following:

	2020 <i>HK\$’000</i>	2019 <i>HK\$’000</i>
Auditor’s remuneration	1,177	1,119
Cost of inventories sold (*)	294,043	317,106
Allowance for inventories (included in cost of inventories sold), net	1,984	–
Write off of inventories	2,173	–
Impairment loss for trade receivables	1,684	–
Write off of trade and other receivables	2,060	428
Depreciation on right-of-use assets	2,439	2,017
Depreciation on property, plant and equipment	10,763	9,748
Foreign exchange losses/(gains), net	7,366	(3,713)
Listing expenses	–	13,183
Operating lease charges		
– Factories and staff quarters	–	121
– Office premises	–	210
	–	331
Net losses on disposal of property, plant and equipment	<u>40</u>	<u>55</u>

(*) Cost of inventories sold includes HK\$76,541,000 and HK\$54,754,000 of staff costs, depreciation and operating lease charges which are also included in the respective total amounts disclosed above for each of these types of expenses for the years ended 31 December 2019 and 2020 respectively.

10. DIVIDEND

	2020 HK\$'000	2019 HK\$'000
2019 Final dividend of HK2 cents per ordinary share	<u>10,000</u>	<u>—</u>

11. (LOSS)/EARNINGS PER SHARE

The calculation of basic and diluted (loss)/earnings per share attributable to owners of the Company is based on the following data:

	2020 HK\$'000	2019 HK\$'000
(Loss)/earnings		
(Loss)/profit attributable to owners of the Company	<u>(13,402)</u>	<u>8,377</u>
Number of shares	'000	'000
Weighted average number of ordinary shares for the purpose of calculating basis (loss)/earnings per share	<u>500,000</u>	<u>432,877</u>

The weighted average number of shares in issue during the year ended 31 December 2019 is based on the assumption that 375,000,000 shares of the Company were in issue, comprising 101 shares in issue and 374,999,899 shares issued pursuant to the capitalisation issue, as if these shares were outstanding throughout the period from 1 January 2019 to 16 July 2019, and 125,000,000 shares issued under the share offer of the Company on 16 July 2019.

The diluted (loss)/earnings per share is equal to the basic (loss)/earnings per share as there was no dilutive potential ordinary share in issue during the years ended 31 December 2020 and 2019.

12. TRADE RECEIVABLES

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Trade receivables	96,330	90,266
Less: Impairment loss	<u>(1,684)</u>	<u>–</u>
	<u>94,646</u>	<u>90,266</u>

The Group's credit terms generally range from 30 to 120 days. Each customer has a maximum credit limit. For new customers, payment in advance or cash on delivery is normally required. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the Directors.

The Group has entered into receivable purchase arrangements with banks for the factoring of trade receivables with certain designated customers. As at 31 December 2020, trade receivables factored to the banks aggregated to HK\$75,388,000 (2019: HK\$16,487,000) and all of which were derecognised from the consolidated statement of financial position because, in the opinion of the Directors, the Group has transferred substantially all the risks and rewards of ownership in respect of the relevant factored receivables to the banks.

The ageing analysis of trade receivables, based on the delivery date, and net of impairment loss, is as follows:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Up to 60 days	53,545	64,788
61 to 120 days	14,443	12,057
121 to 180 days	22,928	8,981
Over 180 days	<u>3,730</u>	<u>4,440</u>
	<u>94,646</u>	<u>90,266</u>

The carrying amounts of the Group's trade receivables are denominated in the following currencies:

	2020	2019
	HK\$'000	HK\$'000
EUR	1,779	996
RMB	15,693	19,682
USD	77,174	69,588
	<u>94,646</u>	<u>90,266</u>

13. TRADE AND OTHER PAYABLES, ACCRUALS AND CONTRACT LIABILITIES

	2020	2019
	HK\$'000	HK\$'000
Trade payables	<u>66,665</u>	<u>55,409</u>
Other payables and accruals		
Accrued staff costs	6,740	7,725
Accrued administrative and operating expenses	5,087	3,470
Purchases of property, plant and equipment	954	1,382
Accrued sales rebate to customers	2,011	2,559
Accrued various tax expenses	1,364	1,114
VAT payables	940	830
Others	<u>126</u>	<u>94</u>
	<u>17,222</u>	<u>17,174</u>
Contract liabilities	<u>4,108</u>	<u>3,744</u>
	<u>87,995</u>	<u>76,327</u>

The ageing analysis of trade payables, based on the date of receipt of goods, is as follows:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Up to 60 days	41,166	43,841
61 to 90 days	12,426	8,464
91 to 180 days	11,776	1,484
Over 180 days	1,297	1,620
	<u>66,665</u>	<u>55,409</u>

The credit period ranges from 30 to 90 days.

There were no significant changes in the contract liabilities balances during the reporting period.

Contract liabilities represent receipt in advance from customers and the movement during the year is as below:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Balance at 1 January	3,744	3,009
Decrease in contract liabilities as a result of recognising revenue during the year was included in the contract liabilities at the beginning of the period	(3,345)	(2,874)
Increase in contract liabilities as a result of billing in advance of sales of goods	3,709	3,609
Balance at 31 December	<u>4,108</u>	<u>3,744</u>

The carrying amounts of the Group's trade and other payables, accruals and contracts liabilities are denominated in the following currencies:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
HKD	3,132	1,043
RMB	74,857	65,728
USD	6,635	8,415
Others	3,371	1,141
	<u>87,995</u>	<u>76,327</u>

14. SHARE CAPITAL

	<i>Note</i>	Number of shares	Amount HK\$
Authorised:			
Ordinary shares of HK\$0.01 each			
At 1 January 2019		39,000,000	390,000
Increase in authorised share capital	(a)	<u>1,961,000,000</u>	<u>19,610,000</u>
At 31 December 2019, 1 January 2020 and 31 December 2020		<u>2,000,000,000</u>	<u>20,000,000</u>
Issued and fully paid:			
Ordinary shares of HK\$0.01 each			
At 1 January 2019		1	— ⁽ⁱ⁾
Shares issued upon acquisition of Fame Investment Limited		100	1
Shares issued pursuant to the capitalisation issue	(b)	<u>374,999,899</u>	<u>3,749,999</u>
Shares issued under the share offer of the Company (“ Share Offer ”)	(c)	<u>125,000,000</u>	<u>1,250,000</u>
At 31 December 2019, 1 January 2020 and 31 December 2020		<u>500,000,000</u>	<u>5,000,000</u>

(i) Represent the share capital of HK\$0.01.

Note:

- (a) Pursuant to the written resolutions of the shareholders of the Company (the “**Shareholders**”) passed on 22 June 2019, the authorised share capital of the Company increased from HK\$390,000 to HK\$20,000,000 by creation of an additional of 1,961,000,000 shares of HK\$0.01 each.
- (b) Pursuant to the written resolutions passed by the Shareholders on 22 June 2019, conditional on share premium account of the Company being credited as a result of the Share Offer, the Directors were authorised to capitalise an amount of HK\$3,749,999 standing to the credit of the share premium account of the Company by applying such sum in paying up in full at par 374,999,899 shares for allotment and issue to the then existing Shareholders in proportion to their respective shareholdings.
- (c) On 16 July 2019, the Company issued 125,000,000 new shares at HK\$1.00 each in relation to the Share Offer. The premium on the issue of shares, amounting to HK\$102,260,806, net of listing-related expenses, was credited to the Company’s share premium account. These new shares rank pari passu with the existing shares in all respects.

BUSINESS REVIEW AND OUTLOOK

For the year ended 31 December 2020, the Group recorded a revenue of approximately HK\$354.2 million, representing a decrease of approximately 14.3% as compared to the year ended 31 December 2019, generated from the sales from eyewear products.

The Group is an established eyewear manufacturer in the PRC and Hong Kong that produces and sells a wide range of spectacle frames and sunglasses mainly through original design manufacturing (“**ODM**”) and original equipment manufacturing (“**OEM**”) business models. It offers integrated and customised services which include product design and development, raw materials procurement, production, quality control, packaging and delivery. In addition to the traditional OEM and ODM business models, the Group also offers its original brand manufacturing (“**OBM**”) products under the brand “Miga”.

Leveraging on over 30 years of experience in the eyewear industry, the Group prides itself on its broad network of renowned and trusted customers worldwide (who are primarily international eyewear retailers, trading companies and licensed brand owners). It has produced quality eyewear products under its customers’ designated brand names and sold the same to over 35 countries in the past few years.

The first major production base of the Group was established in Shenzhen, the PRC in 2013 and the second and self-owned production base in Jiangxi, the PRC was set up in 2016, which has made the Group capable of manufacturing eyewear products of various dimensions and specifications as required by its customers.

The outbreak of COVID-19 has had a profound impact on the eyewear industry, from disruptions in manufacturing, to distribution and demand from consumers. Certain eyewear trade shows have also been cancelled or postponed. Being one of the market players in the whole value chain, the Group’s operations and results were also adversely affected. Similar to many manufacturers in the PRC, the Group temporarily suspended the operations of the factories in Shenzhen and Jiangxi, the PRC in February 2020, causing disruption of the production and shipments of the eyewear products to the customers in the first quarter of 2020.

The Group’s primary market is in Europe, which is one of the regions severely affected by COVID-19. With the lockdown and restrictions on social and business activities implemented by certain European countries, the customers of the Group have delayed the shipment schedules and reduced new orders placed with the Group. The export sales volume of the Group plummeted in the first half of 2020 as a result of a significant decline or delay of sales orders from overseas customers. The sales orders of the Group gradually recovered during the second half of 2020, after a number of countries started to gradually ease restrictions and certain customers shifted to e-commerce channel while under lockdown.

According to the report “Eyewear Market: Global Industry Trends, Share, Size, Growth, Opportunity and Forecast 2021-2026” published by IMARC Group, the global eyewear market reached a value of US\$127.8 billion in 2020. Recently, many countries have observed a drop in the overall reported cases of COVID-19, and the global economic environment is expected to recover gradually, including the eyewear market. The Directors is positive about the gradual recovery of the eyewear industry and expected it would have a moderate growth in the next five years.

While the eyewear business will continue to remain as the Group’s core business, the management is looking for new opportunities, such as the new energy vehicles business, to achieve diversification in the business and income streams of the Group and mitigate the impact of any potential risk and uncertainties.

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2020, the Group’s revenue decreased significantly to approximately HK\$354.2 million by approximately HK\$59.2 million or 14.3% as compared to approximately HK\$413.4 million for the year ended 31 December 2019. The decrease was mainly attributable to the decrease in the volume of spectacle frame and sunglasses, which is mainly attributable to the outbreak of COVID-19 globally which has adversely affected the export sales of the Group and resulted in a decrease in the sales volume and delay in the sales orders.

Cost of sales

The cost of sales of the Group decreased by approximately HK\$23.1 million or 7.3%, from approximately HK\$317.1 million for the year ended 31 December 2019 to approximately HK\$294.0 million for the year ended 31 December 2020. Such decrease was due to a decrease in revenue and the incurrence of certain operating fixed costs despite a drop in revenue.

Gross profit and gross profit margin

Gross profit decreased to approximately HK\$60.1 million for the year ended 31 December 2020, by approximately HK\$36.2 million, or 37.6%, from approximately HK\$96.3 million for the year ended 31 December 2019. Such significant decrease in gross profit was mainly due to a decrease in the revenue of approximately 14.3%, as well as the incurrence of certain operating fixed costs despite the decline in sales volume. As a result, the overall gross profit margin dropped sharply from approximately 23.3% for the year ended 31 December 2019 to 17.0% for the year ended 31 December 2020.

Other income

Other income increased by approximately HK\$3.5 million from approximately HK\$3.1 million for the year ended 31 December 2019 to approximately HK\$6.6 million for the year ended 31 December 2020. Such increase was mainly attributable to the increase in government grants of approximately HK\$2.9 million. The government grants were mainly subsidies from the government to support entities or encourage enterprises to retain local employees during the COVID-19 pandemic.

Other gains and losses

The Group recorded net other losses of approximately HK\$7.4 million for the year ended 31 December 2020, but recorded net other gains of approximately HK\$3.7 million for the year ended 31 December 2019, mainly due to the change of exchange rate fluctuation during the year ended 31 December 2020. For the year ended 31 December 2020, Renminbi (“**RMB**”) appreciated against the United States Dollars (“**USD**”) or Hong Kong Dollars (“**HKD**”) mainly resulting in an exchange loss whereby the liabilities of the Group were denominated in RMB. For the year ended 31 December 2019, RMB depreciated against USD or HKD which resulted in an exchange gain.

Impairment loss for trade receivables

The Group has provided loss allowance for impairment for trade receivables of approximately HK\$1.7 million for the year ended 31 December 2020, based on the expected credit loss as at 31 December 2020 calculated using simplified approach, by reference to the expected credit loss rates which took into account the actual loss over the past three years, current economic conditions and forward-looking information such as the impact of COVID-19. The Group did not recognise any impairment loss for the year ended 31 December 2019 since the expected credit loss was not material as at 31 December 2019.

Selling and distribution expenses

Selling and distribution expenses decreased from approximately HK\$21.3 million for the year ended 31 December 2019 to approximately HK\$14.4 million for the year ended 31 December 2020, by approximately HK\$6.9 million or 32.4%. Such decrease was primarily attributable to the decrease in sampling expenses resulted from shrinking production of prototypes and samples demand from the Group’s overseas customers, which was affected by the outbreak of COVID-19.

Administrative and other operating expenses

Administrative and other operating expenses decreased by approximately HK\$11.3 million or 17.1%, from approximately HK\$66.1 million for the year ended 31 December 2019 to approximately HK\$54.8 million for the year ended 31 December 2020, mainly due to:

- (i) the non-recurring listing expenses of approximately HK\$13.2 million for the year ended 31 December 2019, while no such expense was incurred for the year ended 31 December 2020;
- (ii) cost controls on certain expenses, including decrease in staff costs of approximately HK\$2.1 million;

but partially offset by

- (iii) the increase in write off of trade and other receivables of approximately HK\$1.6 million; and
- (iv) the increase in legal and professional fees of approximately HK\$2.8 million, which were mainly post-listing in nature, such as legal fees, compliance advisory expenses and printing expenses.

Finance costs, net

The Group's net of finance costs decreased significantly by approximately HK\$1.3 million or 68.4%, to approximately HK\$0.6 million for the year ended 31 December 2020 as compared to approximately HK\$1.9 million for the year ended 31 December 2019. The decrease was mainly due to the decrease in bank loan interests by gradual repayment of bank borrowings during the year.

Income tax expenses

The income tax expenses decreased significantly from approximately HK\$4.6 million for the year ended 31 December 2019 to approximately HK\$1.3 million for the year ended 31 December 2020, mainly due to loss of operations of the Group for the year ended 31 December 2020.

(Loss)/profit for the year

As a result of the foregoing, the Group turned to record a loss of approximately HK\$13.5 million for the year ended 31 December 2020, from a profit of approximately HK\$9.1 million for the year ended 31 December 2019, mainly due to a significant decrease in revenue by the decline of export sales volume, which was affected by the outbreak of COVID-19 globally, and a drop in profit margin.

FINANCIAL POSITION

As at 31 December 2020, the Group's total assets amounted to approximately HK\$287.2 million (2019: HK\$310.3 million) with net assets amounting to approximately HK\$185.2 million (2019: HK\$208.3 million). As at 31 December 2020, gearing ratio (total debts divided by the total equity) of the Group was approximately 7.3%, a decrease of approximately 3.0% as compared to that of approximately 10.3% as at the end of 2019. Net debt to equity ratio (net debt, being its total debts net of bank and cash balances and pledged bank deposits, divided by total equity) of the Group was not applicable due to a net cash position of the Group as at 31 December 2020 and 2019. As at 31 December 2020, current ratio of the Group was approximately 2.5 times, representing a decrease of approximately 7.4% as compared to that of approximately 2.7 times as at the end of 2019. As at 31 December 2020, quick ratio of the Group was approximately 1.9 times, a decrease of approximately 5.0% as compared to that of approximately 2.0 times as at the end of 2019.

During the year ended 31 December 2020, the total assets, net assets and all of the above financial ratios remained stable or slightly decreased, mainly due to the Group's operating loss and the gradual repayment of bank borrowings.

LIQUIDITY AND FINANCIAL RESOURCES

The Group adopts a balanced approach to cash and financial management to ensure proper risk control, the lowering of costs of funds and to maintain an optimal level of liquidity that can meet its working capital needs and sustain the business at a healthy level, and implement various growth strategies. The Group finances its operations and growth primarily through cash generated from operations, bank loans and finance lease arrangement, as well as the net proceeds from the Share Offer.

As at 31 December 2020, the Group had pledged bank deposits and bank and cash balances of totalling approximately HK\$76.4 million, a decrease of approximately HK\$12.3 million as compared to approximately HK\$88.7 million as at 31 December 2019, mainly attributable to dividend distribution, repayment of bank loans and purchase of non-controlling interests.

TREASURY POLICIES

The primary objective of the Group's capital management is to safeguard its ability to continue as a going concern so that the Group can constantly provide returns for shareholders of the Company (the “**Shareholders**”) and benefits for other stakeholders by securing access to financing at reasonable costs. The Group actively and regularly reviews and manages its capital structure and makes adjustment by taking into consideration the changes in economic conditions, its future capital requirements, prevailing and projected profitability and operating cash flows, projected capital expenditures and projected strategic investment opportunities.

INDEBTEDNESS

As at 31 December 2020, the Group's indebtedness mainly comprised bank borrowings and lease liabilities of approximately HK\$8.0 million and HK\$5.5 million, respectively. Its bank borrowings are denominated in HKD, while its lease liabilities are denominated in HKD and RMB. All bank borrowings are arranged at floating rates, thus exposing the Group to cash flow interest rate risk. Interest rates for all leases are fixed on the contract dates and thus expose the Group to fair value interest rate risk.

The maturity of bank borrowings and lease liabilities as at 31 December 2020 is as follows:

	Bank borrowings <i>HK\$'000</i>	Lease liabilities <i>HK\$'000</i>
Within one year	8,000	2,936
More than one year, but not exceeding two years	–	2,181
More than two years, but not more than five years	–	375
	<u>8,000</u>	<u>5,492</u>

The bank borrowings are secured by a corporate guarantee executed by the Company.

FOREIGN CURRENCY RISKS

The Group has a certain exposure to foreign currency risk as a number of its business transactions, assets and liabilities are denominated in currencies other than the functional currency of respective Group entities such as HKD, USD and RMB. The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group monitors its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

PLEDGE OF ASSETS

As at 31 December 2020, the carrying amount of motor vehicles held as right-of-use assets by the Group under lease arrangements amounted to approximately HK\$1.5 million (2019: HK\$0.5 million).

CAPITAL COMMITMENT

As at 31 December 2020, the Group had capital commitments of approximately HK\$2.4 million and HK\$4.1 million relating to property, plant and equipment and capital contribution to a joint venture, respectively, which are contracted but not provided for.

CONTINGENT LIABILITIES

As at 31 December 2020, the Group did not have any significant contingent liabilities.

EMPLOYEE AND REMUNERATION POLICY

The Group values its employees and recognises the importance of a good relationship with them. The Group recruits its employees based on their work experience, education background and qualifications. To maintain and ensure the quality of its employees, the Group provide its personnel with formal and on-the-job training to enhance their technical skills as well as knowledge of the industry quality standards and work place safety standards. As at 31 December 2020, the Group had a total of 896 employees of which 879 were in the PRC and 17 were in Hong Kong. The remuneration to employees includes salaries and allowances. Employees are remunerated according to their qualifications, experiences, job nature, performance and with reference to market conditions.

The Group's total employee benefit expenses (including Directors' emoluments) for the years ended 31 December 2020 and 2019 were approximately HK\$84.7 million and HK\$111.0 million, respectively.

SIGNIFICANT INVESTMENTS HELD

The Group had not held any significant investments during the year ended 31 December 2020.

MATERIAL ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES, ASSOCIATES OR JOINT VENTURES

During the year ended 31 December 2020, the Group acquired 50% shareholding interest of Central Designs (Hong Kong) Limited (“**Central Designs**”, which was then a non wholly-owned subsidiary of the Company) at the consideration of HK\$6,100,000. Upon the completion of the acquisition on 11 May 2020, Central Designs became a wholly-owned subsidiary of the Company.

Saved as disclosed above, there was no material acquisition or disposal of subsidiaries, associates and joint ventures by the Group during the year ended 31 December 2020.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save as disclosed in the Prospectus and the change in the use of proceeds, in particular, to temporarily put on hold the expansion of the Group’s production capacity by the construction of the new building in the Group’s factory in Jiangxi, the PRC, the Group did not have other plan for material investments or acquisition of material capital assets as at 31 December 2020. Please refer to the section headed “Use of Proceeds from the Share Offer” in this announcement for further details.

EVENTS AFTER THE REPORTING PERIOD

After the COVID-19 outbreak in early 2020, a series of precautionary and control measures have been and continued to be implemented across the globe. The Group is paying close attention to the development of, and the disruption to business and economic activities caused by, the COVID-19 outbreak and evaluate its impact on the financial position, cash flows and operating results of the Group. Given the dynamic nature of the COVID-19 outbreak, it is not practicable to provide a reasonable estimate of its impact on the Group’s financial position, cash flows and operating results at the date of this announcement.

USE OF PROCEEDS FROM THE SHARE OFFER

With the Shares listed on the Stock Exchange on 16 July 2019 (the “**Listing Date**”), the net proceeds from the Share Offer, after deducting the listing expenses of approximately HK\$45.0 million, was approximately HK\$80.0 million (the “**Net Proceeds**”).

As set out in the Company’s announcement dated 19 November 2020, the Board resolved to change the proposed use of the remaining balance of the Net Proceeds (the “**Unutilised Net Proceeds**”) amounted to approximately HK\$56.0 million.

The original proposed allocation of the Net Proceeds in accordance with the Prospectus (the “**Planned Use of Net Proceeds**”), the reallocation of the Unutilised Net Proceeds and the actual usage of the Unutilised Net Proceeds up to 31 December 2020 are set out below:

				Actual usage of the Unutilised Net Proceeds for the period from 1 July 2020 to 31 December 2020	Unutilised amount as at 31 December 2020	Expected timeline for unutilised amount
Planned Use of the Net Proceeds	Actual usage of the Net Proceeds up to 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	HK\$’ million	HK\$’ million	
Strengthen the Group’s production capacity	43.2	3.7	39.5	22.4	4.3	18.1
Repay the Group’s bank borrowings	12.4	12.4	–	–	–	–
Promote corporate image and brand building	8.8	2.4	6.4	4.5	1.0	3.5
Enhance design and development capabilities	7.2	1.9	5.3	5.3	1.9	3.4
Enhance quality assurance capabilities	3.6	1.2	2.4	1.4	0.7	0.7
General working capital	4.8	2.4	2.4	22.4	2.4	20.0
	80.0	24.0	56.0	56.0	10.3	45.7

(1) To be utilised by 31 December 2023

(2) To be utilised by 31 December 2022

(3) To be utilised by 31 December 2021

The actual usage of the Net Proceeds for the year ended 31 December 2020 was approximately HK\$16.3 million, comprising (i) approximately HK\$5.5 million for the purpose of strengthening the Group's production capacity; (ii) approximately HK\$2.5 million for the purpose of promoting corporate image and brand building; (iii) approximately HK\$3.4 million for the purpose of enhancing design and development capabilities; (iv) approximately HK\$1.3 million for the purpose of enhancing quality assurance capabilities; and (v) approximately HK\$3.6 million for the purpose of general working capital.

During the year ended 31 December 2020, the operating environment of the Group has been adversely affected by the outbreak of COVID-19, thus the Group has prudently prolonged the timeline for its business plans as compared to the expected timeline set out in the Company's announcement dated 5 August 2020, and reallocated the proportion of the Unutilised Net Proceeds to be used under certain proposed usage, details of which have been disclosed in the announcement of the Company dated 19 November 2020.

The Group has caught up the delayed schedule of setting up its design laboratory and showroom in Hong Kong during the year ended 31 December 2020, and set up its first design laboratory and showroom in May 2020. Given the challenging economic environment in the coming years and the development of COVID-19 situation worldwide is still fluctuating, the Directors have decided to temporarily put on hold the expansion of the Group's production capacity by the construction of the new building in Jiangxi production base.

SHARE OPTION SCHEME

On 22 June 2019, the then sole Shareholder of the Company approved and conditionally adopted a share option scheme (the "**Share Option Scheme**") to enable the Company to grant options to eligible participants as incentives and rewards for their contribution to the Group. Unless otherwise cancelled or amended, the Share Option Scheme will remain in force for 10 years from that date. No option has been granted up to the date of this announcement.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company is committed to maintain a high standard of corporate governance to safeguard the interests of the Shareholders, enhance corporate value, formulate its business strategies and policies, and enhance its transparency and accountability.

The Company has adopted the Corporate Governance Code (the “**CG Code**”) as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”) as its own code of corporate governance. The Board is of the view that the Company has complied with all the applicable code provisions of the CG Code during the year ended 31 December 2020.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the Directors.

All Directors have confirmed, following specific enquiry by the Company that they have complied with the Model Code during the year ended 31 December 2020.

DIVIDENDS

The Board does not recommend the payment of a final dividend for the year ended 31 December 2020.

During the year ended 31 December 2020, a final dividend of HK\$0.02 per ordinary share for the year ended 31 December 2019 was approved by the Shareholders on an annual general meeting (the “**AGM**”) held on Friday, 22 May 2020, the dividends of approximately HK\$10.0 million were distributed to the then Shareholders.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 25 May 2021 to Friday, 28 May 2021, both days inclusive, for the purpose of ascertaining Shareholders’ entitlement to attend and vote at the forthcoming AGM to be held on Friday, 28 May 2021. In order to be eligible to attend and vote at the AGM, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company’s branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong for registration no later than 4:30 p.m. on Monday, 24 May 2021.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the year ended 31 December 2020, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s listed securities.

SCOPE OF WORK OF RSM HONG KONG

The financial figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2020 as set out in this announcement have been agreed by the Group's auditors, RSM Hong Kong, to the amounts set out in the Group's consolidated financial statements for the year. The work performed by RSM Hong Kong 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 RSM Hong Kong on this announcement.

AUDIT COMMITTEE

The Company established an audit committee (the "**Audit Committee**"), comprising three independent non-executive directors of the Company, namely Mr. Hong Sze Lung, Mr. Chu Kin Ming and Mr. Chan Hon Wah. Mr. Chu Kin Ming is the chairman of the Audit Committee.

The Audit Committee has reviewed the Group's consolidated results for the year ended 31 December 2020, and confirms that the applicable accounting principles, standards and requirements have been complied with, and that adequate disclosures have been made.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This announcement is published on the website of the Stock Exchange (www.hkexnews.hk) and the Company's website (www.kelfred.com.hk). The annual report will be dispatched to the Shareholders and published on the respective websites of the Stock Exchange and the Company in due course.

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

Hong Kong, 31 March 2021

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.