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POLYFAIR

Polyfair Holdings Limited

寶發控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8532)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 MARCH 2020

CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.

Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

*This announcement, for which the directors (the “**Directors**”) of Polyfair Holdings Limited (the “**Company**”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “**GEM Listing Rules**”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.*

ANNUAL RESULTS

The board (the “**Board**”) of Directors is pleased to announce the audited consolidated annual results of the Company and its subsidiaries (collectively the “**Group**”) for the year ended 31 March 2020 (the “**Reporting Period**”), together with the comparative figures for the year ended 31 March 2019 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2020

	Notes	2020 HK\$'000	2019 HK\$'000
Revenue	4	229,809	215,778
Cost of services		<u>(212,292)</u>	<u>(203,426)</u>
Gross profit		17,517	12,352
Other income, gain and losses	5	463	1,947
Impairment losses under expected credit loss model, net of reversal	6	(622)	(1,794)
Administrative expenses		(11,209)	(14,185)
Finance costs	7	<u>(5,557)</u>	<u>(5,203)</u>
Profit (loss) before taxation	8	592	(6,883)
Taxation credit	9	<u>2,477</u>	<u>302</u>
Profit (loss) for the year		<u>3,069</u>	<u>(6,581)</u>
Other comprehensive expense			
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange difference arising on translation of foreign operation		<u>(30)</u>	<u>(58)</u>
Other comprehensive expense for the year		<u>(30)</u>	<u>(58)</u>
Total comprehensive income (expense) for the year		<u>3,039</u>	<u>(6,639)</u>
Earnings (loss) per share – basic	11	<u>HK cents 0.38</u>	<u>HK cents (0.82)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 MARCH 2020

	<i>Notes</i>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment		890	1,372
Right-of-use assets		1,366	–
Rental and other deposits		–	472
Financial assets at fair value through profit or loss		10,360	10,023
Deferred tax assets		756	609
		<u>13,372</u>	<u>12,476</u>
Current assets			
Contract assets	<i>12</i>	115,569	104,564
Trade receivables	<i>13</i>	14,930	23,616
Prepayments, deposits and other receivables		5,142	2,640
Tax recoverable		1,019	1,013
Pledged bank deposits		32,313	32,141
Bank balances and cash		8,099	14,791
		<u>177,072</u>	<u>178,765</u>
Current liabilities			
Trade and other payables	<i>14</i>	28,335	32,425
Lease liabilities		1,428	–
Tax payable		10	–
Bank borrowings	<i>15</i>	96,268	97,363
		<u>126,041</u>	<u>129,788</u>
Net current assets		<u>51,031</u>	48,977
Net assets		<u>64,403</u>	<u>61,453</u>
Capital and reserves			
Share capital		8,000	8,000
Reserves		56,403	53,453
Total equity		<u>64,403</u>	<u>61,453</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2020

	Attributable to owners of the Company					Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Other reserve HK\$'000 (Note)	Translation reserve HK\$'000	Retained profits HK\$'000	
At 1 April 2018	<u>8,000</u>	<u>37,915</u>	<u>3,000</u>	<u>100</u>	<u>19,077</u>	<u>68,092</u>
Loss for the year	–	–	–	–	(6,581)	(6,581)
Other comprehensive expense for the year	<u>–</u>	<u>–</u>	<u>–</u>	<u>(58)</u>	<u>–</u>	<u>(58)</u>
Total comprehensive expense for the year	<u>–</u>	<u>–</u>	<u>–</u>	<u>(58)</u>	<u>(6,581)</u>	<u>(6,639)</u>
At 31 March 2019	<u>8,000</u>	<u>37,915</u>	<u>3,000</u>	<u>42</u>	<u>12,496</u>	<u>61,453</u>
Adjustment upon adoption of HKFRS 16 (Note 2)	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>(89)</u>	<u>(89)</u>
At 1 April 2019 (restated)	<u>8,000</u>	<u>37,915</u>	<u>3,000</u>	<u>42</u>	<u>12,407</u>	<u>61,364</u>
Profit for the year	–	–	–	–	3,069	3,069
Other comprehensive expense for the year	<u>–</u>	<u>–</u>	<u>–</u>	<u>(30)</u>	<u>–</u>	<u>(30)</u>
Total comprehensive (expense) income for the year	<u>–</u>	<u>–</u>	<u>–</u>	<u>(30)</u>	<u>3,069</u>	<u>3,039</u>
At 31 March 2020	<u><u>8,000</u></u>	<u><u>37,915</u></u>	<u><u>3,000</u></u>	<u><u>12</u></u>	<u><u>15,476</u></u>	<u><u>64,403</u></u>

Note: Other reserve represented the difference between the share capital of the Company issued as consideration of acquiring Polyfair Construction & Engineering Limited (“Polyfair HK”) and the issued share capital of Polyfair HK pursuant to a group reorganisation completed on 19 January 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2020

1. GENERAL

Polyfair Holdings Limited (the “**Company**”) was incorporated and registered as an exempted company with limited liability in the Cayman Islands under the Companies Law Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands on 25 May 2017 and its shares have been listed on GEM of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) with effect from 23 February 2018. Its immediate and ultimate holding company is C.N.Y. Holdings Limited, a company incorporated in the British Virgin Islands. It is held as to 83% by Mr. Chow Mo Lam and 17% by Mr. Yu Lap On Stephen. The addresses of the Company’s registered office and the principal place of business are set out in the section headed “**Corporate Information**” to the annual report.

The Company acts as an investment holding company and its subsidiaries are principally engaged in providing design and project management services for façade and installation of curtain wall systems. The Company and all of the subsidiaries are collectively referred to as the “**Group**”.

The consolidated financial statements are presented in Hong Kong dollar (“**HK\$**”), which is also the functional currency of the Company.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“**HKFRSs**”)

New and amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to HKFRSs and an interpretation issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) for the first time in the current year:

HKFRS 16	Leases
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015 – 2017 Cycle
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures

Except as described below, the application of the new and amendments to HKFRSs and an interpretation 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 these consolidated financial statements.

Transition and summary of effects arising from initial application of HKFRS 16

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average incremental borrowing rate applied is 4.23%.

	At 1 April 2019 <i>HK\$'000</i>
Operating lease commitments disclosed as at 31 March 2019	4,020
Less: Recognition exemption – short-term lease	<u>(481)</u>
	<u><u>3,539</u></u>

Lease liabilities discounted at relevant incremental borrowing rate relating to operating leases recognised upon application of HKFRS 16 as at 1 April 2019	<u>3,329</u>
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Analysed as	
Current	1,876
Non-current	<u>1,453</u>
	<u><u>3,329</u></u>

The carrying amount of right-of-use assets for own use as at 1 April 2019 comprises the following:

	<i>HK\$'000</i>
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16 (<i>Note</i>)	<u>3,276</u>
By class:	
Offices	<u>3,276</u>

Note: As at 1 April 2019, the Group had refundable rental deposit paid of HK\$410,000. Based on the definition of lease payments under HKFRS 16, such deposit is not payment relating to the right to use the underlying asset and the carrying amount of such deposit should be adjusted to amortised cost and such adjustments should be considered as additional lease payment. However, no refundable rental deposit paid has been adjusted to the carrying amount of right-of-use assets as the amount is insignificant.

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 April 2019. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 March 2019 <i>HK\$'000</i>	Adjustments <i>HK\$'000</i>	Carrying amounts under HKFRS 16 at 1 April 2019 <i>HK\$'000</i>
Non-current assets			
Right-of-use assets	–	3,276	3,276
Current asset			
Prepayments, deposits and other receivables	2,640	(36)	2,604
Current liabilities			
Lease liabilities	–	(1,876)	(1,876)
Non-current liability			
Lease liabilities	–	(1,453)	(1,453)
Capital and reserves			
Reserves	<u>(53,453)</u>	<u>89</u>	<u>(53,364)</u>

New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 17	Insurance Contracts ¹
Amendment to HKFRS 16	Covid-19-Related Rent Concession ⁵
Amendments to HKFRS 3	Definition of a Business ²
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform ⁴
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to HKAS 1 and HKAS 8	Definition of Material ⁴

¹ Effective for annual periods beginning on or after 1 January 2021

² Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020

³ Effective for annual periods beginning on or after a date to be determined

⁴ Effective for annual periods beginning on or after 1 January 2020

⁵ Effective for annual periods beginning on or after 1 June 2020

In addition to the above new and amendments to HKFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, the Amendments to References to the Conceptual Framework in HKFRS Standards, will be effective for annual periods beginning on or after 1 January 2020.

The directors of the Company anticipate that the application of some of these new and amendments to HKFRSs may have effect on the Group's financial performance and positions and/or the disclosures set out in the consolidated financial statements.

3. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with all applicable HKFRSs and the disclosure requirements of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong). In addition, the consolidated financial statements include applicable disclosures required by the GEM Listing Rules.

The consolidated financial statements are presented in HK\$, which is also the functional currency of the Company and all values are rounded to the nearest thousand except when otherwise indicated.

4. REVENUE AND SEGMENT INFORMATION

Revenue represents income received or receivable from provision of construction services.

The Group's operating activities are attributable to a single operating segment focusing on provision of construction services. This operating segment has been identified on the basis of internal management reports prepared in accordance with accounting policies conform with HKFRSs, that are regularly reviewed by the chief operating decision maker ("CODM") (i.e. being executive directors of the Company). The CODM regularly reviews revenue analysis by relevant types of properties for which construction contract work is provided, and considers them as one single operating segment since all revenue of the Group is generated from one single line of business. Other than revenue analysis, no operating results and no other discrete financial information are available for the assessment of performance.

The CODM reviews the profit (loss) for the year of the Group as a whole to make decisions about resource allocation. No analysis of segment assets or segment liabilities is presented as they are not regularly provided to the CODM. The operation of the Group constitutes one single operating segment under HKFRS 8 "Operating Segments" and accordingly, no separate segment information other than entity level information is prepared.

Disaggregation of revenue from contracts with customers

An analysis of the Group's revenue are as follows:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Recognised over time:		
Residential properties	65,621	73,037
Commercial properties	<u>164,188</u>	<u>142,741</u>
	<u><u>229,809</u></u>	<u><u>215,778</u></u>

All revenue during each of the reporting period is derived from customers in Hong Kong. The Group's provision of construction services are made directly with customers which are mainly property developers (including subsidiaries of property developers) and main contractors from the private sector in Hong Kong.

Information about major customers

Revenue from customers contributing over 10% of total revenue of the Group during the year are as below:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Customer A ¹	92,660	107,489
Customer B ²	56,932	N/A ⁴
Customer C ³	50,558	37,870
Customer D ³	<u>N/A⁴</u>	<u>45,761</u>

¹ Revenue derived from commercial properties contract works.

² Revenue derived from residential properties contract works.

³ Revenue derived from commercial properties and residential properties contract works.

⁴ Revenue derived from this customer was less than 10% of the total revenue for the year.

Geographical Information

The geographical location of the Group's non-current assets, excluding financial assets and deferred tax assets, is substantially situated in Hong Kong.

5. OTHER INCOME, GAIN AND LOSSES

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Bank interest income	181	147
Exchange (loss) gain	(55)	165
Fair value gain on payments for life insurance policies	337	1,635
	<u>463</u>	<u>1,947</u>

6. IMPAIRMENT LOSSES UNDER EXPECTED CREDIT LOSS MODEL, NET OF REVERSAL

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Impairment losses under expected credit loss (“ECL”) model, net of reversal recognised on:		
Contract assets	560	99
Trade receivables	54	1,693
Other receivables	8	2
	<u>622</u>	<u>1,794</u>

7. FINANCE COSTS

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Interest on:		
Bank loans and bank overdrafts	5,459	5,203
Lease liabilities	98	–
	<u>5,557</u>	<u>5,203</u>

8. PROFIT (LOSS) BEFORE TAXATION

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Profit (loss) before taxation has been arrived at after charging:		
Directors' remuneration	5,704	5,530
Other staff costs	32,122	28,329
Retirement benefit schemes contributions for other staffs	1,558	2,219
	<u>39,384</u>	<u>36,078</u>
Total staff costs		
	<u>39,384</u>	36,078
Auditor's remuneration	1,100	1,050
Depreciation of property, plant and equipment	534	490
Depreciation of right-of-use assets	1,873	–
Operating lease rentals in respect of rented premises	N/A	2,471
	<u>N/A</u>	<u>2,471</u>

9. TAXATION CREDIT

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
The taxation credit comprises:		
Current tax		
Hong Kong Profits Tax – overprovision in prior years (<i>note</i>)	(2,342)	–
People's Republic of China (the “PRC”) Enterprise Income Tax	12	14
	<u>(2,330)</u>	14
Deferred taxation credit	(147)	(316)
	<u>(2,477)</u>	<u>(302)</u>

Note: Polyfair Construction & Engineering Limited (“Polyfair HK”), a subsidiary of the Group submitted a tax refund application on 14 December 2017 in respect of the years of assessment 2014/15 and 2015/16. After the exchange of correspondences between the Polyfair HK and the Inland Revenue Department (the “IRD”), the IRD processed the application and the tax refund notices in the amount of HK\$1,008,000 and HK\$1,334,000 were issued on 23 July 2019 and 26 July 2019 accordingly.

Under the two-tiered profits tax rates regime in Hong Kong, the first HK\$2,000,000 of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK\$2,000,000 will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

The directors of the Company considered the amount involved upon implementation of the two-tiered profits tax rates regime as insignificant to the consolidated financial statements. Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

No provision for Hong Kong Profits Tax for the year ended 31 March 2020 has been made as all assessable profits of the subsidiaries in Hong Kong are offset by tax losses brought forward, and the subsidiaries in Hong Kong incurred tax losses for the year ended 31 March 2019.

According to the Enterprise Income Tax Law (中華人民共和國企業所得稅法) and the Implementation of the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法實施條例), an entity eligible as a Small Low-profit Enterprise (小型微利企業) is subject to preferential tax treatments. From 1 January 2017 to 31 December 2018, a Small Low-profit Enterprise with annual taxable income not more than RMB500,000 is subject to Enterprise Income Tax calculated at 50% of its taxable income at a tax rate of 20%; from 1 January 2019 to 31 December 2021, a Small Low-profit Enterprise with annual taxable income not more than RMB1,000,000 is subject to Enterprise Income Tax calculated at 25% of its taxable income at a tax rate of 20%. During both years, a subsidiary of the Group is eligible as a Small Low-profit Enterprise and is subject to the relevant preferential tax treatments.

At 31 March 2020, the Group had unused tax losses of HK\$2,779,000 (2019: HK\$3,915,000) available for offset against future profits. No deferred tax asset has been recognised in respect of these losses due to the unpredictability of future profit streams. The tax losses will be carried forward indefinitely.

10. DIVIDENDS

No dividends were paid, declared or proposed by the Company during the year ended 31 March 2020 nor since the end of the reporting period (2019: nil).

11. EARNINGS (LOSS) PER SHARE

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Profit (loss) for the year attributable to owners of the Company for the purpose of basic earnings (loss) per share	<u>3,069</u>	<u>(6,581)</u>
	2020	2019
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings (loss) per share	<u>800,000,000</u>	<u>800,000,000</u>

For the years ended 31 March 2020 and 2019, no diluted earnings (loss) per share were presented as there were no potential ordinary shares in issue.

12. CONTRACT ASSETS

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Construction contracts	116,891	105,326
Less: Impairment allowance for ECL	<u>(1,322)</u>	<u>(762)</u>
	<u>115,569</u>	<u>104,564</u>

As at 1 April 2018, the carrying amount of contract assets is HK\$106,054,000, net of impairment loss of HK\$663,000.

The contract assets relate to the Group's right to consideration for work completed and not billed because the rights are conditioned on the Group's future performance. The contract assets are transferred to trade receivables when the rights become unconditional other than passage of time.

Included in carrying amount of contract assets is retention money receivables of HK\$25,241,000 (2019: HK\$22,818,000) as at 31 March 2020.

13. TRADE RECEIVABLES

	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables from contracts with customers	17,787	26,419
Less: Impairment allowance for ECL	(2,857)	(2,803)
	<u>14,930</u>	<u>23,616</u>

Trade receivables represent the amounts receivable, after deduction of retention money, for construction services which usually fall due within 14 to 30 days after the work is certified, except for several credit worthy customers to whom an extended credit period would be granted.

The aged analysis of trade receivables based on invoice date is as follows:

	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 30 days	13,652	19,578
31 to 90 days	609	1,764
Over 90 days	669	2,274
	<u>14,930</u>	<u>23,616</u>

As at 1 April 2018, the carrying amount of trade receivables from contracts with customers is HK\$16,738,000, net of impairment loss of HK\$1,110,000.

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customers. Recoverability of the trade receivables is reviewed by the management of the Group regularly.

As at 31 March 2020, the management of the Group closely monitors the credit quality of trade receivables and the balance of past due 90 days or more of HK\$669,000 (2019: HK\$2,274,000) is not considered as in default based on historical settlement pattern for those debtors and continued business with the Group.

14. TRADE AND OTHER PAYABLES

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Trade payables	17,114	21,576
Retention payables – amount payable within one year	5,379	4,537
Retention payables – amount payable after one year	718	1,127
Accrued charges	5,084	5,149
Other payable	40	36
	<u>28,335</u>	<u>32,425</u>

The credit period of trade payables is 30 to 60 days.

The following is an aged analysis of trade payables based on the invoice date at the end of the reporting period:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Within 30 days	13,897	16,341
31 to 60 days	2,209	4,695
61 to 90 days	825	60
Over 90 days	183	480
	<u>17,114</u>	<u>21,576</u>

15. BANK BORROWINGS

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Bank loans	88,354	89,528
Bank overdrafts	7,914	7,835
	<u>96,268</u>	<u>97,363</u>

The carrying amounts of the above borrowings repayable*:

– On demand or within one year	94,568	94,463
– Within a period of more than one year but not exceeding two years	1,200	1,200
– Within a period of more than two years but not exceeding five years	500	1,700
	<u>96,268</u>	<u>97,363</u>

* The amounts due are based on scheduled repayment dates set out in the loan agreements.

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Comprising:		
Amount due within one year shown under current liabilities and containing a repayment on demand clause	94,568	94,463
Amount that are not repayable within one year from the end of the reporting period but containing a repayment on demand clause	<u>1,700</u>	<u>2,900</u>
	<u>96,268</u>	<u>97,363</u>
	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Variable-rate bank loans comprises:		
Secured bank loans (note (a))		
HK\$ bank loans at bank's lending prime rate ("Prime Rate") less 0.50% to 2.75% (2019: Prime Rate less 2.00% to 2.75%) per annum	8,321	20,962
HK\$ bank loans at Hong Kong Interbank Offered Rate ("HIBOR") plus 2.50% to 3.25% (2019: HIBOR plus 2.50% to 3.25%) per annum	<u>77,133</u>	<u>63,799</u>
	85,454	84,761
Unsecured bank loan (note (b))		
HK\$ bank loan at HIBOR plus 3.25% (2019: HIBOR plus 3.25%) per annum	<u>2,900</u>	<u>4,767</u>
	88,354	89,528
Secured bank overdrafts (note (a))		
HK\$ bank overdrafts at Prime Rate less 0.50% to 1.15% (2019: Prime Rate less 1.15% to 1.80%) per annum	<u>7,914</u>	<u>7,835</u>
	<u>96,268</u>	<u>97,363</u>

As at 31 March 2020 and 31 March 2019, the HIBOR and Prime Rate are quoted by the lending banks.

Notes:

- a) As at 31 March 2020, the secured bank loans of HK\$85,454,000 (2019: HK\$84,761,000) and bank overdrafts of HK\$7,914,000 (2019: HK\$7,835,000) are secured by the pledged bank deposits of HK\$32,313,000 (2019: HK\$32,141,000), trade receivables of HK\$10,060,000 (2019: HK\$22,694,000), financial assets at FVTPL of HK\$10,360,000 (2019: HK\$10,023,000) and guaranteed by a corporate guarantee of the Company.

In addition to the pledge of assets and guarantee disclosed above, included in the secured bank loans are (1) factoring loan of HK\$13,898,000 (2019: HK\$14,666,000) which is also secured by the contract assets of HK\$13,898,000 (2019: HK\$14,666,000) on a full recourse basis, and (2) bank loans of HK\$51,234,000 (2019: HK\$56,982,000) which are also secured by properties held by a director of the Company and companies controlled by a director of the Company or his close family members.

The secured bank loans carry effective interest rates ranging from 2.25% to 4.82% (2019: 3.38% to 4.78%) per annum.

The bank overdrafts carry effective interest rate ranging from 4.10% to 4.75% (2019: 3.58% to 4.23%) per annum.

- b) The unsecured bank loan is guaranteed by the Government of The Hong Kong Special Administrative Region under Small and Medium Enterprises (“SME”) Loan Guarantee Scheme or/and The Hong Kong Mortgage Corporation Limited under SME Financing Guarantee Scheme. The unsecured bank loan carries effective interest rate at 4.82% (2019: 4.78%) per annum.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

We are a subcontractor that provides façade and curtain wall works solutions in Hong Kong. Our solutions are customised to meet the technical specifications and performance requirements of our customers. We generally provide both design and build services in our projects, ranging from developing designs, conducting structural calculations, preparing shop drawings, sourcing and procuring building materials, arranging for building material logistics and installation works, project management to post-project completion services. We engage subcontractors to perform the installation work from time to time.

As at 31 March 2020, the Group had seven projects in progress with a total original contract sum of approximately HK\$440.3 million, of which approximately HK\$110.5 million was recognised as revenue during the Reporting Period.

During the Reporting Period, we were awarded four new projects, namely Kai Tak KT1K, HKFYG, Sugar Street and Tai Nan Street, with a total contract sum of approximately HK\$283.0 million. Letter of award of these four projects were signed and all these four projects are now at the commencement stage.

OUTLOOK

The demand for façade and curtain wall works is driven by construction of residential and commercial buildings. The development of residential buildings in Hong Kong has been a major driver of façade and curtain wall works and the number is expected to increase from 13,643 new units in 2019 to 20,854 new units in 2020.

Another driver for the façade and curtain wall works industry is office buildings in Hong Kong where the Hong Kong Government puts effort in developing areas like Kowloon East as new business areas. According to The Hong Kong Property Review 2020 compiled by the Rating and Valuation Department, office completions in 2019 were 266,900 m², representing a rise of 49% from 2018. 90% of the completions were in the non-core districts. Completions of Grade A space amounted to 241,900 m², equivalent to 91% of the total supply. These buildings included both installation of curtain wall systems as the envelop system above the podium and the works for the building entrance, lobby and the associate stores.

Notwithstanding the negative impact from the economic slowdown driven by the China's macro-economic conditions, the Group remains optimistic about its core business as the management believes that there is a market for quality façade and curtain wall works in Hong Kong. The Group will further strengthen its sales effort, closely monitor the status of the projects and carefully control the cost of sales as to expand its customer base and achieve sustainable business growth and long-term benefits to its shareholders. We are hoping to be more competitive and able to compete for more sizeable and profitable projects.

The Group considers that the recent outbreak of the COVID-19 will affect our business and the Group is actively updating its project status with its customers. The Board will continue to assess the potential impact of the outbreak on the Group's operation and will closely monitor the Group's exposure to relevant risks and uncertainties.

FINANCIAL REVIEW

Revenue

The total revenue of the Group increased by approximately HK\$14.0 million or 6.5% from approximately HK\$215.8 million for the year ended 31 March 2019 to approximately HK\$229.8 million for the year ended 31 March 2020. Such increase was mainly due to the fact that we undertook more sizeable projects, in particular, the project at Kai Tak KT1K with an awarded contract sum (exclusive of variation orders) of approximately HK\$200 million and a substantial portion of works was performed during the year ended 31 March 2020.

All revenue during the reporting period are generated from the Group's customers in Hong Kong. For the year ended 31 March 2020, the Group generated (i) revenue of approximately HK\$164.2 million from commercial properties projects, representing approximately 71.5% of the Group's revenue, and (ii) revenue of approximately HK\$65.6 million from residential properties projects, representing approximately 28.5% of the Group's revenue.

Cost of Services

The Group's cost of services primarily consisted of building material costs, subcontracting charges, staff costs and other direct costs. The cost of services increased to approximately HK\$212.3 million for the year ended 31 March 2020 from approximately HK\$203.4 million for the year ended 31 March 2019, representing an increase of approximately 4.4%. The increase is in line with the increase in revenue.

For the year ended 31 March 2019, the Group requested payments of an aggregate sum of approximately HK\$6.4 million from a subcontractor in relation to two projects at Victory Avenue and Prince Edward Road West. For further details, please refer to the annual report of the Company for the year ended 31 March 2019. During the year ended 31 March 2020, the Group has commenced a legal proceeding for recovery of such outstanding sums and a judgement in favour of the Group was granted by the High Court in Hong Kong. Moreover, the Group served a statutory demand to the shareholder of such subcontractor demanding repayment of the outstanding sums. However, the outstanding sums remained outstanding as at the date of this announcement. Such amount of approximately HK\$6.4 million has been recorded as cost of sales for the year ended 31 March 2019. In this regard, no provision has been made in the financial statement of the Company for the year ended 31 March 2020.

Gross Profit and Gross Profit Margin

The Group's gross profit increased by approximately HK\$5.1 million from approximately HK\$12.4 million for the year ended 31 March 2019 to approximately HK\$17.5 million for the year ended 31 March 2020. The Group's gross profit margin increased from approximately 5.7% for the year ended 31 March 2019 to approximately 7.6% for the year ended 31 March 2020, representing an increase of approximately 1.9 percentage points. The increase was due to effective cost control on projects.

Other Income, Gain and Loss

Other income, gain and loss decreased by approximately HK\$1.5 million for the year ended 31 March 2020 mainly due to the decrease in fair value gain on payments for life insurance policies from approximately HK\$1.6 million for the year ended 31 March 2019 to approximately HK\$0.3 million for the year ended 31 March 2020.

Impairment Losses

Impairment losses decreased by approximately HK\$1.2 million from approximately HK\$1.8 million for the year ended 31 March 2019 to approximately HK\$0.6 million for the year ended 31 March 2020.

Administrative Expenses

Administrative expenses of the Group decreased by approximately HK\$3.0 million from approximately HK\$14.2 million for the year ended 31 March 2019 to approximately HK\$11.2 million for the year ended 31 March 2020. Administrative expenses consisted primarily of administrative salary expenses and Directors' emoluments, depreciation, legal and professional fee, rental expenses and other administrative expenses. The decrease was mainly attributable to the decrease in administrative salary expenses of approximately HK\$2.8 million due to the decrease in unsuccessful tendering cost during the Reporting Period.

Finance Costs

Finance costs increased from approximately HK\$5.2 million for the year ended 31 March 2019 to approximately HK\$5.6 million for the year ended 31 March 2020. The increase in finance costs was mainly attributable to the adoption of HKFRS 16.

Taxation Credit

The income tax credit increased from approximately HK\$0.3 million for the year ended 31 March 2019 to approximately HK\$2.5 million for the year ended 31 March 2020. Such increase was mainly attributable to the tax refund arisen from overprovision in prior years.

Profit (loss) for the Year

Profit for the year ended 31 March 2020 was approximately HK\$3.1 million as compared to the loss of approximately HK\$6.6 million for the year ended 31 March 2019. Such change was mainly attributable to (i) the increase in sizable projects resulting in the increase in gross profit of approximately HK\$5.1 million, (ii) the increase in income tax credit of approximately HK\$2.2 million and (iii) the decrease in administrative expenses of approximately HK\$3.0 million.

LIQUIDITY AND FINANCIAL RESOURCES

On 23 February 2018, the Shares were listed on GEM of the Stock Exchange to raise gross proceeds of approximately HK\$56 million. Details of the use of proceeds are set out in the paragraph headed “Use of Proceeds” in this announcement.

Except for the proceeds raised from the Listing, the Group’s capital expenditure and daily operations during the year ended 31 March 2020 were mainly funded by cash generated from its operations and external borrowings.

Cash and bank balances as at 31 March 2020 was approximately HK\$8.1 million, decreased by approximately HK\$6.7 million when compared with HK\$14.8 million as at 31 March 2019. The decrease was mainly due to the cash used in daily operation and repayment of bank borrowings.

The pledged deposits, including both the non-current and current portions, as at 31 March 2020 was approximately HK\$32.3 million, increased by approximately HK\$0.2 million when compared with HK\$32.1 million as at 31 March 2019, as a result of the interests generated from pledged deposits.

As at 31 March 2020, the Group had outstanding borrowings of approximately HK\$94.6 million, repayable on demand or within one year (2019: HK\$94.5 million) and outstanding borrowings of approximately HK\$1.7 million, repayable after one year (2019: HK\$2.9 million). The Group’s borrowings were denominated in Hong Kong dollars (“HK\$”).

The current ratio of the Group as at 31 March 2020 was 1.4 times as compared to that of 1.4 times as at 31 March 2019. The gearing ratio, being the net debt (defined as bank borrowings less cash and cash equivalents and pledged bank deposits) divided by net debt plus total equity at the end of the year, increased from approximately 45.1% to approximately 46.4% as at 31 March 2019 and 31 March 2020, respectively.

CAPITAL STRUCTURE

The shares of the Company were successfully listed on GEM of the Stock Exchange on 23 February 2018. There has been no change in the capital structure of the Group since then. The share capital of the Group only comprises of ordinary shares.

As at 31 March 2020, the Company's issued share capital was HK\$8.0 million and the number of its issued ordinary shares was 800,000,000 of HK\$0.01 each.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

Save as disclosed in the Prospectus and this announcement, the Group did not have other plans for material investments or capital assets as at the date of this announcement.

PLEDGE OF ASSETS

As at 31 March 2020, the Group's bank deposits with carrying amounts of approximately HK\$32.3 million (2019: HK\$32.1 million), invoices issued to customers with total amount of approximately HK\$24.0 million (2019: HK\$37.4 million) and the financial assets at FVTPL of approximately HK\$10.4 million (2019: HK\$10.0 million) were pledged to secure certain letters of guarantee facility and banking facilities respectively, granted to the Group.

As at 31 March 2020, Mr. Yu Lap On Stephen and two companies controlled by Mr. Chow Mo Lam or his close family members (namely, Polyfaith Holdings Limited and Polykind Far East Limited) had pledged their properties to secure banking facilities granted to certain subsidiaries of the Group for nil consideration.

CAPITAL COMMITMENTS

As at 31 March 2020 and 2019, the Group did not have any significant capital commitments.

PERFORMANCE GUARANTEE

The Group provides guarantees in respect of the surety bonds in favour of the customers of certain construction contracts. Details of these guarantees are set out as follows:

	2020	2019
	<i>HK\$ million</i>	<i>HK\$ million</i>
Surety bond issued in favour of a customer	<u>15.1</u>	<u>10.2</u>

Save as disclosed herein, there is no other contingent liabilities that the Group is aware of.

SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSALS

There were no significant investments held, acquisitions or disposals of subsidiaries and affiliated companies by our Group during the Reporting Period. Saved as disclosed in the Prospectus, our Group did not have other plans for significant investments, acquisitions and disposal of subsidiaries as at 31 March 2020.

EXPOSURE TO EXCHANGE RATE FLUCTUATION

The majority of the Group's businesses is in Hong Kong and is denominated in HK\$, Renminbi and US\$. As no material monetary assets or liabilities were denominated in foreign currencies, the Group is of the opinion that its exposure to foreign exchange rate risk is limited. Thus, the Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure closely and will consider hedging significant foreign currency exposure should the need arise.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 March 2020, the Group had 87 (2019: 87) employees. Total staff cost (including Directors' emoluments) were approximately HK\$39.4 million (2019: HK\$36.1 million). The remuneration package offered to our employees generally included basic salaries, bonuses and other cash allowances or subsidies. The Group determines the salary of our employees mainly based on each employee's qualifications, relevant experience, position and seniority. The Group conducts annual review on salary increase and promotions based on the performance of each employee. The Group provides on-the-job training to our employees and sponsors certain employees to attend training courses.

SHARE OPTION SCHEME

The Group had adopted a share option scheme for the purpose of providing incentives and rewards to participants for the contribution of the Group. Up to 31 March 2020, no share option had been granted.

COMPLIANCE WITH LAWS AND REGULATIONS

The Group mainly carries out its business in Hong Kong. To the best of the Directors' knowledge, the Group has complied with all relevant laws and regulations in Hong Kong during the year.

PRINCIPAL RISK AND UNCERTAINTIES

The Group believes that the risk management practices are important and uses its best effort to ensure it has sufficiently mitigated the risks present in our operations and financial position as efficiently and effectively as possible.

- Changes in the cost of building materials and staff as well as the subcontracting fees may result in cost overrun, which could materially affect our results of operation and financial performance;
- Our Group may face difficulties in refinancing or increase in cost of financing;
- Mismanagement or delay of our projects will materially affect our reputation and also our financial performance as penalties and/or additional costs may be incurred;

- Cash flow of our projects may fluctuate;
- We rely on subcontractors to complete our projects. Underperformance by our subcontractors or unavailability of subcontractors may adversely affect our operations, profitability and reputation; and
- Our success significantly depends on the key management and our ability to attract and retain additional façade and curtain wall design team staff.

For other risks and uncertainties facing the Group, please refer to the section headed “Risk Factors” in the Prospectus.

USE OF PROCEEDS

The Company has raised gross proceeds of approximately HK\$56 million through the share offer upon the Listing. After deducting the listing expenses, the net proceeds were approximately HK\$28.2 million. The Directors had evaluated the Group’s business strategies and considered that, as at the date of this announcement, no modification of the business strategies regarding the use of proceeds as described in the Prospectus was required.

As at 31 March 2020, the net proceeds from the Listing had been applied as follows:

	Adjusted use of proceeds in the same manner as stated in the Prospectus (HK\$’ million)	Planned use of net proceeds up to 31 March 2020 (HK\$’ million)	Actual use of net proceeds up to 31 March 2020 (HK\$’ million)
Strengthening our financial position:			
– Settling upfront costs of three new projects	9.2	9.2	9.2
– Satisfying the surety bond requirement of Yue Man Square	5.3	5.3	5.3
Expanding our operation teams	11.2	11.2	11.2
General working capital	2.5	2.5	2.5
	<hr/>	<hr/>	<hr/>
Total	<u>28.2</u>	<u>28.2</u>	<u>28.2</u>

CORPORATE GOVERNANCE

For the year ended 31 March 2020 and up to the date of this announcement, the Company has applied the principles and code provisions in the Corporate Governance Code (the “**CG Code**”) as set out in Appendix 15 to the GEM Listing Rules. During the Reporting Period, to the best knowledge of the Board, the Company has complied with all the applicable code provisions set out in the CG Code.

DIRECTORS’ INTERESTS IN COMPETING INTERESTS

For the year ended 31 March 2020, the Directors were not aware of any business or interest of each of the Directors, or the controlling shareholders of the Company and their respective close associates (as defined under the GEM Listing Rules) that competes or may compete with the business of the Group and any other conflicts of interest which any such person has or may have within the Group.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the Reporting Period, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s listed securities.

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by the Directors on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules (the “**Required Standard**”). Having made specific enquiry with all the Directors, all the Directors confirmed that they have complied with the Required Standard during the Reporting Period.

CHANGE OF BOARD COMPOSITION

Following the passing away of Mr. Ng Ka Lok on 25 November 2019, the Company only had two Independent Non-executive Directors and thus the number of Independent Non-executive Directors and Audit Committee and Remuneration Committee members fell below the minimum number required under Rules 5.05(1), 5.28 and 5.34 of the GEM Listing Rules. The Company managed to identify suitable candidate to fill the vacancies within 3 months from the date of passing away of Mr. Ng Ka Lok as required under Rules 5.06, 5.33 and 5.36 of the GEM Listing Rules. Upon the appointment of Mr. Man Yun Yee as an Independent Non-executive Director on 12 February 2020, the Company had met the requirements set out in Rules 5.05(1), 5.28 and 5.34 of the GEM Listing Rules.

AUDIT COMMITTEE

The Company established an audit committee of the Company (the “**Audit Committee**”) on 25 January 2018 with written terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules and paragraph C.3 of the CG Code as set out in Appendix 15 to the GEM Listing Rules. The written terms of reference of Audit Committee was revised on 12 November 2018. The Audit Committee comprises three independent non-executive directors: Dr. Lung Cheuk Wah, Mr. Man Yun Yee and Mr. Wong Chi Yung. Dr. Lung Cheuk Wah was appointed to serve as the chairman of the Audit Committee. The primary duties of the Audit Committee are to make recommendations to the Board on the appointment and removal of external auditor, review the financial statements and material advice in respect of financial reporting and oversee the internal control procedures of the Company.

The Company’s consolidated financial statements for the year ended 31 March 2020 have been reviewed by the Audit Committee. The Audit Committee is of the opinion that the consolidated financial statements of the Company for the year ended 31 March 2020 comply with applicable accounting standards, the GEM Listing Rules and that adequate disclosures have been made.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The 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 Reporting Period as set out in the preliminary announcement have been agreed by the Group’s auditor, Messrs. Deloitte Touche Tohmatsu (the “**Auditor**”), to the amounts set out in the Group’s audited consolidated financial statements for the year. The work performed by the Auditor 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 HKICPA and consequently no assurance has been expressed by the Auditor on the preliminary announcement.

EVENTS AFTER THE REPORTING DATE

As from 31 March 2020 to the date of this announcement, no significant events have occurred.

FINAL DIVIDEND

The Board does not recommend the payment of any final dividend for the year ended 31 March 2020 (2019: Nil).

ANNUAL GENERAL MEETING (THE “AGM”)

The forthcoming AGM of the Company will be held on Thursday, 20 August 2020 at 10:00 a.m.. A notice convening the AGM will be published and despatched to the shareholders of the Company in due course.

CLOSURE OF REGISTER OF MEMBERS

For attending and voting at the AGM

The register of members of the Company will be closed from Monday, 17 August 2020 to Thursday, 20 August 2020 (both days inclusive) during which no transfer of Shares will be registered. In order to be eligible to attend and vote at the AGM, unregistered holders of Shares shall ensure that all transfer documents accompanied by the relevant share certificates must be lodged 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 not later than 4:30 p.m. on Friday, 14 August 2020.

PUBLICATION OF INFORMATION ON THE WEBSITE OF THE STOCK EXCHANGE

This announcement will be published on the respective websites of the Stock Exchange (www.hkex.com.hk) and the Company (www.polyfaircurtainwall.com.hk). The annual report for the Reporting Period containing all the information required by the GEM Listing Rules will be published on the website of the Company and the Stock Exchange and despatched to the Company’s shareholders in due course.

By order of the Board
Polyfair Holdings Limited
Chow Mo Lam
Chairman and Executive Director

Hong Kong, 22 June 2020

As at the date of this announcement, the executive Directors are Mr. Chow Mo Lam (Chairman), Mr. Yu Lap On Stephen (Chief Executive Officer) and Mr. Wong Kam Man; and the independent non-executive Directors are Dr. Lung Cheuk Wah, Mr. Man Yun Yee and Mr. Wong Chi Yung.

This announcement will remain on the “Latest Company Announcements” page of the GEM website at www.hkgem.com for at least 7 days from the date of its posting and on the Company’s website at www.polyfaircurtainwall.com.hk.