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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)

**ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2021**

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 2021, together with comparative figures for the year ended 31 December 2020.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2021

	<i>Note</i>	2021 HK\$'000	2020 HK\$'000
Revenue	4	434,732	354,183
Cost of sales		<u>(366,290)</u>	<u>(294,043)</u>
Gross profit		68,442	60,140
Other income	5	8,510	6,550
Other losses	6	(3,182)	(7,406)
Impairment loss for trade receivables		(189)	(1,684)
Selling and distribution expenses		(13,762)	(14,407)
Administrative and other operating expenses		<u>(60,924)</u>	<u>(54,792)</u>
Loss from operations		(1,105)	(11,599)
Finance costs, net	7	<u>(482)</u>	<u>(591)</u>
Loss before tax		(1,587)	(12,190)
Income tax expenses	8	<u>(553)</u>	<u>(1,331)</u>
Loss for the year	9	<u>(2,140)</u>	<u>(13,521)</u>
Attributable to:			
Owners of the Company		(2,140)	(13,402)
Non-controlling interests ("NCI")		<u>–</u>	<u>(119)</u>
		<u>(2,140)</u>	<u>(13,521)</u>
Loss per share for loss attributable to owners of the Company			
– Basic and diluted	11	<u>(HK0.43 cents)</u>	<u>(HK2.68 cents)</u>

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2021

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Loss for the year	(2,140)	(13,521)
Other comprehensive income:		
<i>Items that may be reclassified to profit or loss:</i>		
Exchange differences on translating foreign operations	<u>3,249</u>	<u>7,535</u>
Other comprehensive income for the year, net of tax	<u>3,249</u>	<u>7,535</u>
Total comprehensive income for the year	<u>1,109</u>	<u>(5,986)</u>
Attributable to:		
Owners of the Company	1,109	(5,867)
NCI	<u>–</u>	<u>(119)</u>
	<u>1,109</u>	<u>(5,986)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2021

	<i>Note</i>	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment		28,014	33,438
Right-of-use assets		6,982	8,035
Deposits paid for property, plant and equipment		783	578
		<u>35,779</u>	<u>42,051</u>
Current assets			
Inventories		80,737	59,732
Trade receivables	<i>12</i>	101,350	94,646
Prepayments, deposits and other receivables		13,336	14,345
Amount due from ultimate parent		–	16
Bank and cash balances		36,930	76,384
		<u>232,353</u>	<u>245,123</u>
Current liabilities			
Trade payables	<i>13</i>	52,665	66,665
Other payables and accruals	<i>13</i>	22,391	17,222
Contract liabilities	<i>13</i>	2,290	4,108
Lease liabilities		2,551	2,936
Bank borrowings		–	8,000
Current tax liabilities		252	266
		<u>80,149</u>	<u>99,197</u>
Net current assets		<u>152,204</u>	<u>145,926</u>
Total assets less current liabilities		<u>187,983</u>	<u>187,977</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2021

	<i>Note</i>	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Non-current liabilities			
Lease liabilities		1,453	2,556
Deferred tax liabilities		198	198
		<u>1,651</u>	<u>2,754</u>
NET ASSETS		<u>186,332</u>	<u>185,223</u>
Capital and reserves			
Share capital	<i>14</i>	5,000	5,000
Reserves		181,332	180,223
		<u>186,332</u>	<u>185,223</u>
TOTAL EQUITY		<u>186,332</u>	<u>185,223</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

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. 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 Companies Ordinance (Cap. 622).

The HKICPA has issued certain 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 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 2021 for the preparation of the financial statements:

Amendments to HKFRS 16	COVID-19-Related Rent Concessions
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform — Phase 2

Except as described below, the application of 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 financial statements.

Amendments to HKFRS 16, COVID-19-Related Rent Concessions

The amendment provides a practical expedient that allows a lessee to by-pass the need to evaluate whether certain qualifying rent concessions occurring as a direct consequence of the COVID-19 pandemic (“**COVID-19 Related Rent Concessions**”) are lease modifications and, instead, account for those rent concessions as if they were not lease modifications. The practical expedient only applies to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all of the following conditions are met: a) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; b) any reduction in lease payments affects only payments due on or before 30 June 2021; and c) there is no substantive change to other terms and conditions of the lease.

The amendments do not have an impact on these consolidated financial statements as the Group did not obtain any rent concessions during the year ended 31 December 2021.

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16, Interest Rate Benchmark Reform — Phase 2

The amendments provide targeted reliefs from (i) accounting for changes in the basis for determining contractual cash flows of financial assets, financial liabilities and lease liabilities as modifications, and (ii) discontinuing hedge accounting when an interest rate benchmark is replaced by an alternative benchmark rate as a result of the reform of interbank offered rates (“**IBOR Reform**”).

The amendments do not have an impact on these consolidated financial statements as the Group does not have contracts that are indexed to benchmark interest rates which are subject to the IBOR Reform.

(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 2021. 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 Leases — COVID-19 Related Rent Concessions	1 April 2021
Amendments to HKFRS 3 Business Combination — 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

	Effective for accounting periods beginning on or after
Amendments to HKAS 1 Presentation of Financial Statements and HKFRS Practice Statement 2 Making Materiality Judgements — Disclosure of Accounting Policies	1 January 2023
Amendments to HKAS 8 Accounting Policies, Changes in Accounting Estimates and Errors — Definition of Accounting Estimates	1 January 2023
Amendments to HKAS 12 Income Taxes — Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction	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 2021.

Segment information

The executive directors of the Company, being the chief operating decision makers, regularly review revenue analysis by customers and by locations. The executive directors of the Company 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 of the Company. The executive directors of the Company 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 customers is as follows:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Revenue		
Italy	112,217	69,302
United Kingdom	95,735	78,777
Netherlands	76,582	56,860
Hong Kong	61,203	59,109
United States	29,293	15,749
Spain	15,513	32,283
Japan	11,955	9,691
Australia	5,470	6,467
Others	26,764	25,945
	434,732	354,183

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

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Hong Kong	5,041	5,284
The People's Republic of China ("PRC")	29,955	36,189
	34,996	41,473

Information about major customers

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

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Customer a	117,680	106,299
Customer b	78,418	56,419
Customer c	63,754	37,145
Customer d	<u>57,226</u>	<u>45,932</u>

5. OTHER INCOME

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Income from sales of scrap and rework services	2,622	1,304
Government grants	2,306	3,180
Product services fee income	1,163	1,163
Sample and mould income	916	96
Insurance claim for bad debt	646	–
Others	<u>857</u>	<u>807</u>
	<u>8,510</u>	<u>6,550</u>

6. OTHER LOSSES

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Foreign exchange losses, net	(2,759)	(7,366)
Net losses on disposal of property, plant and equipment	<u>(423)</u>	<u>(40)</u>
	<u>(3,182)</u>	<u>(7,406)</u>

7. FINANCE COSTS, NET

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Finance income:		
Bank interest income	<u>26</u>	<u>252</u>
Finance expenses:		
Interest on bank borrowings	(9)	(303)
Interest on lease liabilities	(269)	(316)
Interest on factoring of trade receivables	(224)	(220)
Others	<u>(6)</u>	<u>(4)</u>
	<u>(508)</u>	<u>(843)</u>
	<u>(482)</u>	<u>(591)</u>

8. INCOME TAX EXPENSES

Income tax expenses have been recognised in profit or loss as following:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Current tax		
Hong Kong Profits Tax		
– Provision for the year	320	2,357
– Under/(over) provision in prior years	<u>62</u>	<u>(193)</u>
	<u>382</u>	<u>2,164</u>
PRC Enterprise Income Tax (“PRC EIT”)		
– Provision for the year	80	137
– Over/(under) provision in current year	186	(47)
– Over provision in prior years	<u>(95)</u>	<u>(923)</u>
	<u>171</u>	<u>(833)</u>
	<u>553</u>	<u>1,331</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 Mainland China 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.

Yingtian Euro-Asia Enterprise Limited (“**Yingtian Euro-Asia**”) was qualified as a Small and Low-profit Enterprise for the years ended 31 December 2020 and 2021 and was subject to income tax at a preferential tax rate of 20%. Besides, pursuant to Caishui [2017] No. 43, Yingtian Euro-Asia was also entitled to a further deduction of 50% of the tax income for the years ended 31 December 2020 and 2021.

Jiangxi Huaqing Glasses Co., Limited (“**Jiangxi Huaqing**”) 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 2020 and 2021. Besides, Jiangxi Huaqing was also qualified as a High and New Technology Enterprise and their research and development activities are entitled to claim 200% (2020: 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 2020 and 2021.

Huaqing Glasses (Shenzhen) Company Limited (“**Shenzhen Huaqing**”) was qualified as an Advanced Technology Service Enterprise and was subject to income tax at a preferential tax rate of 15% for the year ended 31 December 2021. Besides, Shenzhen Huaqing was also qualified as a High and New Technology Enterprise and their research and development activities are entitled to claim 200% of their qualified research and development expenses so incurred as tax deductible expenses when determining their assessable profits for the year ended 31 December 2021.

9. LOSS FOR THE YEAR

The Group's loss for the year is stated after charging the following:

	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
Auditor's remuneration	907	1,177
Cost of inventories sold (*)	366,290	294,043
Allowance for inventories (included in cost of inventories sold), net	577	1,984
Write off of inventories	1,909	2,173
Impairment loss for trade receivables	189	1,684
Write off of other receivables	112	2,060
Depreciation on right-of-use assets	3,046	2,439
Depreciation on property, plant and equipment	11,138	10,763
Foreign exchange losses, net	2,759	7,366
Net losses on disposal of property, plant and equipment	<u>423</u>	<u>40</u>

(*) Cost of inventories sold includes HK\$54,754,000 and HK\$75,997,000 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 2020 and 2021 respectively.

10. DIVIDEND

	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
2021 Nil (2020: 2019 Final of HK2 cents per ordinary share)	<u>-</u>	<u>10,000</u>

11. LOSS PER SHARE

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

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Loss		
Loss attributable to owners of the Company	<u>(2,140)</u>	<u>(13,402)</u>
Number of shares	'000	'000
Weighted average number of ordinary shares for the purpose of calculation basis loss per share	<u>500,000</u>	<u>500,000</u>

The diluted loss per share is equal to the basic loss per share as there were no dilutive potential ordinary share in issue during the years ended 31 December 2021 and 2020.

12. TRADE RECEIVABLES

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Trade receivables	102,384	96,330
Less: Impairment loss	<u>(1,034)</u>	<u>(1,684)</u>
	<u>101,350</u>	<u>94,646</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 2021, trade receivables factored to the banks aggregated to HK\$125,164,000 (2020: HK\$75,388,000) 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:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Up to 60 days	63,184	53,545
61 to 120 days	25,470	14,443
121 to 180 days	5,064	22,928
Over 180 days	7,632	3,730
	<u>101,350</u>	<u>94,646</u>

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

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
HKD	112	–
EUR	1,616	1,779
RMB	31,651	15,693
USD	67,971	77,174
	<u>101,350</u>	<u>94,646</u>

13. TRADE AND OTHER PAYABLES, ACCRUALS AND CONTRACT LIABILITIES

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Trade payables	<u>52,665</u>	<u>66,665</u>
Other payables and accruals		
Accrued staff costs	10,251	6,740
Accrued administrative and operating expenses	3,329	5,087
Purchases of property, plant and equipment	2,546	954
Accrued sales rebate to customers	3,160	2,011
Accrued various tax expenses	2,067	1,364
VAT payables	895	940
Others	<u>143</u>	<u>126</u>
	<u>22,391</u>	<u>17,222</u>
Contract liabilities	<u>2,290</u>	<u>4,108</u>
	<u>77,346</u>	<u>87,995</u>

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

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Up to 60 days	44,403	41,166
61 to 90 days	6,766	12,426
91 to 180 days	1,162	11,776
Over 180 days	<u>334</u>	<u>1,297</u>
	<u>52,665</u>	<u>66,665</u>

The credit period ranges from 30 to 90 days.

Contract liabilities represent receipt in advance from customers and the significant changes in the contract liabilities balance during the reporting period are as follow:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Balance at 1 January	4,108	3,744
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	(4,095)	(3,345)
Increase in contract liabilities as a result of billing in advance of sales of goods	<u>2,277</u>	<u>3,709</u>
Balance at 31 December	<u>2,290</u>	<u>4,108</u>

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

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
HKD	5,188	3,132
RMB	67,134	74,857
USD	3,548	6,635
Others	<u>1,476</u>	<u>3,371</u>
	<u>77,346</u>	<u>87,995</u>

14. SHARE CAPITAL

	<i>Note</i>	Number of shares	Amount HK\$
Authorised:			
Ordinary shares of HK\$0.01 each			
At 1 January 2020, 31 December 2020, 1 January 2021 and 31 December 2021		<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 2020, 31 December 2020, 1 January 2021 and 31 December 2021		<u>500,000,000</u>	<u>5,000,000</u>

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to maximise the return to the shareholders through the optimisation of the debt and equity balance.

The Group sets the amount of capital in proportion to risk. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the payment of dividends, issue new shares, buy back shares, raise new debts, redeem existing debts or sell assets to reduce debts.

The Group monitors capital using a gearing ratio, which is the Group's total debts (comprising lease liabilities and borrowings) over its total equity. The Group's policy is to keep the gearing ratio at a reasonable level. The Group's gearing ratios as at 31 December 2021 was 2.1% (2020: 7.3%). The decrease in the gearing ratio of the Group is primarily due to the decrease in the balance of bank borrowings as at 31 December 2021.

The only externally imposed capital requirement for the Group is in order to maintain its listing on the Stock Exchange, it has to have a public float of at least 25% of the shares. Based on the information that is publicly available to the Company and within the knowledge of the directors, the Company has maintained sufficient public float as required by the Listing Rules. As at 31 December 2021, 44.8% of the shares were in public hands.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

For the year ended 31 December 2021, the Group recorded a revenue of approximately HK\$434.7 million, representing an increase of approximately 22.7% as compared to the year ended 31 December 2020, 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 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 year of 2021 continued to be a challenging year for business in Europe. Consumer spending dropped between 50% and 60% across major countries such as Germany, France, Italy, and Spain during the first lockdown in April 2020. However, we saw that spending bounced back quickly and stabilised across major markets as the year went on. Before the second lockdown due to Omicron in the last two months of 2021, a number of European countries have shown that consumer spending has jumped back to 70% to 85% of its pre-pandemic level. According to the report “Eyewear Market: Global Industry Trends, Share, Size, Growth, Opportunity and Forecast 2022–2027” published by IMARC Group, the global eyewear market reached a value of US\$140.0 billion in 2021, with a year-on-year increase of 9.5%, or US\$12.2 billion as compared to 2020.

With the decreasing number of new infection cases since January 2022, European economies are rebounding more strongly than expected after lockdown restrictions were eased across major countries. The European Central Bank has played an important part by major bond-buying programme, and governments rolled out programmes to ensure workers were paid. S&P Global Ratings has upgraded its 2021 European growth forecast to 5.1% and The Organisation for Economic Cooperation and Development is expecting the eurozone economy to expand 5.3% in 2022. The economic upswing has been bolstered by the European Union’s vaccine campaign, with some Eurozone countries such as Ireland, France and Germany having more than 90% adults being fully vaccinated,

Nevertheless, the Group is still maintaining a conservative outlook on the business in the coming year, although the experience has exhibited that each successive wave of the pandemic has caused less economic harm to European economies than the last, mainly due to the more sophisticated and targeted restrictions. However, the future is still an uncertainty, as it is not viable to estimate when or any new variant of SARS-CoV-2 (“**COVID-19**”) will emerge. As a result, the Group continues to innovate its business model to accommodate the changing world such as enhancing flexibility and automation in the whole supply chain and backing our customers to utilise the e-commerce as a marketing and sales channel.

While the eyewear business will continue to remain as the Group’s core eyewear business, the management is continuously exploring potential opportunities 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 2021, the Group’s revenue greatly improved to approximately HK\$434.7 million by approximately HK\$80.5 million or 22.7% as compared to approximately HK\$354.2 million for the year ended 31 December 2020. The increase was mainly attributable to the increase in the volume of spectacle frame and sunglasses, which is mainly attributable to recovery of the outbreak of COVID-19 globally which has adversely affected the export sales of the Group and resulted in a restore in the sales volume and market catch up in the sales orders.

Cost of sales

The cost of sales of the Group increased by approximately HK\$72.2 million or 24.6%, from approximately HK\$294.0 million for the year ended 31 December 2020 to approximately HK\$366.3 million for the year ended 31 December 2021. Such increase was due to an increase in revenue.

Gross profit and gross profit margin

Gross profit increased to approximately HK\$68.4 million for the year ended 31 December 2021, by approximately HK\$8.3 million, or 13.8%, from approximately HK\$60.1 million for the year ended 31 December 2020. Such increase in gross profit was mainly due to an increase in the revenue of approximately 22.7%. Despite the increase in sales volume, the overall gross profit margin dropped slightly from approximately 17.0% for the year ended 31 December 2020 to 15.7% for the year ended 31 December 2021, resulted from the increase in production cost such as labour cost while the average unit selling price remained steady.

Other income

Other income increased by approximately HK\$1.9 million from approximately HK\$6.6 million for the year ended 31 December 2020 to approximately HK\$8.5 million for the year ended 31 December 2021. The amount mainly comprised of income from sales of scrap and rework services of approximately HK\$2.6 million and PRC government grants of approximately HK\$2.3 million. The increase was mainly attributable to the increase in scrap sales and rework services.

Other losses

The Group recorded net other losses of approximately HK\$3.2 million and approximately HK\$7.4 million for the year ended 31 December 2021 and the year ended 31 December 2020 respectively, mainly due to the exchange rate fluctuation during the year ended 31 December 2021. For the year ended 31 December 2021, the rate of appreciation of Renminbi (“**RMB**”) against the United States Dollars (“**USD**”) or Hong Kong Dollars (“**HKD**”) is lower than that in the year ended 31 December 2020, which resulting in an lower exchange loss whereby the liabilities of the Group were denominated in RMB.

Impairment loss for trade receivables

The Group has provided impairment loss for trade receivables of approximately HK\$0.2 million for the year ended 31 December 2021, based on the expected credit loss as at 31 December 2021 calculated using simplified approach, by reference to the expected credit loss rates which took into account the actual loss over the past six years, current economic conditions and forward-looking information such as the impact of COVID-19. The Group recognised impairment loss for the year ended 31 December 2020 of approximately HK\$1.7 million.

Selling and distribution expenses

Selling and distribution expenses decreased from approximately HK\$14.4 million for the year ended 31 December 2020 to approximately HK\$13.8 million for the year ended 31 December 2021, by approximately HK\$0.6 million or 4.5%. Such decrease was primarily attributable to the decrease in advertising and promotion expenses resulted from the severe COVID-19 pandemic situation during the year ended 31 December 2021.

Administrative and other operating expenses

Administrative and other operating expenses increased by approximately HK\$6.1 million or 11.2%, from approximately HK\$54.8 million for the year ended 31 December 2020 to approximately HK\$60.9 million for the year ended 31 December 2021, mainly due to the increase in staff costs of approximately HK\$4.7 million.

Finance costs, net

The Group's net of finance costs decreased by approximately HK\$0.1 million or 18.4%, to approximately HK\$0.5 million for the year ended 31 December 2021 as compared to approximately HK\$0.6 million for the year ended 31 December 2020. The decrease was mainly due to the repayment of bank borrowings during the year.

Income tax expenses

Despite the improvement of loss before tax, the income tax expenses decreased significantly from approximately HK\$1.3 million for the year ended 31 December 2020 to approximately HK\$0.6 million for the year ended 31 December 2021, mainly due to the decline in profitability of certain entities for the year ended 31 December 2021.

Loss for the year

As a result of the foregoing, the Group recorded a loss of approximately HK\$2.1 million for the year ended 31 December 2021, representing a substantial decrease of approximately HK\$13.5 million as compared to the year ended 31 December 2020, mainly due to improvement in revenue by the increase of export sales volume, which reflected the gradual recovery from the outbreak of COVID-19 globally.

FINANCIAL POSITION

As at 31 December 2021, the Group's total assets amounted to approximately HK\$268.1 million (2020: HK\$287.2 million) with net assets amounting to approximately HK\$186.3 million (2020: HK\$185.2 million). As at 31 December 2021, gearing ratio (total debts divided by the total equity) of the Group was approximately 2.1%, a decrease of approximately 5.2% as compared to that of approximately 7.3% as at the end of 2020. 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 2021 and 2020. As at 31 December 2021, current ratio of the Group was approximately 2.9 times, representing an increase of approximately 16.0% as compared to that of approximately 2.5 times as at the end of 2020. As at 31 December 2020 and 2021, quick ratio of the Group was approximately 1.9 times.

During the year ended 31 December 2021, the total assets, net assets and all of the above financial ratios remained stable or slightly enhanced, mainly due to the improvement of the Group's operating income and the 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, finance lease arrangement, as well as the net proceeds from the Share Offer (as defined in the prospectus of the Company dated 29 June 2019 (the "Prospectus")).

As at 31 December 2021, the Group had bank and cash balances of approximately HK\$36.9 million, a decrease of approximately HK\$39.5 million as compared to approximately HK\$76.4 million as at 31 December 2020, mainly attributable to purchase of raw materials, repayment of bank loans and timing difference for the settlement of trade receivables and trade payables close to the year end.

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 2021, the Group's indebtedness comprised lease liabilities of approximately HK\$4.0 million, respectively. Its lease liabilities are denominated in HKD and RMB. 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 lease liabilities as at 31 December 2021 is as follows:

	Lease liabilities <i>HK\$'000</i>
Within one year	2,551
More than one year, but not exceeding two years	713
More than two years, but not more than five years	740
	<hr/>
	4,004
	<hr/> <hr/>

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 2021, the carrying amount of motor vehicles held as right-of-use assets by the Group under lease arrangements amounted to approximately HK\$2.9 million (2020: HK\$1.5 million).

CAPITAL COMMITMENT

As at 31 December 2021, the Group had capital commitments of approximately HK\$0.3 million and HK\$8.6 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 2021, 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 2021, the Group had a total of 1,035 employees of which 1,016 were in the PRC and 19 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 2021 and 2020 were approximately HK\$111.5 million and HK\$84.7 million, respectively.

SIGNIFICANT INVESTMENTS HELD

The Group had not held any significant investments during the year ended 31 December 2021.

MATERIAL ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES, ASSOCIATES OR JOINT VENTURES

There was no material acquisition or disposal of subsidiaries, associates and joint ventures by the Group during the year ended 31 December 2021.

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 continue to 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 2021. Please refer to the sectioned headed "Use of Proceeds from the Share Offer" in this announcement for further details.

EVENTS AFTER THE REPORTING PERIOD

There are no significant events affecting the Company and its subsidiaries which have occurred after the year ended 31 December 2021 and up to 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 "**2020 Unutilised Net Proceeds**") as at 30 June 2020 amounted to approximately HK\$56.0 million.

As set out in the Company's announcements dated 8 December 2021 and 21 December 2021, the Board resolved to further change the proposed use of the remaining balance of the 2021 Unutilised Net Proceeds as at 31 October 2021 (the "**2021 Unutilised Net Proceeds**") amounted to approximately HK\$17.8 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 2021 are set out below:

	Original allocation of the Net Proceeds as stated in the Prospectus	Revised allocation of the 2020 Unutilised Net Proceeds	Unutilised Net Proceeds as at 1 January 2021	Actual usage of the 2020 Unutilised Net Proceeds for the period from 1 January 2021 to 31 October 2021	Unutilised Net Proceeds as at 31 October 2021	Further Revised allocation of the Net Proceeds	Actual usage of the 2021 Unutilised Net Proceeds for the period from 1 November 2021 to 31 December 2021	Unutilised Net Proceeds as at 31 December 2021	Expected timeline for usage of Net Proceeds
	HK\$' million	HK\$' million	HK\$' million	HK\$' million	HK\$' million	HK\$' million	HK\$' million	HK\$' million	
Strengthen the Group's production capacity	43.2	22.4	18.1	5.2	12.9	—	—	—	—
Repay the Group's bank borrowings	12.4	—	—	—	—	—	—	—	—
Promote corporate image and brand building	8.8	4.5	3.5	2.4	1.1	—	—	—	—
Enhance design and development capabilities	7.2	5.3	3.4	0.6	2.8	—	—	—	—
Enhance quality assurance capabilities	3.6	1.4	0.7	0.7	—	—	—	—	—
General working capital	4.8	22.4	20.0	19.0	1.0	17.8	0.5	17.3	By 31 December 2022
	<u>80.0</u>	<u>56.0</u>	<u>45.7</u>	<u>27.9</u>	<u>17.8</u>	<u>17.8</u>	<u>0.5</u>	<u>17.3</u>	

The actual usage of the Net Proceeds for the year ended 31 December 2021 was approximately HK\$28.4 million, comprising (i) approximately HK\$5.2 million for the purpose of strengthening the Group's production capacity; (ii) approximately HK\$2.4 million for the purpose of promoting corporate image and brand building; (iii) approximately HK\$0.6 million for the purpose of enhancing design and development capabilities; (iv) approximately HK\$0.7 million for the purpose of enhancing quality assurance capabilities; and (v) approximately HK\$19.5 million for the purpose of general working capital.

During the year ended 31 December 2021, the operating environment of the Group continued to be challenged by the continuing COVID-19 situation, thus the Group has prudently further prolonged the timeline for its business plans as compared to the expected timeline set out in the Company's announcements dated 5 August 2020 and 19 November 2020, and reallocated the proportion of the 2021 Unutilised Net Proceeds to be used, details of which have been disclosed in the announcements of the Company dated 8 December 2021 and 21 December 2021.

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 continue to 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 2021.

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 2021.

DIVIDENDS

The Board does not recommend the payment of a final dividend for the year ended 31 December 2021 (2020: Nil).

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 24 May 2022 to Friday, 27 May 2022, both days inclusive, for the purpose of ascertaining Shareholders' entitlement to attend and vote at the forthcoming AGM to be held on Friday, 27 May 2022. 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, 23 May 2022.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the year ended 31 December 2021, 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 2021 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 2021, 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, 28 March 2022

As at the date of this announcement, the executive Directors are Mr. Kwok Kwan Fai, Mr. Kwok Kwan Yu and Mr. Zho 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.