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 2023

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 2023, together with comparative figures for the year ended 31 December 2022.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2023

	Note	**2023** **HK$'000**	2022 HK$'000
Revenue	*4*	**393,284**	465,430
Cost of sales		**(336,305)**	(389,413)
Gross profit		**56,979**	76,017
Other income	*5*	**18,212**	9,256
Other gains and losses	*6*	**5,890**	3,880
Reversal of impairment loss for trade receivables		**110**	433
Gain on partial disposal of subsidiaries		**–**	58
Gain on disposal of associates		**–**[(i)]	–
Share of losses of associates		**–**[(i)]	(3)
Selling and distribution expenses		**(17,115)**	(14,615)
Administrative and other operating expenses		**(60,245)**	(63,630)
Profit from operations		**3,831**	11,396
Finance costs, net	*7*	**(1,653)**	(715)
Profit before tax		**2,178**	10,681
Income tax expense	*8*	**(790)**	(1,498)
Profit for the year attributable to owner of the Company	*9*	**1,388**	9,183

(i) Represent amount less than HK$1,000.

	Note	**2023**	2022
		HK$'000	*HK$'000*
Other comprehensive income:			
Items that reclassified and may be reclassified to profit or loss:			
Exchange differences on translating foreign operations		**(4,769)**	(8,943)
Share of other comprehensive income of associates		**–[i]**	–[i]
Exchange differences reclassified to profit or loss on disposal of associates		**–[i]**	–
Exchange differences reclassified to profit or loss on partial disposal of foreign operations		**–**	–[i]
Other comprehensive income for the year, net of tax		**(4,769)**	(8,943)
Total comprehensive income for the year attributable to owner of the Company		**(3,381)**	240
Earnings per share			
– Basic and diluted	*10*	**HK0.28 cents**	HK1.84 cents

[i] Represent amount less than HK$1,000.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2023

	Note	2023 HK$'000	2022 HK$'000
Non-current assets			
Property, plant and equipment		**34,650**	24,495
Right-of-use assets		**14,951**	4,885
Interests in associates		**–**	114
Deposits paid for property, plant and equipment		**1,228**	556
Deferred tax assets		**507**	–
		51,336	30,050
Current assets			
Inventories		**74,764**	71,183
Trade receivables	*11*	**109,067**	95,772
Prepayments, deposits and other receivables		**8,503**	8,320
Current tax assets		**–**	168
Bank and cash balances		**20,334**	46,403
		212,668	221,846
Current liabilities			
Trade payables	*12*	**44,175**	39,983
Other payables and accruals	*12*	**19,618**	21,301
Contract liabilities	*12*	**1,309**	1,517
Lease liabilities		**2,747**	1,223
Current tax liabilities		**294**	317
		68,143	64,341
Net current assets		**144,525**	157,505
Total assets less current liabilities		**195,861**	187,555

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2023

	Note	2023 HK$'000	2022 HK$'000
Non-current liabilities			
Lease liabilities		**12,472**	785
Deferred tax liabilities		**198**	198
		12,670	983
NET ASSETS		**183,191**	186,572
Capital and reserves			
Share capital	*13*	**5,000**	5,000
Reserves		**178,191**	181,572
TOTAL EQUITY		**183,191**	186,572

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

1. GENERAL INFORMATION

Kelfred Holdings Limited (the "**Company**") was incorporated in the Cayman Islands 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 Company and its subsidiaries (collectively the "**Group**") are principally engaged in manufacturing and sales in eyewear products.

In the opinion of the directors of the Company, Conquer Holding Limited, a company incorporated in the British Virgin Islands ("**BVI**"), are the immediate and ultimate parents, 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 new and 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 2023 for the preparation of the consolidated financial statements:

HKFRS 17	Insurance Contracts
Amendments to HKAS 8	Definition of Accounting Estimates
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction
Amendments to HKAS 12	International Tax Reform — Pillar Two Model Rules — Amendments to HKAS 12
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies

Except for Amendments to HKAS 12, the application of the new and amendments to HKFRSs in the current year has 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 the consolidated financial statements.

Impact on application of Amendments to HKAS 12 "Deferred Tax related to Assets and Liabilities arising from a Single Transaction"

The Group has adopted Amendments to HKAS 12 "Deferred Tax related to Assets and Liabilities arising from a Single Transaction" for the first time in the current year. The amendments narrow the scope of the initial recognition exemption to exclude transactions that give rise to equal and offsetting temporary differences — e.g. leases.

Prior to the adoption of Amendments to HKAS 12, the Group applied the initial recognition exemption under paragraphs 15 and 24 of HKAS 12 for leasing transactions that give rise to equal and offsetting temporary differences, and therefore no deferred tax has been recognised for temporary differences relating to right-of-use assets and lease liabilities at initial recognition, and also over the lease terms under paragraph 22(c) of HKAS 12.

The Group has applied the transitional provisions under paragraphs 98K and 98L of Amendments to HKAS 12 to leasing transactions that occur on or after the beginning of the earliest comparative period presented and also, at the beginning of the earliest comparative period presented by:

(i) Recognising a deferred tax asset to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised, and a deferred tax liability for all deductible and taxable temporary differences associated with right-of-use assets and lease liabilities; and

(ii) Recognising the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at that date.

Based on the management's assessment, there was immaterial impact on the consolidated statement of financial position as at 1 January 2022, 31 December 2022 and 31 December 2023, because the deferred tax assets and the deferred tax liabilities recognised as a result of the adoption of Amendments to HKAS 12 qualify for offset under paragraph 74 of HKAS 12. The change primarily impacts disclosures of components of deferred tax assets and liabilities, but does not impact the overall deferred tax balances presented on the consolidated statement of financial position as the related deferred tax balances qualify for offset under HKAS 12.

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

The Group has not early applied the following amendments to standards and interpretation that have been issued but are not yet effective:

	Effective for accounting periods beginning on or after
Amendments to HKAS 1 — Classification of Liabilities as Current or Non-current	1 January 2024
Amendments to HKAS 1 — Non-current Liabilities with Covenants	1 January 2024
Amendments to HKFRS 16 — Lease Liability in a Sale and Leaseback	1 January 2024
Hong Kong Interpretation 5 (Revised) Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause	1 January 2024
Amendments to HKAS 7 and HKFRS 7 — Supplier Finance Arrangements	1 January 2024
Amendments to HKAS 21 — Lack of Exchangeability	1 January 2025
Amendments to HKFRS 10 and HKAS 28 — Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined by the HKICPA

The directors of the Company anticipate that the application of all other amendments to HKFRSs will not have material impact on the consolidated financial statements in the foreseeable future.

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 2022 and 2023.

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:

	2023	2022
	HK$'000	*HK$'000*
Revenue		
Italy	**138,222**	158,383
United Kingdom	**103,622**	92,048
Hong Kong	**81,051**	88,354
Netherlands	**21,213**	60,941
United States	**17,144**	23,173
France	**8,008**	8,328
Japan	**7,444**	11,411
Australia	**7,162**	7,129
Others	**9,418**	15,663
	393,284	465,430

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

	2023	2022
	HK$'000	*HK$'000*
Hong Kong	**3,258**	4,523
The People's Republic of China ("**PRC**")	**46,343**	24,857
	49,601	29,380

Information about major customers

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

	2023	2022
	HK$'000	*HK$'000*
Customer a	**102,432**	102,153
Customer b	**50,763**	72,179
Customer c	**45,541**	61,978
Customer d	**41,700**	N/A[1]
Customer e	**N/A[1]**	73,398

1 The corresponding revenue did not contribute over 10% of total revenue of the Group.

5. OTHER INCOME

	2023	2022
	HK$'000	*HK$'000*
Income from sales of scrap and rework services	**535**	328
Material costs charged to customers	**1,120**	3,058
Government grants[#]	**3,230**	2,538
Product services fee income	**1,163**	1,163
Sample and mould income	**634**	1,862
Demolition compensation income[^]	**10,932**	–
Others	**598**	307
	18,212	9,256

Government grants mainly relate to various subsidies support from the government in the PRC.

^ It represents an one-off financial compensation received by Huaqing Glasses (Shenzhen) Company Limited ("**Shenzhen Huaqing**") whose leased factory premises are being demolished.

6. OTHER GAINS AND LOSSES

	2023	2022
	HK$'000	*HK$'000*
Net foreign exchange gains	**6,213**	3,951
Net losses on disposal of property, plant and equipment	**(323)**	(71)
	5,890	3,880

7. FINANCE COSTS, NET

	2023	2022
	HK$'000	*HK$'000*
Finance income:		
Bank interest income	**25**	25
Finance expenses:		
Interest on lease liabilities	**(450)**	(165)
Interest on factoring of trade receivables	**(1,228)**	(569)
Others	**–**	(6)
	(1,678)	(740)
	(1,653)	(715)

8. INCOME TAX EXPENSE

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

	2023	2022
	HK$'000	*HK$'000*
Current tax		
Hong Kong Profits Tax		
– Provision for the year	**37**	–
– Over provision in prior years	**–**	(36)
	37	(36)
PRC Enterprise Income Tax ("**PRC EIT**")		
– Provision for the year	**1,399**	411
– Over/(under) provision in current year	**28**	(81)
– (Over)/under provision in prior years	**(165)**	1,204
	1,262	1,534
Deferred tax	**(509)**	–
	790	1,498

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.

Yingtan Euro-Asia Enterprise Limited ("**Yingtan Euro-Asia**") was qualified as a Small and Low-profit Enterprise for the years ended 31 December 2022 and 2023 and was subject to income tax at a preferential tax rate of 20%. Besides, pursuant to Caishui [2023] No. 6, Yingtan Euro-Asia was also entitled to a further deduction of 25% of the tax income for the years ended 31 December 2022 and 2023.

Jiangxi Huaqing Glasses Co., Limited ("**Jiangxi Huaqing**") was qualified as a High and New Technology Enterprise and their research and development activities are entitled to claim 200% (2022: 200%) of their qualified research and development expenses so incurred as tax deductible expenses when determining their assessable profits for the years ended 31 December 2022 and 2023.

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 2022 and 2023. Besides, Shenzhen Huaqing was also qualified as a High and New Technology Enterprise and their research and development activities are entitled to claim 200% (2022: 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 2022 and 2023.

Tax charge on profits assessable elsewhere have 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. PROFIT FOR THE YEAR

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

	2023	2022
	HK$'000	*HK$'000*
Auditor's remuneration		
– Audit services	**840**	1,000
– Non-audit services	**10**	–
Cost of inventories sold (*)	**331,349**	384,128
Allowance for inventories, net (included in cost of sales)	**4,956**	5,285
Reversal of impairment loss for trade receivables	**(110)**	(433)
Amounts due from former associates written off	**64**	–
Depreciation on right-of-use assets	**3,745**	2,848
Depreciation on property, plant and equipment	**6,643**	6,838
Gain on disposal of associates	**–[(i)]**	–
Gain on partial disposal of subsidiaries	**–**	(58)
Net foreign exchange gains	**(6,213)**	(3,951)
Net losses on disposal of property, plant and equipment	**323**	71
Short-term lease charges in respect of:		
– Office and warehouse premises	**517**	505
– Factory premises	**132**	–
– Staff quarter	**131**	–
	780	505
Staff costs	**123,118**	128,282

(*) Cost of inventories sold includes HK$85,358,000 and HK$83,672,000 of staff costs and depreciation which are also included in the respective total amounts disclosed above for each of these types of expenses for the years ended 31 December 2022 and 2023 respectively.

(i) Represent amount less than HK$1,000.

10. EARNINGS PER SHARE

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

	2023	2022
	HK$'000	*HK$'000*
Profit		
Profit attributable to owners of the Company	**1,388**	9,183
Number of shares	***'000***	*'000*
Weighted average number of ordinary shares for the purpose of calculation basis earnings per share	**500,000**	500,000

The diluted earnings per share is equal to the basic earnings per share as there were no dilutive potential ordinary share in issue during the years ended 31 December 2023 and 2022.

11. TRADE RECEIVABLES

	2023	2022
	HK$'000	*HK$'000*
Trade receivables	**109,558**	96,373
Less: Impairment loss	**(491)**	(601)
	109,067	95,772

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 2023, trade receivables factored to the banks aggregated to HK$54,276,000 (2022: HK$108,984,000) 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 aging analysis of trade receivables, based on the date of relevant invoice (delivery date), and net of impairment loss, is as follows:

	2023	2022
	HK$'000	*HK$'000*
Up to 60 days	**68,312**	60,729
61 to 120 days	**31,752**	30,682
121 to 180 days	**5,340**	1,547
Over 180 days	**3,663**	2,814
	109,067	95,772

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

	2023	2022
	HK$'000	*HK$'000*
HKD	**811**	424
EUR	**2,168**	3,106
RMB	**21,334**	20,491
USD	**84,754**	71,751
	109,067	95,772

12. TRADE AND OTHER PAYABLES, ACCRUALS AND CONTRACT LIABILITIES

	2023	2022
	HK$'000	*HK$'000*
Trade payables	**44,175**	39,983
Other payables and accruals		
Accrued staff costs	**9,577**	9,184
Accrued administrative and operating expenses	**2,620**	3,411
Purchases of property, plant and equipment	**2,456**	761
Accrued sales rebate to customers	**3,921**	6,310
Accrued various tax expenses	**662**	1,360
Others	**382**	275
	19,618	21,301
Contract liabilities	**1,309**	1,517
	65,102	62,801

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

	2023	2022
	HK$'000	*HK$'000*
Up to 60 days	**39,485**	33,862
61 to 90 days	**3,007**	4,022
91 to 180 days	**1,352**	1,864
Over 180 days	**331**	235
	44,175	39,983

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 follows:

	2023	2022
	HK$'000	*HK$'000*
Balance at 1 January	**1,517**	2,290
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	**(1,090)**	(2,053)
Increase in contract liabilities as a result of billing in advance of sales of goods	**882**	1,280
Balance at 31 December	**1,309**	1,517

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

	2023	2022
	HK$'000	*HK$'000*
HKD	**4,152**	4,486
RMB	**55,807**	51,044
USD	**4,108**	5,798
EUR	**1,012**	1,423
Others	**23**	50
	65,102	62,801

13. SHARE CAPITAL

	Number of shares	**Amount**
		HK$'000
Authorised:		
Ordinary shares of HK$0.01 each		
At 1 January 2022, 31 December 2022, 1 January 2023 and 31 December 2023	2,000,000,000	20,000

	Number of shares	Amount
		HK$'000
Issued and fully paid:		
Ordinary shares of HK$0.01 each		
At 1 January 2022, 31 December 2022, 1 January 2023 and 31 December 2023	500,000,000	5,000

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 2023 was 8.3% (2022: 1.1%). The increase in the gearing ratio of the Group is primarily due to the increase in the balance of lease liabilities as a result of the addition of the right-of-use assets as at 31 December 2023.

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 2023, 44.8% of the shares were in public hands.

14. DIVIDEND

There was no dividend declared or paid during the year ended 31 December 2022 and 2023.

15. CAPITAL COMMITMENTS

Capital commitments contracted for at the end of the reporting period but not yet incurred are as follows:

	2023	2022
	HK$'000	*HK$'000*
Property, plant and equipment	**312**	271
Capital contribution to an associate	**–**	2,369
	312	2,640

16. OPERATING LEASE ARRANGEMENT

(a) On 11 December 2023, the Group entered into a new lease for the use of showroom that is not yet commenced, for a fixed term of 2 years commencing from 1 February 2024 to 31 January 2026 with non-cancellable and without extension options. The total future undiscounted cash flows over the non-cancellable period amounted to HK$960,000.

(b) The total future minimum lease payments under non-cancellable operating lease are payable as follows:

	2023	2022
	HK$'000	*HK$'000*
Within one year *(note)*	**629**	496

Note: During the year ended 31 December 2023, the Group entered into several short-term leases for an office premise and a warehouse in Hong Kong and the outstanding lease commitments relating to the office premise and warehouse are approximately HK$503,000 (2022: HK$496,000) and HK$126,000 (2022: Nil) respectively.

17. OBLIGATION TO PAY LSP UNDER HONG KONG EMPLOYMENT ORDINANCE (CHAPTER 57)

Hong Kong employees that have been employed continuously for at least five years are entitled to long service payments ("**LSP**") in accordance with the Hong Kong Employment Ordinance under certain circumstances. These circumstances include where an employee is dismissed for reasons other than serious misconduct or redundancy, that employee resigns at the age of 65 or above, or the employment contract is of fixed term and expires without renewal. The amount of LSP payable is determined with reference to the employee's final salary (capped at HK$22,500) and the years of service, reduced by the amount of any accrued benefits derived from the Group's contributions to MPF scheme, with an overall cap of HK$390,000 per employee. Currently, the Group does not have any separate funding arrangement in place to meet its LSP obligation.

In June 2022, the Government gazetted the Amendment Ordinance, which abolishes the use of the accrued benefits derived from employers' mandatory MPF contributions to offset the LSP. The abolition will officially take effect on 1 May 2025 (the "**Transition Date**"). Separately, the Government of the HKSAR is also expected to introduce a subsidy scheme to assist employers for a period of 25 years after the Transition Date on the LSP payable by employers up to a certain amount per employee per year.

Under the Amendment Ordinance, the Group's mandatory MPF contributions, plus/minus any positive/negative returns, after the Transition Date can continue to be applied to offset the pre-Transition Date LSP obligation but are not eligible to offset the post-Transition Date long service payment obligation. Furthermore, the LSP obligation before the Transition Date will be grandfathered and calculated based on the last monthly wages immediately preceding the Transition Date and the years of service up to that date.

The Group has determined that the Amendment Ordinance primarily impacts the Group's LSP liability with respect to Hong Kong employees that participate in MPF Scheme and has confirmed that the abolition has no material impact to the financial position of the Group as at 31 December 2023.

18. EVENT AFTER THE REPORTING PERIOD

On 16 January 2024, the Group obtained a new bank loan of RMB9,400,000 which is repayable on 21 January 2025. This borrowing is secured by certain leasehold land and buildings of the Group situated in the PRC with a carrying value of HK$11,140,000 as at 31 December 2023. The bank loan was used to provide the working capital of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

For the year ended 31 December 2023, the Group recorded a revenue of approximately HK$393.3 million, representing a decrease of approximately 15.5% as compared to the year ended 31 December 2022, generated from sales of 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 name "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 have made the Group capable of manufacturing eyewear products of various dimensions and specifications as required by its customers.

Throughout the year 2023, the European Union faced a multitude of economic headwinds. Geopolitical uncertainties, trade disruptions, and the ongoing recovery from the global pandemic all contributed to a challenging business environment in European Union, as a result, consumer spending patterns were impacted, and demand for consumer products experienced a significant stagnation. According to Eurostat, the statistical office of the European Union, the Eurozone GDP growth rate for 2023 was 0.4%, down from the previous year's growth rate of 3.4%. Nevertheless, the global eyewear industry remained relatively resilient, for the "Eyewear Market: Global Industry Trends, Share, Size, Growth, Opportunity and Forecast 2024–2029" report published by IMARC Group, the global eyewear market reached a value of US$159.6 billion in 2023, with a year-on-year increase of 6.9%, or US$10.3 billion compared to 2022. The Group encountered significant challenges in the European market, resulting in 15.5% decrease in revenue and 84.9% decline in profitability in 2023. These challenges stemmed from multiple factors, included decreased consumer purchasing power, shift in consumer preferences and increase in labour cost. Despite these setbacks, the Group proactively implemented cost-saving measures, streamlined our operations, and optimized our supply chain to mitigate the adverse effects on our financial performance.

Looking ahead to 2024, the Group anticipates conservatively a sluggish economic recovery in Europe. The analyst of European Commission projects a slow improvement in the Eurozone's GDP growth rate, which estimated to be 0.9%. Uncertainties related to global trade dynamics, inflationary pressures, and regulatory changes continue to cast a shadow of uncertainty over the market.

Moving forward, the Group remains vigilant in monitoring market trends, consumer behavior, and regulatory developments. The Group will adapt the business strategies accordingly to seize emerging opportunities and mitigate potential risks. Additionally, the Group recognize the importance of sustainability and will continue to integrate this principle into the business practices.

In conclusion, the challenging economic environment in 2023 resulted in a decline in the Group's profitability. However, the Group is committed to overcoming these obstacles and positioning ourselves for a gradual recovery in 2024.

While the eyewear business will continue to remain as the Group's core 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 risks and uncertainties.

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2023, the Group's revenue decreased to approximately HK$393.3 million by approximately HK$72.1 million or 15.5% as compared to approximately HK$465.4 million for the year ended 31 December 2022. The decrease was mainly attributable to the decrease in the exported sales volume of spectacle frames and sunglasses, resulting from the decrease in sales orders and average selling price of eyewear products.

Cost of sales

The cost of sales of the Group decreased by approximately HK$53.1 million or 13.6%, from approximately HK$389.4 million for the year ended 31 December 2022 to approximately HK$336.3 million for the year ended 31 December 2023. Such decrease was basically in line with the decrease in sales volume.

Gross profit and gross profit margin

Gross profit reduced to approximately HK$57.0 million for the year ended 31 December 2023, by approximately HK$19.0 million, or 25.0%, from approximately HK$76.0 million for the year ended 31 December 2022. Such decrease in gross profit was mainly due to the decrease in the revenue of approximately 15.5%. The overall gross profit margin decreased from approximately 16.3% for the year ended 31 December 2022 to 14.5% for the year ended 31 December 2023, resulted from the decrease in average selling price and the additional cost during the period of demolition of the leased factory.

Other income

Other income increased by approximately HK$8.9 million from approximately HK$9.3 million for the year ended 31 December 2022 to approximately HK$18.2 million for the year ended 31 December 2023. The increase was mainly attributable to the demolition compensation received due to demolishing of the leased factory premises during the year ended 31 December 2023, which was not available for the year ended 31 December 2022.

Other gains and losses

The Group recorded net other gains of approximately HK$5.9 million and approximately HK$3.9 million for the year ended 31 December 2023 and the year ended 31 December 2022 respectively. The Group recorded an increase in net exchange gains resulting from the depreciation of Renminbi ("**RMB**") against the United States Dollars ("**USD**") or Hong Kong Dollars ("**HKD**") for the year ended 31 December 2023, as compared to the year ended 31 December 2022.

Reversal of impairment loss for trade receivables

The Group has reocrded a reversal of impairment loss for trade receivables of approximately HK$0.1 million for the year ended 31 December 2023, based on the expected credit loss as at 31 December 2023 calculated using simplified approach, by reference to the expected credit loss rates which took into account the actual loss over the past eight years, current economic conditions and forward-looking information. The Group recognised reversal of impairment loss for the year ended 31 December 2022 of approximately HK$0.4 million.

Selling and distribution expenses

Selling and distribution expenses increased from approximately HK$14.6 million for the year ended 31 December 2022 to approximately HK$17.1 million for the year ended 31 December 2023, by approximately HK$2.5 million or 17.1%. Such increase was primarily attributable to the increase in advertising and promotion expenses incurred in organising exhibitions in Europe since normal travel was fully resumed for the year ended 31 December 2023.

Administrative and other operating expenses

Administrative and other operating expenses decreased by approximately HK$3.4 million or 5.3%, from approximately HK$63.6 million for the year ended 31 December 2022 to approximately HK$60.2 million for the year ended 31 December 2023, mainly due to the decrease in staff costs of approximately HK$3.0 million.

Finance costs, net

The Group's net of finance costs increased by approximately HK$1.0 million or 142.9%, to approximately HK$1.7 million for the year ended 31 December 2023 as compared to approximately HK$0.7 million for the year ended 31 December 2022. The increase was mainly due to the higher interest rate in utilisation of factoring of trade receivables in order to enhance the liquidity of the Group as a whole.

Income tax expense

The Group's income tax expense decreased from approximately HK$1.5 million for the year ended 31 December 2022 to approximately HK$0.8 million for the year ended 31 December 2023, mainly due to the recognition of deferred tax assets from taxable temporary difference associated with right-of-uses assets and lease liabilities.

Profit for the year

As a result of the foregoing, the Group recorded a decrease in profit by approximately HK$7.8 million or 84.8%, from approximately HK$9.2 million for the year ended 31 December 2022, to approximately HK$1.4 million for the year ended 31 December 2023, mainly due to lower turnover and profit margin of the sale of eyewear products, partially offset by the demolition compensation income received during the year ended 31 December 2023.

FINANCIAL POSITION

As at 31 December 2023, the Group's total assets amounted to approximately HK$264.0 million (2022: HK$251.9 million) with net assets amounting to approximately HK$183.2 million (2022: HK$186.6 million). As at 31 December 2023, gearing ratio (total debts divided by the total equity) of the Group was approximately 8.3% (2022: 1.1%). 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 2023 and 2022. As at 31 December 2023, current ratio of the Group was approximately 3.1 times, representing a decrease of approximately 8.8% as compared to that of approximately 3.4 times as at the end of 2022. As at 31 December 2023, quick ratio of the Group was approximately 2.0 times, representing a decrease of approximately 13.0% as compared to that of approximately 2.3 times as at the end of 2022.

During the year ended 31 December 2023, the net assets and all of the above financial ratios declined, mainly due to the reduction of the Group's operating income.

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 at 31 December 2023, the Group had bank and cash balances of approximately HK$20.3 million, a decrease of approximately HK$26.1 million as compared to approximately HK$46.4 million as at 31 December 2022, mainly attributable to the net cash used in operations and the purchase of property, plant and equipment.

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 2023, the Group's indebtedness comprised lease liabilities of approximately HK$15.2 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 2023 is as follows:

	Lease liabilities
	HK$'000
Within one year	2,747
More than one year, but not exceeding two years	3,015
More than two years, but not more than five years	9,457
	15,219

PRINCIPAL RISKS AND UNCERTAINTIES

The Group's operation, financial conditions, operational results or growth prospects are affected by a number of risks and uncertainties as outlined below. These factors are not exhaustive and there may be other principal risks and uncertainties in addition to those shown below which are not known to the Group or which may not be material now but could become material in the future.

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, EUR 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.

Financial risk

Financial risk factors include foreign currency risk, credit risk, liquidity risk and interest rate risk. Details of the aforesaid financial risk factors and the respective risk management measures are elaborated in the 2023 annual report to be published in due course in accordance with the requirements in the Listing Rules.

Operational risk

The stable relationship with major customers enables the business to achieve stable revenue and profitability level. If the major customers significantly decrease its purchase quantity from the Group and we cannot identify new customers, the business and financial position may be adversely affected. Also, we operate the manufacturing process at the two production bases in Shenzhen and Jiangxi, the PRC, respectively. Any unexpected disruption to the production bases due to power or water supply failure, machinery breakdown or other factors may cause delay or temporary suspension of the production and may make us unable to deliver the products to customers on time, leading to potential loss of customer confidence and reputation.

Market risk

As we rely on marketing and sales of products overseas, we are exposed to market risks including (i) global economic downturn in overseas markets which affect general consumer confidence; (ii) exchange rate fluctuation in foreign currencies; (iii) trade barriers; (iv) increased costs associated with understanding the overseas market trend and maintaining overseas marketing and sales activities; and (v) exposure to local economic, political, social and labour conditions in the overseas markets.

PLEDGE OF ASSETS

As at 31 December 2023, the Group did not have any pledge of assets.

CAPITAL COMMITMENT

As at 31 December 2023, the Group had capital commitments of approximately HK$0.3 million (2022: HK$0.3 million) and HK$Nil (2022: HK$2.4 million) relating to property, plant and equipment and capital contribution to an associate, respectively, which are contracted but not provided for.

CONTINGENT LIABILITIES

As at 31 December 2023, 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 2023, the Group had a total of 1,011 employees of which 994 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 2023 and 2022 were approximately HK$123.1 million and HK$128.3 million, respectively.

SIGNIFICANT INVESTMENTS HELD

The Group had not held any significant investments during the year ended 31 December 2023.

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 2023.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

The Group did not have other plan for material investments or acquisition of material capital assets as at 31 December 2023.

EVENTS AFTER THE REPORTING PERIOD

On 16 January 2024, the Group obtained a new bank loan of RMB9,400,000 which is repayable on 21 January 2025. This borrowing is secured by certain leasehold land and buildings of the Group situated in the PRC with a carrying value of HK$11,140,000 as at 31 December 2023. The bank loan was used to provide the working capital of the Group.

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 C1 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 2023.

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 C3 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 2023.

DIVIDENDS

The Board does not recommend the payment of a final dividend for the year ended 31 December 2023 (2022: Nil).

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, 23 May 2024 to Wednesday, 29 May 2024, both days inclusive, for the purpose of ascertaining Shareholders' entitlement to attend and vote at the forthcoming AGM to be held on Wednesday, 29 May 2024. 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 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration no later than 4:30 p.m. on Wednesday, 22 May 2024.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the year ended 31 December 2023, 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 and other comprehensive income and the related notes thereto for the year ended 31 December 2023 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 2023, 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, 26 March 2024

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.