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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 2023

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 2023 (the “**Reporting Period**”), together with the comparative figures for the year ended 31 March 2022 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2023

	Notes	2023 HK\$'000	2022 HK\$'000
Revenue	4	330,715	362,094
Cost of services		<u>(313,779)</u>	<u>(345,617)</u>
Gross profit		16,936	16,477
Interest revenue		186	32
Other income, gains and losses	5	2,323	(81)
Reversal of impairment losses under expected credit loss model, net	6	31	459
Administrative expenses		<u>(9,016)</u>	<u>(9,558)</u>
Profit from operation		10,460	7,329
Finance costs	7	<u>(6,972)</u>	<u>(3,977)</u>
Profit before tax		3,488	3,352
Income tax expenses	8	<u>(470)</u>	<u>(695)</u>
Profit for the year	9	<u>3,018</u>	<u>2,657</u>
Other comprehensive (expense)/income after tax:			
<i>Item that may be reclassified to profit or loss:</i>			
Exchange differences on translating foreign operations		<u>(9)</u>	<u>28</u>
Other comprehensive (expense)/income for the year, net of tax		<u>(9)</u>	<u>28</u>
Total comprehensive income for the year		<u>3,009</u>	<u>2,685</u>
Earnings per share	11		
Basic (HK cents)		<u>0.38</u>	<u>0.33</u>
Diluted (HK cents)		<u>0.38</u>	<u>0.33</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 MARCH 2023

	<i>Notes</i>	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment		190	315
Right-of-use assets		3,011	1,634
Financial assets at fair value through profit or loss		12,321	9,906
Deferred tax assets		770	775
Deposits		4,400	4,400
		20,692	17,030
Current assets			
Trade receivables	12	28,795	29,462
Contract assets	13	190,166	148,580
Prepayments, deposits and other receivables		32,664	18,782
Tax recoverable		165	–
Pledged bank balances		36,035	27,412
Bank balances and cash		14,527	12,500
		302,352	236,736
Current liabilities			
Trade and other payables	14	76,797	65,222
Contract liabilities	13	1,829	–
Tax payable		–	127
Bank and other borrowings	15	164,373	117,720
Lease liabilities		1,472	1,672
		244,471	184,741
Net current assets		57,881	51,995
Total assets less current liabilities		78,573	69,025
Non-current liabilities			
Other borrowings	15	5,000	–
Lease liabilities		1,539	–
		6,539	–
Net assets		72,034	69,025
Capital and reserves			
Share capital		8,000	8,000
Reserves		64,034	61,025
Total equity		72,034	69,025

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2023

	Attributable to owners of the Company					
	Share capital	Share premium	Other reserve <i>(Note)</i>	Translation reserve	Retained profits	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 April 2021	8,000	37,915	3,000	10	17,415	66,340
Total comprehensive income for the year	–	–	–	28	2,657	2,685
At 31 March 2022	8,000	37,915	3,000	38	20,072	69,025
At 1 April 2022	8,000	37,915	3,000	38	20,072	69,025
Total comprehensive (expense)/ income for the year	–	–	–	(9)	3,018	3,009
At 31 March 2023	8,000	37,915	3,000	29	23,090	72,034

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2023

1. GENERAL INFORMATION

Polyfair Holdings Limited (the “**Company**”) was incorporated and registered as an exempted company with limited liability in the Cayman Islands on 25 May 2017 and its shares are listed on GEM of The Stock Exchange of Hong Kong Limited (“**the Stock Exchange**”) on 23 February 2018. Its immediate and ultimate holding company is C.N.Y. Holdings Limited, a company incorporated in the British Virgin Islands (the “**BVI**”). The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The principal place of business of the Company is located at Unit 1206-7, 12th Floor, Fortress Tower, 250 King’s Road, North Point, Hong Kong.

The Company is an investment holding company. The principal activities of the Company and its subsidiaries (together referred to as the “**Group**”) are provision of design and project management services for façade and installation of curtain wall systems in Hong Kong.

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards (“**HKFRSs**”) issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”) that are relevant to its operations and effective for its accounting year beginning on 1 April 2022. HKFRSs comprise Hong Kong Financial Reporting Standards (“**HKFRS**”); Hong Kong Accounting Standards (“**HKAS**”); and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group’s accounting policies, presentation of the Group’s consolidated financial statements and amounts reported for the current year and prior years.

The Group has not applied the new and revised HKFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new and revised HKFRSs but is not yet in a position to state whether these new and revised HKFRSs would have a material impact on its results of operations and financial position.

3. BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with HKFRSs, accounting principles generally accepted in Hong Kong and the applicable disclosures required by the Rules Governing the Listing of Securities on GEM of the Stock Exchange and by the Hong Kong Companies Ordinance.

These consolidated financial statements have been prepared under the historical cost convention, as modified by the financial assets at fair value through profit or loss, which are carried at their fair values.

The preparation of consolidated financial statements in conformity with HKFRSs requires the use of certain key assumptions and estimates. It also requires the directors to exercise their judgments in the process of applying the accounting policies.

The consolidated financial statements are presented in Hong Kong dollar, 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 the fair value of amounts received and receivable from provision of construction services. An analysis of the Group's revenue is as follow:

	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
Construction services for residential properties	234,797	157,197
Construction services for commercial properties	95,918	204,897
	<hr/>	<hr/>
Revenue from contracts with customers	330,715	362,094
	<hr/> <hr/>	<hr/> <hr/>

Segment information

For the purpose of resources allocation and performance assessment, the chief operating decision maker (i.e. the chief executive of the Group) reviews the overall results and financial position of the Group, which are prepared based on the same accounting policies. Accordingly, the Group presents only one single operating segment and no further analysis is presented.

Geographical information

No geographical information is presented as the Group's revenue are all derived from Hong Kong based on the location of services delivered and the Group's non-current assets (excluding financial assets and deferred tax assets) are substantially located in Hong Kong.

Timing of revenue recognition

All timing of revenue recognition is over time for the years ended 31 March 2023 and 2022.

Information about major customers

Revenue attributed from customers that accounted for 10% or more of the Group's total revenue during the year is as follows:

	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
Customer A	19,282*	101,562
Customer B	125,711	94,156
Customer C	70,653	92,738
Customer D	69,220	47,980
	<hr/> <hr/>	<hr/> <hr/>

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

4. REVENUE AND SEGMENT INFORMATION (continued)

Construction service fee income

The Group provides design and project management services for facade and installation of curtain wall systems to the customers. When the progress towards complete satisfaction of the performance obligations of a construction contract can be measured reasonably, revenue from the contract and the contract costs are recognised using the percentage of completion method, measured by reference to the percentage of contract costs incurred to date to the estimated total contract costs for the contract. This method provides the most reliable estimate of the percentage of completion.

When the progress towards complete satisfaction of the performance obligations of a construction contract cannot be measured reasonably, revenue is recognised only to the extent of contract costs incurred that is expected to be recoverable.

The customers pay the contract prices to the Group according to the payment schedules as stipulated in the contracts. If the service rendered by the Group exceeds the payments, a contract asset is recognised. If the payments exceed the service rendered, a contract liability is recognised.

The contract price is allocated to the performance obligations based on the relative stand-alone selling prices of the performance obligations. The stand-alone selling prices are determined by applying the expected cost plus a margin approach.

5. OTHER INCOME, GAINS AND LOSSES

	2023	2022
	HK\$'000	HK\$'000
Exchange gain/(loss)	209	(202)
Fair value gains on payments for life insurance policies	415	78
Government subsidy	1,699	–
Sundry income	–	43
	<u>2,323</u>	<u>(81)</u>

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

	2023	2022
	HK\$'000	HK\$'000
Reversal of impairment losses on trade receivables, net	34	203
(Impairment losses)/reversal of impairment losses on contract assets, net	(3)	257
Impairment losses on other receivables, net	–	(1)
	<u>31</u>	<u>459</u>

7. FINANCE COSTS

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Interest on bank and other borrowings	6,944	3,883
Interest on lease liabilities	28	94
	<u>6,972</u>	<u>3,977</u>

8. INCOME TAX EXPENSES

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Current tax – Hong Kong Profits Tax		
– Provision for the year	465	620
Current tax – PRC Enterprise Income Tax		
– Over-provision in prior years	–	(1)
Deferred taxation	5	76
	<u>470</u>	<u>695</u>

Under the two-tiered profits tax rates regime, the first HK\$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK\$2 million 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%.

Hong Kong Profit Tax has been provided at the rate of 8.25% on assessable profits up to HK\$2 million and 16.5% on any part of assessable profit over HK\$2 million for the years ended 31 March 2023 and 2022.

8. INCOME TAX EXPENSES (continued)

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 2021 to 31 December 2021, the annual taxable income not more than RMB1,000,000 of a Small Low-profit Enterprise is subject to Enterprise Income Tax calculated at 12.5% of its taxable income at a tax rate of 20% and the annual taxable income between RMB1,000,000 and RMB3,000,000 is calculated at 50% of its taxable income at a tax rate of 20%. From 1 January 2022 to 31 December 2022, the annual taxable income not more than RMB1,000,000 of a Small Low-profit Enterprise is subject to Enterprise Income Tax calculated at 12.5% of its taxable income at a tax rate of 20% and the annual taxable income between RMB1,000,000 and RMB3,000,000 is calculated at 25% of its taxable income at a tax rate of 20%. From 1 January 2023 to 31 December 2024, the annual taxable income not more than RMB3,000,000 of a Small Low-profit Enterprise 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. No provision for Enterprise Income Tax for the years ended 31 March 2023 and 2022 has been made as the subsidiary did not generate any assessable profits during both years.

The income tax expense for the year can be reconciled to the profit before taxation per the consolidated statement of profit or loss and other comprehensive income as follows:

	2023	2022
	HK\$'000	HK\$'000
Profit before taxation	<u>3,488</u>	<u>3,352</u>
Tax at the Hong Kong Profits Tax rate at 16.5%	576	553
Tax effect of expenses not deductible for tax purpose	407	418
Tax effect of income not taxable for tax purpose	(355)	(94)
Tax effect of estimated tax losses not recognised	4	4
Over-provision in prior years	–	(1)
Effect of different tax rates of subsidiaries	9	(10)
Effect of two-tiered profits tax rates regime	(165)	(165)
Others	<u>(6)</u>	<u>(10)</u>
Income tax expenses	<u><u>470</u></u>	<u><u>695</u></u>

9. PROFIT FOR THE YEAR

	2023 HK\$'000	2022 HK\$'000
The Group's profit for the year is stated after charging the following:		
Directors' remuneration	6,343	6,526
Other staff costs:		
Salaries and other benefits	44,484	40,538
Retirement benefit schemes contributions	3,057	2,847
	<u>53,884</u>	<u>49,911</u>
Total staff costs*		
	<u>53,884</u>	<u>49,911</u>
Auditor's remuneration	595	585
Depreciation of property, plant and equipment	178	269
Depreciation of right-of-use assets	1,634	1,677
	<u>1,634</u>	<u>1,677</u>

* *The staff costs were expensed in direct costs and administrative expenses amounting to HK\$48,946,000 (2022: HK\$44,188,000) and HK\$4,938,000 (2022: HK\$5,723,000) respectively.*

10. DIVIDENDS

No dividend was paid, declared or proposed by the Company for the year ended 31 March 2023 (2022: Nil).

11. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following:

Earnings

	2023 HK\$'000	2022 HK\$'000
Earnings for the purpose of calculating basic and diluted earnings per share	<u>3,018</u>	<u>2,657</u>

Number of shares

	2023 '000	2022 '000
Weighted average number of ordinary shares for the purpose of calculating basic and diluted earnings per share	<u>800,000</u>	<u>800,000</u>

12. TRADE RECEIVABLES

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Trade receivables	31,570	32,271
Less: allowance for bad and doubtful debts	(2,775)	(2,809)
	28,795	29,462

The Group allows a credit period of 14 to 30 days to its customers for construction works after the work is certified, except for several credit worthy customers to whom an extended credit period would be granted. An ageing analysis of the trade receivables, presented based on the invoice date at the end of the reporting period, is as follows:

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
0 - 30 days	23,840	9,719
31 - 90 days	2,728	19,030
Over 90 days	2,227	713
	28,795	29,462

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer. Credit limits attributable to customers are reviewed regularly.

As at 31 March 2023, 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\$2,227,000 (2022: HK\$713,000) is not considered as in default based on historical settlement pattern for those debtors and continued business with the Group.

13. CONTRACT ASSETS AND LIABILITIES

Disclosures of revenue-related items:

	As at 31 March 2023 HK\$'000	As at 31 March 2022 HK\$'000	As at 1 April 2021 HK\$'000
Contract assets – construction	<u>190,166</u>	<u>148,580</u>	<u>120,650</u>
Contract liabilities – construction	<u>1,829</u>	<u>–</u>	<u>–</u>
Contract receivables (included in trade receivables)	<u>28,795</u>	<u>29,462</u>	<u>29,837</u>

Based on the information available to the Group at the end of each reporting period, the management of the Group expects the transaction price allocated to the above unsatisfied (or partially unsatisfied) contracts in respect of provision of construction services as at 31 March 2023 of HK\$485,000,000 (2022: HK\$476,000,000) will be recognised as revenue during the year ending 31 March 2024 to 2026 (2022: the year ended 31 March 2023 to 2025).

Year ended 31 March

	2023 HK\$'000	2022 HK\$'000
Revenue recognised in the year that was included in contract liabilities at beginning of year	<u>–</u>	<u>–</u>

13. CONTRACT ASSETS AND LIABILITIES (continued)

Significant changes in contract assets and contract liabilities during the year:

	2023	2023	2022	2022
	Contract	Contract	Contract	Contract
	assets	liabilities	assets	liabilities
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Increase due to operations in the year	131,243	1,829	97,878	–
Increase due to reversal of impairment of contract assets	891	N/A	798	N/A
Decrease due to impairment of contract assets	(894)	N/A	(541)	N/A
Transfer of contract assets to receivables	(89,654)	N/A	(70,205)	N/A
Transfer of contract liabilities to revenue	N/A	–	N/A	–

A contract asset represents the Group's right to consideration in exchange for products or services that the Group has transferred to a customer.

A contract liability represents the Group's obligation to transfer products or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

Retention receivables relating to contracts in progress of HK\$49,982,000 (2022: HK\$39,942,000) are included in contract assets as at 31 March 2023. Retention monies will be released after completion of defect liability period of the relevant contracts or in accordance with the terms specified in the relevant contracts, ranging from 1 to 2 years from the date of the issuance of the practical completion certificate. Upon satisfactory completion of contract work as set out in the contract, the architect for the building project will issue a practical completion certificate. Generally, upon the issuance of the practical completion certificate, half of the retention money of such contract work will be released to the Group, while the remaining half will be released to the Group upon the issuance of the certificate at the end of defect liability period that identified defects in respect of the entire building project have been made good. Approximately HK\$42,409,000 (2022: HK\$33,641,000) and HK\$7,573,000 (2022: HK\$6,301,000) of retention receivables are recoverable within one year and after one year, respectively.

14. TRADE AND OTHER PAYABLES

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Trade payables	<u>52,462</u>	<u>44,627</u>
Retention payables- amount payable within one year	14,766	9,880
Retention payables- amount payable after one year	2,283	3,387
Accrued charges	7,148	7,201
Other payables	<u>138</u>	<u>127</u>
	<u>76,797</u>	<u>65,222</u>

The credit period granted to the Group by suppliers and subcontractors is 30 to 60 days. The following is an ageing analysis of trade payables presented based on the invoice date at the end of the reporting period:

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
0–30 days	20,352	32,117
31–60 days	7,114	3,704
61–90 days	5,556	3,884
Over 90 days	<u>19,440</u>	<u>4,922</u>
Total	<u>52,462</u>	<u>44,627</u>

15. BANK AND OTHER BORROWINGS

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Bank loans	155,535	117,701
Bank overdrafts	4,938	19
Other borrowings – amount due to a related party	<u>8,900</u>	<u>–</u>
	<u>169,373</u>	<u>117,720</u>
Carrying amount repayable based on scheduled repayment dates set out in loan agreements:		
– On demand or within one year	154,358	110,706
– More than one year, but not exceeding two years	4,024	1,604
– More than two years, but not exceeding five years	7,778	5,410
– More than five years	<u>3,213</u>	<u>–</u>
	169,373	117,720
Less: Carrying amount of bank and other borrowings that are repayable on demand or contain a repayment on demand clause and shown under current liabilities	<u>(164,373)</u>	<u>(117,720)</u>
	<u>5,000</u>	<u>–</u>

15. BANK AND OTHER BORROWINGS (continued)

	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
Variable-rate bank loans and fixed-rate other borrowings comprise:		
Secured bank loans (note (a))		
– HK\$ bank loans at Hong Kong Interbank Offered Rate (“ HIBOR ”) plus 2.50% to 2.75% (2022: HIBOR plus 2.50% to 2.75%) per annum	<u>133,514</u>	<u>97,610</u>
Unsecured bank loans (note (b))		
– HK\$ bank loans at HIBOR plus 2.75% (2022: HIBOR plus 2.75%) per annum	10,000	10,000
– HK\$ bank loans at bank’s lending prime rate (“ Prime Rate ”) less 2.25% to 2.50% (2022: Prime Rate less 2.25% to 2.50%) per annum	<u>12,021</u>	<u>10,091</u>
	<u>22,021</u>	<u>20,091</u>
Secured bank overdrafts (note (a))		
– HK\$ bank overdrafts at Prime Rate less 1.25% (2022: Prime Rate less 1.25%) per annum	<u>4,938</u>	<u>19</u>
Unsecured other borrowings (note (c))		
– 0.229% per month (2022: nil)	<u>8,900</u>	<u>–</u>
	<u><u>169,373</u></u>	<u><u>117,720</u></u>

As at 31 March 2023 and 31 March 2022, the HIBOR and Prime Rate are quoted by the lending banks.

15. BANK AND OTHER BORROWINGS (continued)

Notes:

- (a) As at 31 March 2023, the secured bank loans of HK\$133,514,000 (2022: HK\$97,610,000) and bank overdrafts of HK\$4,938,000 (2022: HK\$19,000) are secured by the pledged bank deposits of HK\$36,035,000 (2022: HK\$27,412,000), trade receivables of HK\$19,842,000 (2022: HK\$11,958,000), contract assets of HK\$21,332,000 (2022: HK\$15,263,000) on a full recourse basis, financial assets at fair value through profit or loss of HK\$12,321,000 (2022: HK\$9,906,000) and guaranteed by corporate guarantees of the Company and a PRC subsidiary.

In addition to the pledge of assets and guarantee disclosed above, included in the secured bank loans are bank loans of HK\$123,823,000 (2022: HK\$86,618,000) which are also secured by properties held by a director of the Company and a company controlled by a director of the Company and his close family members (2022: 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 5.71% to 5.96% (2022: 2.77% to 3.02%) per annum.

The bank overdrafts carry effective interest rate at 4.63% (2022: 4.00%) per annum.

- (b) As at 31 March 2023, the unsecured bank loans are guaranteed by HKMC Insurance Limited under SME Financing Guarantee Scheme and personal guarantees given by Mr. Yu Lap On Stephen and Mr. Chow Mo Lam, directors of the Company. The unsecured bank loans carry effective interest rate ranging from 3.38% to 5.96% (2022: 2.75% to 3.02%) per annum.
- (c) As at 31 March 2023, other borrowings of HK\$8,900,000 (2022: HK\$Nil) were borrowed from a close family member of a director of the Company.

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 2023, the Group had ten projects in progress with a total original contract sum of approximately HK\$760.2 million, of which approximately HK\$237.2 million was recognised as revenue during the Reporting Period.

During the Reporting Period, we were awarded four new projects, with a total contract sum of approximately HK\$286.7 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 forecast completions in 2023 and 2024 are 19,953 new units and 26,970 new units respectively.

Another driver for the façade and curtain wall works industry is office buildings in Hong Kong. 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. According to The Hong Kong Property Review 2023 compiled by the Rating and Valuation Department, office completions in 2022 soared significantly to 351,300 m². Completions are expected to drop to 267,200 m² in 2023 and further to 105,700 m² in 2024. In 2023, new Grade A completions will account for 250,700 m², with Sham Shui Po and the Central and Western district contributing 38% and 25% of the anticipated supply respectively. Grade A completions in 2024 will account for 86,600 m² as Kwun Tong will contribute almost half of the forecast completions.

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 so 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.

FINANCIAL REVIEW

Revenue

The total revenue of the Group decreased by approximately HK\$31.4 million or 8.7% from approximately HK\$362.1 million for the year ended 31 March 2022 to approximately HK\$330.7 million for the year ended 31 March 2023. Such decrease was mainly attributable to the substantial completion of a sizable project.

Our revenue during the Reporting Period are generated from the Group's customers in Hong Kong. For the year ended 31 March 2023, the Group generated (i) revenue of approximately HK\$95.9 million from commercial properties projects, representing approximately 29.0% of the Group's revenue; and (ii) revenue of approximately HK\$234.8 million from residential properties projects, representing approximately 71.0% 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 decreased to approximately HK\$313.8 million for the year ended 31 March 2023 from approximately HK\$345.6 million for the year ended 31 March 2022, representing a decrease of approximately 9.2%. The decrease is in line with the decrease in revenue.

Gross Profit and Gross Profit Margin

The Group's gross profit increased by approximately HK\$0.4 million from approximately HK\$16.5 million for the year ended 31 March 2022 to approximately HK\$16.9 million for the year ended 31 March 2023. The Group's gross profit margin increased from approximately 4.6% for the year ended 31 March 2022 to approximately 5.1% for the year ended 31 March 2023, representing an increase of approximately 0.5 percentage points. The increase was mainly attributable to effective cost control on projects.

Other Income, Gains and Losses

The other income, gains and losses increased by approximately HK\$2.4 million for the year ended 31 March 2023 to approximately HK\$2.3 million. Such turnaround was mainly attributable to the receipt of subsidies under the Employment Support Scheme launched by the Hong Kong SAR Government for the year ended 31 March 2023.

Reversal of Impairment Losses

The reversal of impairment losses for the year ended 31 March 2023 was approximately HK\$31,000 and the reversal of impairment losses for the year ended 31 March 2022 was approximately HK\$0.5 million. Such change was mainly attributable to the lower probability of default of our key customers in 2023 than in 2022.

Administrative Expenses

Administrative expenses of the Group decreased by approximately HK\$0.6 million from approximately HK\$9.6 million for the year ended 31 March 2022 to approximately HK\$9.0 million for the year ended 31 March 2023. The decrease was mainly attributable to the decrease in salaries and allowances of approximately HK\$0.8 million and increase in insurance expense of approximately HK\$0.2 million during the Reporting Period.

Finance Costs

Finance costs increased from approximately HK\$4.0 million for the year ended 31 March 2022 to approximately HK\$7.0 million for the year ended 31 March 2023. The increase in finance costs was mainly attributable to the increase in the average interest rate of the bank borrowings.

Taxation

The income tax expenses of the Group decreased by approximately HK\$0.2 million from approximately HK\$0.7 million for the year ended 31 March 2022 to approximately HK\$0.5 million for the year ended 31 March 2023.

Profit for the Year

Profit for the year increased from approximately HK\$2.7 million for the year ended 31 March 2022 to approximately HK\$3.0 million for the year ended 31 March 2023. Such increase was mainly attributable to the net results of: (i) the increase in the finance cost of approximately HK\$3.0 million; (ii) the increase in the other income, gains and losses of approximately HK\$2.4 million; (iii) the decrease in the administrative expenses of approximately HK\$0.6 million; (iv) the decrease in the reversal of impairment losses of approximately HK\$0.5 million; (v) the increase in gross profit of approximately HK\$0.4 million; and (vi) the decrease in the taxation expenses of approximately HK\$0.2 million.

LIQUIDITY AND FINANCIAL RESOURCES

Cash and bank balances as at 31 March 2023 was approximately HK\$14.5 million, increased by approximately HK\$2.0 million when compared with approximately HK\$12.5 million as at 31 March 2022. Such change was mainly attributable to the interim payments from our customers.

The pledged deposits, including both the non-current and current portions, were approximately HK\$27.4 million as at 31 March 2022 and approximately HK\$36.0 million as at 31 March 2023.

As at 31 March 2023, the Group had outstanding borrowings of approximately HK\$154.4 million repayable on demand or within one year (2022: HK\$110.7 million) and outstanding borrowings of approximately HK\$15.0 million repayable after one year (2022: HK\$7.0 million). The Group's borrowings were denominated in HK\$. The amounts due are based on scheduled repayment dates set out in the loan agreements.

The current ratio of the Group decreased from approximately 1.3 as at 31 March 2022 to approximately 1.2 as at 31 March 2023. The gearing ratio, being the net debt (defined as bank and other 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 53.0% to approximately 62.3% as at 31 March 2022 and 31 March 2023, respectively.

CAPITAL STRUCTURE

The shares of the Company were successfully listed on GEM of the Stock Exchange on 23 February 2018 (the “**Listing Date**”). 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 2023, 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 31 March 2023, the Group's bank deposits with carrying amounts of approximately HK\$36.0 million (2022: HK\$27.4 million), invoices issued to customers with total amount of approximately HK\$41.2 million (2022: HK\$27.2 million) and the financial assets at fair value through profit or loss of approximately HK\$12.3 million (2022: HK\$9.9 million) were pledged to secure certain letters of guarantee facility and banking facilities respectively, granted to the Group. The pledged cash deposit of HK\$4.4 million (2022: HK\$4.4 million) was pledged to a third party to secure the performance guarantee granted by the third party of HK\$12.1 million (2022: HK\$12.1 million).

As at 31 March 2023, Mr. Yu Lap On Stephen and a company controlled by Mr. Chow Mo Lam and his close family members (namely, Polyfaith Holdings 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 2023 and 2022, 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:

	2023	2022
	<i>HK\$ million</i>	<i>HK\$ million</i>
Surety bond issued in favour of the customers	12.1	16.9

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. Save as disclosed in this announcement, the Group did not have other plans for significant investments, acquisitions and disposal of subsidiaries as at 31 March 2023.

EXPOSURE TO EXCHANGE RATE FLUCTUATION

The majority of the Group's businesses is in Hong Kong and is denominated in HK\$, Renminbi and United States Dollars ("USD"). 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 2023, the Group had 140 (2022: 117) employees. Total staff cost (including Directors' emoluments) were approximately HK\$53.9 million (2022: HK\$49.9 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

A share option scheme was adopted by the Company on 25 January 2018. Up to 31 March 2023, 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;
- 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 of 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 the Group facing, please refer to the section headed "Risk Factors" in the prospectus dated 31 January 2018.

CORPORATE GOVERNANCE

For the year ended 31 March 2023 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 2023 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 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.

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 code provision D.3.3 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 2023 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 2023 comply with applicable accounting standards, the GEM Listing Rules and that adequate disclosures have been made.

SCOPE OF WORK OF ZHONGHUI ANDA CPA LIMITED

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and the related notes thereto for the Reporting Period as set out in the preliminary announcement have been agreed by the Group's auditor, ZHONGHUI ANDA CPA Limited (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 and consequently no opinion or assurance conclusion has been expressed by the Auditor on the preliminary announcement.

EVENTS AFTER THE REPORTING DATE

As from 31 March 2023 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 2023 (2022: Nil).

ANNUAL GENERAL MEETING (THE "AGM")

The forthcoming AGM of the Company will be held on Thursday, 17 August 2023 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, 14 August 2023 to Thursday, 17 August 2023 (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 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration not later than 4:30 p.m. on Friday, 11 August 2023.

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 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, 21 June 2023

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 Listed Company Announcements" page of the Stock Exchange's website at www.hkexnews.hk for at least 7 days from the date of its posting and on the Company's website at www.polyfaircurtainwall.com.hk.