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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)

CONTINUING CONNECTED TRANSACTION MASTER PRODUCT SALES AGREEMENT

MASTER PRODUCT SALES AGREEMENT

The Board announces that on 1 September 2023, the Company has entered into the Master Product Sales Agreement with DEM, pursuant to which the Group agreed to sell the Products and DEM agrees to purchase the Products for a term commencing on 1 September 2023 and ending on 31 December 2025.

LISTING RULES IMPLICATIONS

As at the date of this announcement, Mr. Ken Kwok is, through his 49% shareholding in Conquer and together with parties acting in concert with him, interested in an aggregate of 275,952,000 Shares, representing approximately 55.19% of the issued share capital of the Company. Hence, Mr. Ken Kwok is a controlling shareholder of the Company. As DEM is held as to 51% of its shares by Mr. Ken Kwok, DEM is an associate of Mr. Ken Kwok and therefore a connected person of the Company.

As one or more of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the annual caps for the Product Sales exceeds 0.1% but are all less than 5%, the Product Sales constitutes a continuing connected transaction for the Company and is subject to the reporting, announcement and annual review requirements, but are exempted from the circular (including independent financial advice) and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Board announces that on 1 September 2023, the Company has entered into the Master Product Sales Agreement with DEM, pursuant to which the Group agreed to sell the Products and DEM agrees to purchase the Products for a term commencing on 1 September 2023 and ending on 31 December 2025.

MASTER PRODUCT SALES AGREEMENT

Date

1 September 2023

Parties

- (i) the Company; and
- (ii) DEM.

Principal terms

Pursuant to the Master Product Sales Agreement, the Group agreed to sell the Products and DEM agrees to purchase the Products on a non-exclusive basis, subject to the entering into of individual implementation agreement(s) to be agreed between members of the Group and DEM.

Terms for the individual implementation agreement(s) shall be negotiated separately on terms to be mutually agreed upon, and shall be deemed to be separate and independent agreements.

Nothing in the Master Product Sales Agreement shall restrict any party's right to procure/sell the Products from/to other possible suppliers/customers throughout the term of the Master Product Sales Agreement.

Term

The term of the Master Product Sales Agreement shall commence from 1 September 2023 and expire on 31 December 2025 (both days inclusive).

Payment

The purchase price payable by DEM to the Group under the Product Sales shall be settled in cash or by way of bank transfer.

The payment terms shall be negotiated and agreed between the parties in the individual agreements to be entered into by DEM and members of the Group pursuant to the Master Product Sales Agreement.

PRICING PRINCIPLES

Pursuant to the terms of the Master Product Sales Agreement, the Product Sales shall be conducted on normal commercial terms, in particular: (i) the Product Sales will be on terms no less favourable to the Group than terms available to independent third parties based on its internal control measures; (ii) the Product Sales will be conducted in the ordinary and usual course of business of the Group and after arm's length negotiations between the Group and DEM; and (iii) the transaction amount of the Product Sales will not exceed the annual caps.

The prices of the Products to be sold by the Group to DEM shall be determined by reference to (and in any event no less favourable to) the prices of relevant comparable products of similar quality, type and quantity in the trading database of the Group from time to time and generally applicable to all independent third parties on arm's length basis and normal commercial terms.

The Groups will review and compare the prices of the Products offered by the Group to DEM with at least two transaction records in respect of comparable products offered by the Group to independent third parties from its trading database. It is the Group's general policy to select transaction records of comparable products offered to independent third parties within the closest time to the proposed Product Sales.

A senior management personnel in the sales department of the Group will review the prices of the Products offered by the Group to DEM before entering into individual agreements pursuant to the Master Product Sales Agreement.

In the event that the prices of the Products offered by the Group to DEM are less favourable to the Group than those offered to independent third parties for comparable products of similar quality, type and quantity in the trading database of the Group, the Group will not enter into individual agreements in respect of the Product Sales.

The Group will at its best effort further negotiate with DEM for more favourable terms in order to comply with the pricing principles of the Company as disclosed above.

ANNUAL CAPS

Annual caps

The annual caps for the Products Sales under the Master Product Sales Agreement for each of the period/years ending 31 December 2023, 2024 and 2025 are set out as follows:

	For the period/year ending		
	31 December		
	2023	2024	2025
	<i>(HK\$)</i>	<i>(HK\$)</i>	<i>(HK\$)</i>
Maximum transaction amount for the Products Sales under the Master Product Sales Agreement	5,000,000	6,000,000	7,500,000

Shareholders and potential investors of the Company should note that the above annual caps are not intended, and do not purport, to be an indication of the Group's future performance or profitability. Shareholders or potential investors of the Company should not rely on the annual caps in deciding how or whether or not to deal in the Shares.

Historical transaction amounts

The historical transaction amounts in respect of the sale of products for each of the years ended 31 December 2021 and 2022 and for the six months ended 30 June 2023 are set out as follows:

	For the year ended		For the six
	31 December		months ended
	2021	2022	30 June 2023
	<i>(HK\$)</i>	<i>(HK\$)</i>	<i>(HK\$)</i>
Actual transaction amount in respect of the sale of products by the Group to DEM	1,319,000	2,601,000	2,559,000

Basis of the annual caps

The annual caps are determined with reference to the factors set out below:

- (i) the estimated price of the Products based on the historical prices of the Products sold to independent third parties in the trading database of the Group;
- (ii) the estimated purchase quantities of the Products by DEM based on its market analysis of the demand for the Products and internal projection of orders from its customers;
- (iii) the historical transaction amounts in respect of the sale of products (including the estimated annualized transaction amount for the year ending 31 December 2023 based on the transaction amount for the six months ended 30 June 2023) and the expected increase in transaction amounts in view of the expected growth in the eyewear market;
- (iv) the Group's estimated production capacity; and
- (v) provision of buffer to cover possible increase in demand for and fluctuation in prices of the Products.

INFORMATION ON THE PARTIES

Information on DEM

DEM is a company a company incorporated under the laws of the Italian Republic with limited liability and is engaged in assembling parts of optical frames and sunglasses and sale of processed end products to its own customers.

As at the date of this announcement, the shares of DEM are owned as to 51% by Mr. Ken Kwok and 49% by a number of other independent third parties.

Information on the Company and the Group

The Company is a company incorporated under the laws of the Cayman Islands with limited liability and is principally engaged in investment holding. The Group is principally engaged in manufacturing and sales of eyewear products.

REASONS FOR AND BENEFITS OF THE PRODUCT SALES

The Group is principally engaged in manufacturing and sales of eyewear products.

The Product Sales is consistent with the principal business of the Group and would allow the Group to leverage its production capacity for eyewear products, boost its turnover and diversify its sales channel internationally. The Product Sales would also expand the sources of income of the Group and thereby benefit the operations of the Group.

The Directors (including the independent non-executive Directors) are of the view that the Master Product Sales Agreement and the transactions contemplated thereunder (including the annual caps) are entered into in the ordinary and usual course of business of the Group, on normal commercial terms (which were arrived at after arm's length negotiations) and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

As (1) Mr. Ken Kwok holds 51% of the shares in DEM; and (2) Mr. Kwok Kwan Fai, Mr. Kwok Mau Kwan and Ms. Chan Yin Wah are parties acting in concert with Mr. Ken Kwok pursuant to the Confirmatory Deed, each of the abovementioned Directors is deemed to have material interest in and has therefore abstained from voting on the resolutions of the Board approving the Master Product Sales Agreement and the transactions contemplated thereunder (including the annual caps).

INTERNAL CONTROL MEASURES

In accordance with the Listing Rules, the Company will comply at all times with the applicable provisions under Rules 14A.34 to 14A.59 of the Listing Rules in respect of the Product Sales. In addition, in order to safeguard the interests of the Company and the Shareholders as a whole, the Group has adopted the following guidelines and principles for monitoring the Product Sales between the Group and DEM, namely:

- the Group maintains a trading database containing selling prices of its products and relevant terms and conditions of such transactions. The information in the trading database is obtained in the course of the Group's operations and from the Group's internal sources. The Company will continue to develop and maintain the trading database so as to include pricing information in relation to products sold by the Group in the future. Designated personnel of the sales department of the Group is responsible for the maintenance of the trading database, and the trading database is generally updated on an instantaneous (or as soon as practicable) basis after the materialization or consummation of a sales transaction. The Group will monitor and supervise the maintenance of the trading database to ensure that up-to-date records of the selling terms, prices and transaction records for products sold by the Group are properly kept. The Company will also conduct random checks on the trading database so as to ensure that effective and sound internal control measures are in place so that the Product Sales are conducted on a fair and reasonable basis.

- the Group has established a series of measures and policies to ensure that the transactions will be conducted in accordance with the terms of the Master Product Sales Agreement, including but not limited to: (i) the relevant business units and departments of the Group will monitor and review the prices and terms in respect of the Product Sales regularly in order to ensure that the Product Sales are conducted on normal commercial terms, in accordance with the annual caps set by the Company and the terms are no less favourable to the Group than those available to independent third parties; (ii) the Company will designate specific personnel from the finance department to monitor the transactions under the Master Product Sales Agreement and will report to the management of the Company regularly in relation to such transactions; and (iii) the Group will also conduct random internal checks on a quarterly or more frequent basis to ensure that the internal control measures in respect of the transactions under the Master Product Sales Agreement remain intact and effective.
- the Company will review the transactions with DEM to identify any continuing connected transaction that may be at risk of exceeding the annual caps, and any measures to be taken in respect of such transaction(s).
- the Company will report the transactions under the Master Product Sales Agreement to the independent non-executive Directors during each of the audit committee meetings (if necessary) according to the audit committee meeting agenda.
- the transactions contemplated under the Master Product Sales Agreement will be reviewed by the independent non-executive Directors on an annual basis and reported in the annual reports of the Company, which provides a check and balance to ensure that the transactions were conducted in accordance with the terms of the Master Product Sales Agreement, on normal commercial terms (or terms no less favourable than terms available to the independent third parties), and in accordance with the pricing principles of the Company and the annual caps pursuant to the Listing Rules.
- the Company's independent auditor will be engaged to report on the continuing connected transactions under the Master Product Sales Agreement, which would, for the purpose of Rule 14A.56 of the Listing Rules, assist the Board in ensuring that the transactions under the Master Product Sales Agreement: (i) have proper Board approval; (ii) have in all material respects, been conducted in accordance with the pricing policies of the Group; (iii) were entered into, in all material respects, in accordance with the Master Product Sales Agreement; and (iv) have not exceeded the annual caps set by the Company.

LISTING RULES IMPLICATIONS

As at the date of this announcement, Mr. Ken Kwok is, through his 49% shareholding in Conquer and together with parties acting in concert with him, interested in an aggregate of 275,952,000 Shares, representing approximately 55.19% of the issued share capital of the Company. Hence, Mr. Ken Kwok is a controlling shareholder of the Company. As DEM is held as to 51% of its shares by Mr. Ken Kwok, DEM is an associate of Mr. Ken Kwok and therefore a connected person of the Company.

As one or more of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the annual caps for the Product Sales exceeds 0.1% but are all less than 5%, the Product Sales constitutes a continuing connected transaction for the Company and is subject to the reporting, announcement and annual review requirements, but are exempted from the circular (including independent financial advice) and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

DEFINITIONS

In this announcement, the following expressions shall have the respective meanings set opposite thereto:

“acting in concert”	has the meaning ascribed to it in the Takeovers Code
“Board”	the board of Directors
“Company”	Kelfred Holdings Limited (恒發光學控股有限公司), an exempted company incorporated in the Cayman Islands with limited liability and the Shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 1134)
“Confirmatory Deed”	a confirmatory deed dated 3 January 2019 pursuant to which Conquer, Mr. Kwok Mau Kwan, Ms. Chan Yin Wah, Mr. Kwok Kwan Fai and Mr. Ken Kwok agreed, amongst others, that they are parties acting in concert in respect of the Company and its subsidiaries
“Conquer”	Conquer Holding Limited, being the registered and beneficial owner of 275,952,000 Shares, representing approximately 55.19% of the issued share capital of the Company, whose shares are owned as to 2% by Ms. Chan Yin Wah, 49% by Mr. Kwok Kwan Fai and 49% by Mr. Ken Kwok as at the date of this announcement

“connected person(s)”	has the meaning ascribed to it in the Listing Rules
“controlling shareholder”	has the meaning ascribed to it in the Listing Rules
“DEM”	DEM SRL, a company incorporated under the laws of the Italian Republic with limited liability
“Directors”	the directors of the Company
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Master Product Sales Agreement”	the master product sales agreement dated 1 September 2023 entered into between the Company and DEM, pursuant to which the Group will sell the Products to DEM
“Mr. Ken Kwok”	Mr. Kwok Kwan Yu, being an executive Director and the chief executive officer of the Company, who is deemed to be interested in 275,952,000 Shares, representing 55.19% of the issued share capital of the Company pursuant to the Confirmatory Deed
“PRC”	the People’s Republic of China, for the purpose of this announcement, excluding Hong Kong, the Macau Special Administrative Region of the People’s Republic of China, and Taiwan
“Products”	the products to be purchased by DEM from the Group under the Master Product Sales Agreement, including spectacle frames and sunglasses
“Product Sales”	the sales of the Products by the Group to DEM pursuant to the Master Product Sales Agreement
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Shares

“Stock Exchange” The Stock Exchange of Hong Kong Limited

“Takeovers Code” The Code on Takeovers and Mergers

“%” per cent.

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

Hong Kong, 4 September 2023

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.