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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)

FURTHER CHANGE IN USE OF PROCEEDS

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

CHANGE OF USE OF PROCEEDS PURSUANT TO THE ANNOUNCEMENT

The actual amount of the net proceeds from the Share Offer after deducting underwriting commission and other relevant expenses was approximately HK\$80.0 million (the “**Net Proceeds**”). The original intended use and allocation of the Net Proceeds was disclosed in the section headed “Future Plans and Use of Proceeds” in the Prospectus. As set out in the Announcement, the remaining balance of the Net Proceeds was approximately HK\$56.0 million (the “**2020 Unutilised Net Proceeds**”) and the Board resolved to revise the proposed use and allocation of the 2020 Unutilised Net Proceeds on 19 November 2020 as follows:

- approximately 40.0% of the 2020 Unutilised Net Proceeds (i.e. HK\$22.4 million) would be used to strengthen the production capacity of the Group;
- approximately 8.0% of the 2020 Unutilised Net Proceeds (i.e. HK\$4.5 million) would be used to promote the Group’s corporate image and brand building;
- approximately 9.5% of the 2020 Unutilised Net Proceeds (i.e. HK\$5.3 million) would be used to enhance the design and development capabilities of the Group;
- approximately 2.5% of the 2020 Unutilised Net Proceeds (i.e. HK\$1.4 million) would be used to enhance the quality assurance capabilities of the Group; and

— approximately 40.0% of the 2020 Unutilised Net Proceeds (i.e. HK\$22.4 million) would be used as general working capital.

As of 31 October 2021, the Group has used approximately HK\$62.2 million of the Net Proceeds. The unutilised Net Proceeds amounted to approximately HK\$17.8 million. As of 31 October 2021, the use of Net Proceeds is set out as follows:

	Original allocation of the Net Proceeds as stated in the Prospectus		Revised allocation of the Net Proceeds		Utilised Net Proceeds as at 31 October 2021	Unutilised Net Proceeds as at 31 October 2021	Expected timeline for usage of Net Proceeds
	HK\$' million	%	HK\$' million	%	HK\$' million	HK\$' million	
Strengthen the Group's production capacity	43.2	54.0	22.4	40.0	9.5	12.9	By 31 December 2023
Repay the Group's bank borrowings	12.4	15.5	—	—	—	—	—
Promote corporate image and brand building	8.8	11.0	4.5	8.0	3.4	1.1	By 31 December 2022
Enhance design and development capabilities	7.2	9.0	5.3	9.5	2.5	2.8	By 31 December 2022
Enhance quality assurance capabilities	3.6	4.5	1.4	2.5	1.4	—	—
General working capital	4.8	6.0	22.4	40.0	21.4	1.0	By 31 December 2022
	80.0	100.0	56.0	100.0	38.2	17.8	

FURTHER CHANGE IN USE OF PROCEEDS

On 8 December 2021, the Board resolved to further change the proposed use and allocation of the unutilised Net Proceeds. Details of the further revised use and allocation of the unutilised Net Proceeds are set out as follows:

	Original allocation of the Net Proceeds as stated in the Prospectus		Revised allocation of the Net Proceeds		Utilised Net Proceeds as at 31 October 2021	Unutilised Net Proceeds as at 31 October 2021	Further Revised allocation of the Net Proceeds		Expected timeline for usage of Net Proceeds
	HK\$' million	%	HK\$' million	%	HK\$' million	HK\$' million	HK\$' million	%	
Strengthen the Group's production capacity	43.2	54.0	22.4	40.0	9.5	12.9	—	—	—
Repay the Group's bank borrowings	12.4	15.5	—	—	—	—	—	—	—
Promote corporate image and brand building	8.8	11.0	4.5	8.0	3.4	1.1	—	—	—
Enhance design and development capabilities	7.2	9.0	5.3	9.5	2.5	2.8	—	—	—
Enhance quality assurance capabilities	3.6	4.5	1.4	2.5	1.4	—	—	—	—
General working capital	4.8	6.0	22.4	40.0	21.4	1.0	17.8	100.0	By 31 December 2022
	80.0	100.0	56.0	100.0	38.2	17.8	17.8	100.0	

Reasons for further change in use of proceeds

As disclosed in the interim report of the Company published on 2 September 2021, despite the global eyewear industry has shown a mild trend of recovery in 2021 from the impact of COVID-19, the global economy and the Group's business are fraught with uncertainties, including continuing COVID-19 challenges. A resurgence of infectious cases in many countries has re-introduced calls for lockdowns and tightened epidemic control measures, and threatens to weaken or delay a potential economic recovery.

Against such backdrop, the Group is of the view that it would be appropriate to maintain the Group's strategy of prudently prolonging the timeline for the Group's business plans (including the expansion of the Group's production capacity), which would enhance the cash position and liquidity of the Group to respond to the challenging economic environment ahead.

As the development of COVID-19 situation worldwide fluctuates, there remains a high degree of uncertainty over the stability and future trend of the macro-economy, including Europe. Therefore, the Board is of the view that in order to mitigate the continuing uncertainty casted by COVID-19, the priority of the Group remains to be the maintenance of a healthy financial position by, among others, (i) putting on hold expansion plans and activities which require heavy capital commitment of the Group to maintain a relative low operating costs in the future; (ii) reviewing its existing plan of using the Net Proceeds and adjusting the allocation as necessary and appropriate to ensure a sufficient level of liquidity; and (iii) implementing cost-saving measures.

Based on the above, the Directors have decided to (i) temporarily put on hold the expansion of the Group's production capacity in Jiangxi, the PRC; and (ii) reduce the Net Proceeds to be used for the promotion of corporate image and brand building, as well as the enhancement of quality assurance capabilities, and as a result, an aggregate of HK\$16.8 million of the Net Proceeds is left idle.

The Board considers that the allocation of a certain portion of the unutilised Net Proceeds which is currently left idle to general working capital is conducive to the Group by way of improving liquidity to support the daily operations of the Group and reducing reliance on external financing.

As such, the Group decides to re-allocate (i) HK\$12.9 million originally intended for the expansion of the Group's production capacity; (ii) HK\$1.1 million originally intended for the promotion of corporate image and brand building; and (iii) HK\$2.8 million originally intended for the enhancement of quality assurance capabilities, as general working capital for the Group.

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

The Board is of the view that the reallocation of the Net Proceeds is in line with the business strategy of the Group and will not adversely affect the operation and business of the Group and is in the best interest of the Company and the Shareholders as a whole. The Directors will continuously revisit the plans for the use of the unutilised Net Proceeds and may amend such plans as and when necessary, to cope with the changing market conditions and strive for better business performance for the Group.

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

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

Hong Kong, 8 December 2021

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