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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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 SEPTEMBER 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.*

INTERIM RESULTS

The board (the “**Board**”) of Directors is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively the “**Group**”) for the six months ended 30 September 2020 (the “**Reporting Period**”), together with the unaudited comparative figures for the corresponding period in 2019 as follows:

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2020

		Six months ended 30 September	
	Notes	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Revenue	4	156,710	154,729
Cost of services		<u>(146,352)</u>	<u>(144,077)</u>
Gross profit		10,358	10,652
Other income, gain and loss	5	1,509	65
Administrative expenses		<u>(5,806)</u>	<u>(6,742)</u>
Finance costs	6	<u>(2,270)</u>	<u>(2,844)</u>
Profit before taxation	7	3,791	1,131
Taxation	8	<u>(326)</u>	<u>2,146</u>
Profit for the period		<u><u>3,465</u></u>	<u><u>3,277</u></u>
Other comprehensive expenses			
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange difference arising on translation of foreign operation		<u>(21)</u>	<u>(2)</u>
Other comprehensive expenses for the period		<u>(21)</u>	<u>(2)</u>
Total comprehensive income for the period		<u><u>3,444</u></u>	<u><u>3,275</u></u>
		<i>HK cents</i>	<i>HK cents</i>
Earnings per share – basic	10	<u><u>0.43</u></u>	<u><u>0.41</u></u>

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 SEPTEMBER 2020

	<i>Notes</i>	At 30 September 2020 <i>HK\$'000</i> (Unaudited)	At 31 March 2020 <i>HK\$'000</i> (Audited)
Non-current assets			
Property, plant and equipment	<i>11</i>	690	890
Right-of-use assets		455	1,366
Rental and other deposits		3,200	–
Financial assets at fair value through profit or loss		10,360	10,360
Deferred tax assets		756	756
		<u>15,461</u>	<u>13,372</u>
Current assets			
Contract assets	<i>12</i>	120,228	115,569
Trade receivables	<i>13</i>	42,939	14,930
Prepayments, deposits and other receivables		2,351	5,142
Tax recoverable		1,019	1,019
Pledged bank deposits		32,373	32,313
Bank balances and cash		12,138	8,099
		<u>211,048</u>	<u>177,072</u>
Current liabilities			
Trade and other payables	<i>14</i>	53,736	28,335
Lease liabilities		484	1,428
Tax payable		326	10
Bank borrowings	<i>15</i>	104,116	96,268
		<u>158,662</u>	<u>126,041</u>
Net current assets		<u>52,386</u>	<u>51,031</u>
Net assets		<u>67,847</u>	<u>64,403</u>
Capital and reserves			
Share capital	<i>16</i>	8,000	8,000
Reserves		59,847	56,403
Total equity		<u>67,847</u>	<u>64,403</u>

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 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 2019 (Audited)	8,000	37,915	3,000	42	12,496	61,453
Adjustments upon adoption of HKFRS 16	—	—	—	—	(89)	(89)
At 1 April 2019 (Restated)	8,000	37,915	3,000	42	12,407	61,364
Profit for the period	—	—	—	—	3,277	3,277
Other comprehensive expenses for the period	—	—	—	(2)	—	(2)
Total comprehensive expenses (income) for the period	—	—	—	(2)	3,277	3,275
At 30 September 2019 (Unaudited)	8,000	37,915	3,000	40	15,684	64,639
At 1 April 2020 (Audited)	8,000	37,915	3,000	12	15,476	64,403
Profit for the period	—	—	—	—	3,465	3,465
Other comprehensive expenses for the period	—	—	—	(21)	—	(21)
Total comprehensive (expenses) income for the period	—	—	—	(21)	3,465	3,444
At 30 September 2020 (Unaudited)	8,000	37,915	3,000	(9)	18,941	67,847

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 issued share capital of Polyfair HK pursuant to a group reorganisation completed on 19 January 2018.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2020

		Six months ended	
		30 September	
		2020	2019
	<i>Notes</i>	HK\$'000	<i>HK\$'000</i>
		(Unaudited)	(Unaudited)
Net cash used in operating activities	19	(537)	(14,345)
Net cash used in investing activities			
Interest received		60	97
Acquisition of property, plant and equipment		(65)	(48)
Placement of pledged bank deposits		(60)	(90)
		<u>(65)</u>	<u>(41)</u>
Net cash from financing activities			
New bank borrowings raised		79,342	299,846
Repayments of bank borrowings		(71,494)	(293,159)
Finance costs paid for bank loans and bank overdrafts		(2,252)	(2,786)
Payments of lease liabilities and interests		(962)	(987)
		<u>4,634</u>	<u>2,914</u>
Net increase (decrease) in cash and cash equivalents		4,032	(11,472)
Cash and cash equivalents at the beginning of the period		8,099	14,791
Effect of foreign exchange rate difference		7	(32)
Cash and cash equivalents at the end of the period		<u>12,138</u>	<u>3,287</u>
Analysis of cash and cash equivalents:			
Bank balances and cash		<u>12,138</u>	<u>3,287</u>

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2020

1. GENERAL INFORMATION

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 with effect from 23 February 2018 (the “**Listing Date**”). Its controlling shareholder is C.N.Y. Holdings Limited (“**CNY**”), a company incorporated in the British Virgin Islands (the “**BVI**”) and is held as to 83% by Mr. Chow Mo Lam (“**Mr. Chow**”) and 17% by Mr. Yu Lap On Stephen (“**Mr. Yu**”). The address of the Company’s registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The Company acts as an investment holding company and its subsidiaries are principally engaged in construction and engineering business. The Company and all of the subsidiaries are collectively referred to as the “**Group**”.

The unaudited condensed consolidated interim financial statements are presented in Hong Kong dollars (“**HKS**”).

Other than those subsidiaries established in the People’s Republic of China (the “**PRC**”) whose functional currency is Renminbi (“**RMB**”), the functional currency of the Company and its remaining subsidiaries are HK\$.

All values are rounded to the nearest thousands (“**HKS’000**”) except when otherwise indicated.

2. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 (“**HKAS 34**”) “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) and with the applicable disclosure requirements of Chapter 18 of GEM Listing Rules.

The condensed consolidated financial statements do not include all the information required for a complete set of Hong Kong Financial Reporting Standards (“**HKFRSs**”) financial statements and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended 31 March 2020.

The unaudited condensed consolidated financial statements for the six months ended 30 September 2020 have not been audited by the Company’s independent auditors, but have been reviewed by the audit committee of the Company (the “**Audit Committee**”).

3. SIGNIFICANT ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for financial assets at fair value through profit or loss and in accordance with HKFRSs issued by HKICPA.

Other than changes in accounting policies resulting from application of new and amendments to HKFRSs, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 September 2020 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2020.

Application of new and amendments to HKFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 April 2020 for the preparation of the Group's condensed consolidated financial statements:

Amendments to HKFRS 3	Definition of a Business
Amendments to HKAS 1 and 8	Definition of a Material
Amendments to HKFRS 7 and 9, and HKAS 39	Interest Rate Benchmark Reform

The application of these new and amendments to HKFRSs did not have any material impact on the Group's condensed consolidated financial statements.

The directors of the Company do not anticipate that the application of the other new and amendments to HKFRSs will have a material effect on the condensed consolidated financial statements in the foreseeable future.

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 for the period 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.

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

	Six months ended 30 September	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Recognised over time:		
Residential properties	30,012	25,709
Commercial properties	126,698	129,020
	<u>156,710</u>	<u>154,729</u>

Revenue during each of the reporting period is primarily 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 period are as below:

	Six months ended 30 September	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Customer A ¹	N/A⁴	32,056
Customer B ³	N/A⁴	86,615
Customer C ²	115,362	22,880
	<u>115,362</u>	<u>22,880</u>

¹ Revenue from commercial properties and residential properties contract works.

² Revenue from residential properties contract works.

³ Revenue from commercial properties contract works.

⁴ Revenue from these customers was less than 10% of the total revenue for the period.

5. OTHER INCOME, GAIN AND LOSS

	Six months ended 30 September	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Interest income	60	96
Exchange loss	(18)	(31)
Other income	1,467	–
	<u>1,509</u>	<u>65</u>

6. FINANCE COSTS

	Six months ended 30 September	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Interest on bank loans and bank overdrafts	2,251	2,786
Interest on lease liabilities	19	58
	<u>2,270</u>	<u>2,844</u>

7. PROFIT BEFORE TAXATION

	Six months ended 30 September	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Profit before taxation has been arrived at after charging:		
Directors' remuneration	2,688	2,670
Other staff costs	16,340	16,057
Retirement benefit schemes contributions for other staff	557	1,228
	<u>19,585</u>	<u>19,955</u>
Total staff costs		
	<u>19,585</u>	<u>19,955</u>
Auditor's remuneration	293	500
Depreciation of property, plant and equipment	269	265
Depreciation of right-of-use assets	911	939
Short-term lease rentals in respect of rented premises	179	233
	<u>1,652</u>	<u>1,937</u>

8. TAXATION

	Six months ended 30 September	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
The tax charge (credit) comprises:		
Current tax		
Hong Kong Profits Tax	328	191
PRC Enterprise Income Tax	—	5
	<u>328</u>	<u>196</u>
Overprovision in prior years		
PRC Enterprise Income Tax	(2)	—
	<u>326</u>	<u>196</u>
Tax refund from prior years		
Hong Kong Profits Tax	—	(2,342)
	<u>326</u>	<u>(2,146)</u>

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 periods.

No provision for Hong Kong Profits Tax for the six months ended 30 September 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 2020.

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 Renminbi (“RMB”) 500,000 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.

9. DIVIDENDS

No dividends were paid, declared and proposed by the Company during the six months ended 30 September 2020 nor since the end of the Reporting Period.

The Directors do not recommend the payment of a dividend for the six months ended 30 September 2020 (Six months ended 30 September 2019: Nil).

10. EARNINGS PER SHARE

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

	Six months ended 30 September	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Profit for the period attributable to owners of the Company for the purpose of basic earnings per share	<u>3,465</u>	<u>3,277</u>
	Six months ended 30 September	
	2020	2019
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	<u>800,000,000</u>	<u>800,000,000</u>

For the six months ended 30 September 2020 and 2019, no diluted earnings per share were presented as there were no potential ordinary shares in issue.

11. PROPERTY, PLANT AND EQUIPMENT

During the Reporting Period, the Group acquired property, plant and equipment of approximately HK\$65,000 (Six months ended 30 September 2019: approximately HK\$48,000).

12. CONTRACT ASSETS

	At	At
	30 September	31 March
	2020	2020
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Construction contracts	121,550	116,891
Less: Impairment allowance for ECL	<u>(1,322)</u>	<u>(1,322)</u>
	<u>120,228</u>	<u>115,569</u>

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 comprises retention money receivables of HK\$32,525,000 as at 30 September 2020 (For the year ended 31 March 2020: HK\$25,241,000).

13. TRADE RECEIVABLES

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. Retention money is usually withheld from the amounts receivable for work certified. 50% of the retention money is normally due upon completion of construction services and the remaining 50% portion is due upon finalisation of construction accounts.

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

	At 30 September 2020 <i>HK\$'000</i> (Unaudited)	At 31 March 2020 <i>HK\$'000</i> (Audited)
Within 30 days	37,446	13,652
31 to 90 days	4,824	609
Over 90 days	669	669
	<u>42,939</u>	<u>14,930</u>

As at 30 September 2020, the carrying amount of trade receivables from contracts with customers is HK\$42,939,000, net of impairment loss of HK\$2,857,000.

As at 31 March 2020, the carrying amount of trade receivables from contracts with customers is HK\$14,930,000, net of impairment loss of HK\$2,857,000.

As at 30 September 2020, the management of the Group closely monitors the credit quality of trade receivables. All of the trade receivables, that is neither past due nor impaired, is considered to be of good credit quality based on historical repayment from the customers.

Included in the Group's progress payments receivables balance are debtors with an aggregate carrying amount of HK\$669,000 (as at 31 March 2020: HK\$669,000) at 30 September 2020 which are past due for which the Group has not recognized an allowance for doubtful debts because there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances.

Ageing of trade receivables which are past due but not impaired:

	At 30 September 2020 <i>HK\$'000</i> (Unaudited)	At 31 March 2020 <i>HK\$'000</i> (Audited)
Over 90 days	<u>669</u>	<u>669</u>

14. TRADE AND OTHER PAYABLES

	At 30 September 2020 <i>HK\$'000</i> (Unaudited)	At 31 March 2020 <i>HK\$'000</i> (Audited)
Trade payables	41,892	17,114
Retention payables – amount payable within one year	5,677	5,379
Retention payables – amount payable after one year	2,331	718
Accrued charges	3,740	5,084
Other payable	<u>96</u>	<u>40</u>
	<u>53,736</u>	<u>28,335</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:

	At 30 September 2020 <i>HK\$'000</i> (Unaudited)	At 31 March 2020 <i>HK\$'000</i> (Audited)
Within 30 days	31,617	13,897
31 to 60 days	8,430	2,209
61 to 90 days	1,790	825
Over 90 days	<u>55</u>	<u>183</u>
	<u>41,892</u>	<u>17,114</u>

15. BANK BORROWINGS

	At 30 September 2020 <i>HK\$'000</i> (Unaudited)	At 31 March 2020 <i>HK\$'000</i> (Audited)
Bank loans	99,187	88,354
Bank overdrafts	4,929	7,914
	<u>104,116</u>	<u>96,268</u>
The carrying amounts of the above borrowings repayable*:		
– On demand or within one year	98,904	94,568
– Within a period of more than one year but not exceeding two years	3,186	1,200
– Within a period of more than two years but not exceeding five years	2,026	500
	<u>104,116</u>	<u>96,268</u>

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

	At 30 September 2020 <i>HK\$'000</i> (Unaudited)	At 31 March 2020 <i>HK\$'000</i> (Audited)
Comprising:		
Amount due within one year shown under current liabilities	98,904	94,568
Amount that are not repayable within one year from the end of the Reporting Period but containing a repayment on demand clause	5,212	1,700
	<u>104,116</u>	<u>96,268</u>

Variable-rate bank loans comprises:

	At 30 September 2020 <i>HK\$'000</i> (Unaudited)	At 31 March 2020 <i>HK\$'000</i> (Audited)
Secured bank loans (note (a))		
HK\$ bank loans at bank's lending prime rate ("Prime Rate") less 0.50% to 2.25% (31 March 2020: Prime Rate less 0.50% to 2.75%) per annum	7,634	8,321
HK\$ bank loans at Hong Kong Interbank Offered Rate ("HIBOR") plus 2.50% to 3.25% (31 March 2020: HIBOR plus 2.50% to 3.25%) per annum	<u>84,953</u>	<u>77,133</u>
	92,587	85,454
Unsecured bank loan (note (b))		
HK\$ bank loan at HIBOR plus 3.25% (31 March 2020: HIBOR plus 3.25%) per annum	2,600	2,900
HK\$ bank loan at HIBOR plus 2.25% (31 March 2020: Nil) per annum	<u>4,000</u>	<u>–</u>
	99,187	88,354
Secured bank overdrafts (note (a))		
HK\$ bank overdrafts at Prime Rate less 0.50% to 1.15% (31 March 2020: Prime Rate less 0.50% to 1.15%) per annum	<u>4,929</u>	<u>7,914</u>
	104,116	96,268

Notes:

- a) As at 30 September 2020, the secured bank loans and bank overdrafts are secured by the pledged bank deposits of HK\$32,373,000, trade receivables of HK\$15,592,000, contract assets of HK\$13,935,000 and financial assets at fair value through profit or loss ("FVTPL") of HK\$10,360,000 and properties held by a director of the Company and companies controlled by a director of the Company or his close family and secured by corporate guarantees of the Company.

As at 31 March 2020, the secured bank loans and bank overdrafts are secured by the pledged bank deposits of HK\$32,313,000, trade receivables of HK\$10,060,000, contract assets of HK\$13,898,000 and financial assets at FVTPL of HK\$10,360,000 and properties held by a director of the Company and companies controlled by a director of the Company or his close family and secured by corporate guarantees of the Company.

The secured bank loans carry effective interest rates ranging from 2.75% to 4.75% (31 March 2020: 2.25% to 4.82%) per annum.

The bank overdrafts carry effective interest rates ranging from 3.85% to 4.75% (31 March 2020: 4.10% to 4.75%) per annum.

- b) The unsecured bank loans are 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 loans carry effective interest rates ranging from 2.75% to 3.69% (31 March 2020: 4.82%) per annum.

16. SHARE CAPITAL

	Number of shares	Amount <i>HK\$'000</i>
Authorised:		
At 31 March 2020 (Audited) and 30 September 2020 (Unaudited) (HK\$0.01 each)	<u>5,000,000,000</u>	<u>50,000</u>
Issued and fully paid:		
At 31 March 2020 (Audited) and 30 September 2020 (Unaudited) (HK\$0.01 each)	<u>800,000,000</u>	<u>8,000</u>

17. CONTINGENT LIABILITIES

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 follows:

	At 30 September 2020 <i>HK\$'000</i> (Unaudited)	At 31 March 2020 <i>HK\$'000</i> (Audited)
Surety bond issued in favour of customers	<u>23,166</u>	<u>15,078</u>

18. RELATED PARTY TRANSACTIONS

Key management personnel compensation

	Six months ended 30 September 2020 <i>HK\$'000</i> (Unaudited)	2019 <i>HK\$'000</i> (Unaudited)
Salaries and other short-term benefits	2,364	2,364
Retirement benefits scheme contribution	<u>18</u>	<u>18</u>
	<u>2,382</u>	<u>2,382</u>

As at 30 September 2020, properties held by a director of the Company and companies controlled by a director of the Company or his close family members were pledged to secure bank loans of HK\$82,066,000 (31 March 2020: HK\$76,710,000) out of total secured bank loans of HK\$92,586,000 (31 March 2020: HK\$85,454,000) as set out in note 15. These properties were also pledged to secure surety bonds of HK\$23,166,000 and HK\$15,078,000 given by bank as at 30 September 2020 and 31 March 2020 respectively as disclosed in note 17.

19. RECONCILIATION OF PROFIT BEFORE TAXATION TO NET CASH USED IN OPERATIONS

	Six months ended 30 September	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Profit before taxation	3,791	1,131
Adjustments for:		
Premium charged on life insurance policies	–	–
Depreciation	269	265
Finance costs	2,270	2,844
Interest income	(60)	(96)
	<u>6,270</u>	<u>4,144</u>
Operating profit before working capital changes		
Increase in trade receivables	(28,009)	(8,696)
(Increase) decrease in prepayment, deposits and other receivable	(406)	1,886
Decrease in right-of-use assets	911	939
Increase in trade and other payables	25,356	10,888
Increase in contract assets	(4,659)	(23,506)
	<u>(537)</u>	<u>(14,345)</u>
Cash used in operations	(537)	(14,345)
PRC Enterprise Income tax paid	–	–
	<u>–</u>	<u>–</u>
Net cash used in operating activities	<u><u>(537)</u></u>	<u><u>(14,345)</u></u>

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 30 September 2020, the Group had nine projects in progress with a total original contract sum of approximately HK\$651.1 million. Total revenue of approximately HK\$138.6 million was recognised during the Reporting Period.

During the Reporting Period, we were awarded three new projects, namely Fo Tan, Yuen Long and Kwun Tong Road, with a total contract sum of approximately HK\$236.2 million.

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 global 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 services 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 would 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 slightly increased by approximately HK\$2.0 million or 1.3% from approximately HK\$154.7 million for the six months ended 30 September 2019 to approximately HK\$156.7 million for the six months ended 30 September 2020.

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\$146.4 million for the six months ended 30 September 2020 from approximately HK\$144.1 million for the six months ended 30 September 2019, representing an increase of approximately 1.6%. The increase was in line with the increase in revenue.

Gross Profit and Gross Profit Margin

The Group's gross profit slightly decreased by approximately HK\$0.3 million from approximately HK\$10.7 million for the six months ended 30 September 2019 to approximately HK\$10.4 million for the six months ended 30 September 2020. The Group's gross profit margin slightly decreased from approximately 6.9% for the six months ended 30 September 2019 to approximately 6.6% for the six months ended 30 September 2020, representing a decrease of approximately 0.3% points.

Other Income, Gain and Loss

Other income, gain and loss increased by approximately HK\$1.4 million for the six months ended 30 September 2020, which was mainly due to the fund raising from Employment Support Scheme issued by HKSAR Government.

Administrative Expenses

Administrative expenses of the Group decreased by approximately HK\$0.9 million from approximately HK\$6.7 million for the six months ended 30 September 2019 to approximately HK\$5.8 million for the six months ended 30 September 2020. Administrative expenses consisted primarily of staff costs and Directors' emoluments, depreciation, legal and professional fee, rental expenses and other administrative expenses. The decrease was mainly attributable to the decrease in audit fee of approximately HK\$0.2 million, the

decrease in legal and professional fee of approximately HK\$0.2 million the decrease in insurance of approximately HK\$0.1 million and the decrease in travel and transportation of approximately HK\$0.1 million during the period.

Finance Costs

Finance costs decreased from approximately HK\$2.8 million for the six months ended 30 September 2019 to approximately HK\$2.3 million for the six months ended 30 September 2020. The decrease in finance costs was mainly attributable to the decrease in the average interest rate of the bank borrowings.

Taxation

The income tax expenses for the six months ended 30 September 2020 was approximately HK\$0.3 million as compared to the income tax credit of approximately HK\$2.1 million for the six months ended 30 September 2019. Such change was mainly attributable to the one-off tax refund of approximately HK\$2.3 million arisen from prior years during the six months ended 30 September 2019.

Profit for the Period

Profit for the period increased from approximately HK\$3.3 million for the six months ended 30 September 2019 to approximately HK\$3.5 million for the six months ended 30 September 2020. Such increase was mainly attributable to the net result of: (i) the decrease in the gross profit of approximately HK\$0.3 million; (ii) the increase in the other income, gain and loss of approximately HK\$1.4 million; (iii) the decrease in the administration expenses of approximately HK\$0.9 million; (iv) the decrease of the finance costs of approximately HK\$0.5 million; and (v) the increase in taxation of approximately HK\$2.4 million for the six months ended 30 September 2020.

LIQUIDITY AND FINANCIAL RESOURCES

Cash and bank balances as at 30 September 2020 was approximately HK\$12.1 million, increased by approximately HK\$4.0 million when compared with approximately HK\$8.1 million as at 31 March 2020. Such change was mainly attributable to the interim payments from our customers. Our cash and bank balances are mainly denominated in HK\$.

The pledged deposits as at 30 September 2020 was approximately HK\$32.4 million, increased by approximately HK\$0.1 million when compared with approximately HK\$32.3 million as at 31 March 2020, as a result of the interests generated from pledged deposits.

During the Reporting Period, the Group had principally financed its operations through a combination of internally generated cash flows from our operations and bank borrowings. Interest rates of our bank borrowings please refer to Note 15 of this announcement. As at 30 September 2020, the Group had outstanding borrowings of approximately HK\$98.9

million repayable within one year (as at 31 March 2020: HK\$94.6 million) and outstanding borrowings of approximately HK\$5.2 million repayable after one year (as at 31 March 2020: HK\$1.7 million). The Group's borrowings were denominated in HK\$.

The current ratio of the Group as at 30 September 2020 was 1.3 times as compared to that of 1.4 times as at 31 March 2020. 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 period, increased from approximately 46.4% as at 31 March 2020 to approximately 46.8% as at 30 September 2020.

CAPITAL STRUCTURE

The shares of the Company were successfully listed on GEM 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 30 September 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 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 30 September 2020, the Group's bank deposits with carrying amounts of approximately HK\$32.4 million (as at 31 March 2020: HK\$32.3 million), invoices issued to customers with total amount of approximately HK\$29.5 million (as at 31 March 2020: HK\$24.0 million) and the financial assets at fair value through profit or loss of approximately HK\$10.4 million (as at 31 March 2020: HK\$10.4 million) were pledged to secure certain letters of guarantee facility and banking facilities respectively, granted to the Group.

CAPITAL COMMITMENTS

As at 30 September 2020 and 31 March 2020, the Group did not have any significant capital commitments.

CONTINGENT LIABILITIES

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:

	At 30 September 2020 <i>HK\$ million</i> (Unaudited)	At 31 March 2020 <i>HK\$ million</i> (Audited)
Surety bond issued in favour of customers	<u>23.2</u>	<u>15.1</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 the Group during the Reporting Period. Saved as disclosed in this announcement, the Group did not have other plans for significant investments, acquisitions and disposal of subsidiaries as at 30 September 2020.

EXPOSURE TO EXCHANGE RATE FLUCTUATION

The majority of the Group's businesses is in Hong Kong and is denominated in HK\$, RMB 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 30 September 2020, the Group had 94 (as at 31 March 2020: 87) employees. During the Reporting Period, total staff cost (including Directors' emoluments) were approximately HK\$19.6 million (for the six months ended 30 September 2019: HK\$20.0 million). The remuneration package offered to our employees generally included basic salaries, bonuses and other cash allowances or subsidies. The Company has also adopted a share option scheme for its employees and other eligible persons. 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.

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 Reporting Period.

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;
- The 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.

OTHER INFORMATION

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 September 2020, the interests or short positions of the Directors and the chief executive of the Company or their respective associates in Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the “SFO”)) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, including interests and/or short positions which they are deemed or taken to have under such provisions of the SFO, or which will be required, pursuant to section 352 of

the SFO, to be entered in the register referred to therein, or as otherwise notified to the Company and the Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules were as follows:

(a) Interests in Shares of the Company

Name of Director	Capacity	Long/short Position	Number of Shares held	Percentage of shareholding in the Company
Mr. Chow Mo Lam	Interest of controlled corporation	Long position	600,000,000 Shares ^(Note)	75%

Note: 600,000,000 Shares are directly held by CNY, a company incorporated in the BVI with limited liability, which is owned by Mr. Chow as to 83% and by Mr. Yu as to 17%. Both Mr. Chow and Mr. Yu are executive Directors. By virtue of the SFO, Mr. Chow is deemed to be interested in the 600,000,000 Shares held by CNY. Each of Mr. Chow, Mr. Yu and CNY is regarded as a controlling shareholder of the Company.

(b) Interests in shares of the associated corporation of the Company

Name of associated corporation	Name of Director	Capacity	Long/short Position	Number of Shares held	Percentage of shareholding in the associated corporation
C.N.Y. Holdings Limited	Mr. Chow Mo Lam	Beneficial owner	Long position	83 shares ^(Note)	83%
C.N.Y. Holdings Limited	Mr. Yu Lap On Stephen	Beneficial owner	Long position	17 shares ^(Note)	17%

Note: 600,000,000 Shares are directly held by CNY, a company incorporated in the BVI with limited liability, which is owned by Mr. Chow as to 83% and by Mr. Yu as to 17%. Both Mr. Chow and Mr. Yu are executive Directors. By virtue of the SFO, Mr. Chow is deemed to be interested in the 600,000,000 Shares held by CNY. Each of Mr. Chow, Mr. Yu and CNY is regarded as a controlling shareholder of the Company.

Save as disclosed above, as at 30 September 2020, none of the Directors or the chief executives of the Company or their respective associates had any interests and short positions in the shares, underlying shares, convertible notes or debentures of the Company or any of its associated corporations as recorded in the register maintained by the Company pursuant to section 352 of the SFO or otherwise notified to the Company and the Stock Exchange as at 30 September 2020.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES

Save as disclosed in the paragraph headed "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" in this announcement, as at 30 September 2020, so far as it was known to any Directors or chief executive of the Company, the following interests of which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or who were deemed to be directly or indirectly interested in 5% or more of the issued capital of the Company, or which were recorded in the register of interests required to be kept under Section 336 of the SFO or have notified to the Company were as follows:

Name of shareholders	Capacity	Long/short position	Number of Shares held	Percentage of shareholding in the Company
C.N.Y. Holdings Limited	Beneficial owner ^(Note 1)	Long position	600,000,000 Shares ^(Note 1)	75%
Ms. Hau Pak Sui	Interest of spouse ^(Note 2)	Long position	600,000,000 Shares ^(Note 2)	75%

Notes:

1. 600,000,000 Shares are directly held by CNY, a company incorporated in the BVI with limited liability, which is owned by Mr. Chow as to 83% and by Mr. Yu as to 17%. Both Mr. Chow and Mr. Yu are executive Directors. By virtue of the SFO, Mr. Chow is deemed to be interested in the 600,000,000 Shares held by CNY. Each of Mr. Chow, Mr. Yu and CNY is regarded as a controlling shareholder of the Company.
2. Ms. Hau Pak Sui is the spouse of Mr. Chow and she is deemed to be interested in the 600,000,000 Shares, in which Mr. Chow is deemed interested by virtue of the SFO.

Save as disclosed above, and as at 30 September 2020, the Directors were not aware of any persons (who were not Directors or chief executives of the Company) who had an interest or short position in the share capital of the Company which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

For the six months ended 30 September 2020 and up to the date of this announcement, 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, either directly or indirectly, 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 for the six months ended 30 September 2020.

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 30 September 2020, no share option had been granted.

CORPORATE GOVERNANCE

As at 30 September 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 six months ended 30 September 2020, to the best knowledge of the Board, the Company has complied with all the applicable code provisions set out in the CG Code.

CHANGE OF AUDITOR

Messrs. Deloitte Touche Tohmatsu (“**Deloitte**”) resigned as the auditor of the Company with effect from 28 September 2020. ZHONGHUI ANDA CPA Limited has been appointed as the new auditor of the Company with effect from 28 September 2020 to fill the casual vacancy following the resignation of Deloitte and to hold office until the conclusion of the next annual general meeting of the Company. For further details, please refer to the announcement of the Company dated 28 September 2020.

AUDIT COMMITTEE

The Company established 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 the 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 dismissal of external auditor, review the financial statements and the information and provide advice in respect of financial reporting and oversee the internal control procedures of the Company.

The Audit Committee has reviewed the unaudited condensed consolidated financial statements of the Group for the six months ended 30 September 2020 and this interim announcement and is of the view that such statements and report have been prepared in compliance with the applicable accounting standards, the GEM Listing Rules and other applicable legal requirements, and the adequate disclosure had been made.

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

Hong Kong, 10 November 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.