



Sunray Engineering Group Limited
新威工程集團有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8616

2019/20
ANNUAL
REPORT

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

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This report, for which the directors (collectively the “**Directors**” and individually a “**Director**”) of Sunray Engineering Group 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 report 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 report misleading.

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Lam Ka Wing (*Chairman and Chief Executive Officer*)
Ms. Wong Pui Yee Edith

Independent non-executive Directors

Mr. Ng Kwun Wan
Ms. Cho Mei Ting
Mr. Ho Ka Kit

AUDIT COMMITTEE

Mr. Ng Kwun Wan (*Chairman*)
Ms. Cho Mei Ting
Mr. Ho Ka Kit

REMUNERATION COMMITTEE

Ms. Cho Mei Ting (*Chairlady*)
Mr. Ho Ka Kit
Mr. Ng Kwun Wan

NOMINATION COMMITTEE

Mr. Ho Ka Kit (*Chairman*)
Ms. Cho Mei Ting
Mr. Ng Kwun Wan

COMPANY SECRETARY

Mr. Lam Kwun Leung
(*Member of the HKICPA*)

COMPLIANCE OFFICER

Ms. Wong Pui Yee Edith

AUTHORISED REPRESENTATIVES

Mr. Lam Ka Wing
Mr. Lam Kwun Leung

PRINCIPAL BANKER

Bank of China (Hong Kong) Limited
Bank of China Tower
1 Garden Road
Central
Hong Kong

**China Construction Bank (Asia)
Corporation Limited**
CCB Tower
3 Connaught Road Central
Central
Hong Kong

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants
Registered Public Interest Entity Auditor
35/F, One Pacific Place
88 Queensway
Hong Kong

LEGAL ADVISERS AS TO HONG KONG LAW

Hastings & Co.
5/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

COMPLIANCE ADVISER

Alpha Financial Group Limited
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Fortune House
61 Connaught Road Central
Central
Hong Kong

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Ocorian Trust (Cayman) Limited
P.O. Box 1350
Clifton House
75 Fort Street
Grand Cayman KY1-1108
Cayman Islands

CAYMAN ISLANDS REGISTERED OFFICE

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Clifton House
75 Fort Street
Grand Cayman KY1-1108
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PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Kowloon, Hong Kong

WEBSITE

www.sunray.com.hk

STOCK CODE

08616

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board of Directors (the **"Board"**), I am pleased to present the annual results report of Sunray Engineering Group Limited and its subsidiaries (collectively, **"Sunray"** or the **"Group"**) for the year ended 31 March 2020 (the **"Year"**).

The Group has achieved encouraging financial results for the Year. The operating revenue of the Group recorded a year-on-year increase of approximately 3.9% from approximately HK\$191.7 million for the year ended 31 March 2019 to approximately HK\$199.3 million for the year ended 31 March 2020, maintaining the previous stable growth trend. Profit and total comprehensive income for the Year was approximately HK\$19.4 million, representing a decrease of approximately HK\$9.6 million or 33.2% as compared with the year ended 31 March 2019 of approximately HK\$29.0 million, which was mainly due to the increase in one-off listing expenses. Adjusted profit and total comprehensive income for the year ended 31 March 2020 (excluding listing expenses) amounted to approximately HK\$33.4 million, decreased by approximately HK\$1.0 million, or 2.1%, as compared with that for the year ended 31 March 2019 for approximately HK\$34.1 million. The increased revenue shows that the development strategy formulated by the Group is in line with market expectations and conforms to the development of the industry.

The listing of shares of the Group on GEM of the Stock Exchange on 23 April 2020 (the **"Listing"** or the **"Share Offer"**) marks an important milestone in the development of the Group. Proceeds from the Share Offer will facilitate the future development of Sunray. The Group has commenced the implementation of the future plans as mentioned in the prospectus of the Company dated 31 March 2020 (the **"Prospectus"**).

I believe that the development of building protection industry is closely related to the construction industry as a whole, and the building protection industry is expected to benefit from rising housing supply and higher requirements on product quality. In the future, the Group will actively explore and identify more high-quality building protection products to create more reliable building protection solutions for customers. At the same time, the Group will improve the construction skills of workers by training. I hope that the public will understand the importance of building protection through the Group's high-quality services.

In addition, as a building protection solution provider, the Group fully understands that it has an obligation to reduce the impact of operations on the environment. The Group advocates the importance of environmental protection to employees, adopts the latest rules and standards relating to the environment and the society, uses environmentally friendly products and encourages recycling and reuse of materials in order to promote environmental protection. By continuously improving the environmental sustainability of the Group's business, I believe that the Group will fulfill its responsibilities to the environment and the community.

In view of the outbreak of Novel Coronavirus Pneumonia (**"COVID-19"**) in Hong Kong, the Mainland China and elsewhere in the world (the **"Epidemic"**) since January 2020, the Group has implemented measures, including frequent workspace cleaning with disinfectant, ensuring the wearing of face masks of all staff at work, and conducting body temperature test, etc., to protect the health and safety of the employees. We closely monitor the development of the Epidemic and use every effort on epidemic prevention and control during our daily operations. We are communicating with our suppliers to source necessary materials to maintain our projects progress. We believe this situation will not be lasting, and up to the date of this report, our supplies are able to fulfill our orders and no shortage is noted. Our Directors believe that COVID-19 will not have significant impact on the Group's business operations.

Lastly, on behalf of the Board and the management of the Group, I would like to thank all employees for their devoted efforts during the Year, and shareholders for their steadfast support to the Group. In addition, I would like to extend my sincere gratitude to shareholders, investors, customers, suppliers, and business partners for their dedicated support.

Lam Ka Wing
Chairman

Hong Kong, 30 June 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is a Hong Kong-based building protection solution provider and our solutions integrate the provision of building protection works; and the supply of building protection products. Building protection works generally refer to the selection and use of appropriate building protection products in a building for protection against water, thermal, acoustic and fire.

The Group's building protection works focus on waterproofing works; and are complemented by flooring works and joint sealant works.

The supply of building protection products refer to identifying, sourcing, promoting and distributing suitable building protection products to our customers to meet their varying needs and requirements. The building protection products supplied by us include waterproofing products, tiling products, flooring and other products.

During the year ended 31 March 2020 ("FY2020"), the Group had taken up 210 projects with an original contract sum of approximately HK\$527.5 million in which the Group had completed 19 projects with an original contract sum of approximately HK\$34.2 million. As at 31 March 2020, the Group had 191 contracts in progress with an original contract sum of approximately HK\$493.3 million.

FINANCIAL REVIEW

Revenue

The table below sets forth a breakdown of our revenue by the type of our services for the year indicated:

	FY2020		FY2019	
	HK\$'000	%	HK\$'000	%
Provision of building protection works	120,602	60.5	106,372	55.5
Supply of building protection products	78,676	39.5	85,359	44.5
	<u>199,278</u>	<u>100.0</u>	<u>191,731</u>	<u>100.0</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our revenue increased from approximately HK\$191.7 million for the year ended 31 March 2019 (“FY2019”) to approximately HK\$199.3 million for FY2020, representing an increase of approximately 3.9% or approximately HK\$7.6 million. Our revenue increased primarily due to the increase of revenue generated from building protection works and net off by the decrease in revenue generated from the supplying of building protection products:

Provision of building protection works

Revenue recognised:

	FY2020 HK\$'000	FY2019 HK\$'000
Public sector projects	43,370	24,734
Private sector projects	77,232	81,638
Total	<u>120,602</u>	<u>106,372</u>

Number of projects by the range of amounts of recognised revenue:

	FY2020	FY2019
HK\$1,000,000 or above	27	32
HK\$100,000 to below HK\$1,000,000	53	50
Below HK\$100,000	130	81
Total	<u>210</u>	<u>163</u>

The revenue recognised from the provision of building protection works increased from approximately HK\$106.4 million for FY2019 to approximately HK\$120.6 million for FY2020. The increase was mainly attributable to the increased revenue from public sector projects which was due to the substantial building protection works we provided for a number of projects with relatively higher contract sum including (i) some public housing projects in the New Territories and Kowloon; (ii) commercial building projects in Tseung Kwan O Industrial Estate and Science Park; (iii) community facility projects such as a cultural center in Kowloon Bay, a sport complex in Tai Po, and M+ Pavilion in Western Kowloon.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Supply of building protection products

Revenue by types of building protection products

The following table sets forth the breakdown of our revenue by types of building protection products for the year indicated:

	FY2020		FY2019	
	HK\$'000	%	HK\$'000	%
Waterproofing products	52,157	66.3	50,897	59.6
Tiling products	25,802	32.8	33,779	39.6
Flooring and other products	717	0.9	683	0.8
Total revenue from supply of building protection products	<u>78,676</u>	<u>100.0</u>	<u>85,359</u>	<u>100.0</u>

The revenue recognised from the supply of building protection products decreased from approximately HK\$85.4 million for FY2019 to approximately HK\$78.7 million for FY2020. The decrease was mainly attributable to the decreased revenue from the supply of tiling products which was mainly due to the decreased demand of tiling products from customers in Macau.

Cost of Sales and Services

Cost of sales and services increased by approximately HK\$8.6 million, or 7.6%, from approximately HK\$112.6 million for FY2019 to approximately HK\$121.2 million for FY2020. Such increase in cost of sales and services was generally in line with the increase in revenue.

Gross Profit and Gross Profit Margin

Gross profit slightly decreased by approximately HK\$1.0 million, or 1.3%, from approximately HK\$79.1 million for FY2019 to approximately HK\$78.1 million for FY2020. Our gross profit margin decreased by 2.0% from approximately 41.2% for FY2019 to approximately 39.2% for FY2020 which remained stable in both years.

Other Income, Gains and Losses

Other income, gains and losses decreased by approximately HK\$0.9 million from an approximate gain of HK\$0.6 million for FY2019 to an approximate loss of HK\$0.3 million for FY2020. Such decrease was mainly due to the gains on disposal of motor vehicles for FY2019, which was one-off in nature.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Administrative Expenses

Administrative expenses increased by approximately HK\$1.2 million or 3.8% from approximately HK\$29.9 million for FY2019 to approximately HK\$31.1 million for FY2020. The increase of administrative expenses was mainly contributed by the increase of our finance and administrative staff as a result of the increased staff salary and the general increment in salaries for the Directors.

Listing Expenses

Listing expenses increased significantly by approximately HK\$8.9 million from approximately HK\$5.1 million for FY2019 to approximately HK\$14.0 million for FY2020.

Finance Costs

The Group's finance costs for FY2020 was approximately HK\$0.1 million which was mainly derived from the lease liabilities.

Income Tax Expenses

Income tax expenses decreased by approximately HK\$1.1 million or 14.8% from approximately HK\$7.2 million for FY2019 to approximately HK\$6.1 million for FY2020. The decrease in this expense is in line with the decrease in profits before income tax (excluding listing expenses) as a result of the net off effect of the increase in our revenue and increase in administrative expenses.

Profit and Total Comprehensive Income for the Year

Profit and total comprehensive income for FY2020 amounted to approximately HK\$19.4 million, decreased significantly by approximately HK\$9.6 million or 33.2% as compared with approximately HK\$29.0 million for FY2019. Such significant decrease was mainly attributable to the listing expenses incurred by the Group during the Year. Adjusted profit and total comprehensive income for FY2020 (excluding listing expenses) amounted to approximately HK\$33.4 million, as decreased by approximately HK\$0.7 million, or 2.1% as compared to FY2019, for approximately HK\$34.1 million.

Final Dividend

The Board has proposed a final dividend of 0.58 HK cents per share, payable to the shareholders of the Company whose names appear on the register of members of the Company on Monday, 31 August 2020. It is expected that the final dividend will be paid in cash on or before Monday, 21 September 2020. The total amount of the final dividend to be distributed is estimated to be HK\$5.8 million. The proposal for the distribution of final dividend is subject to the approval of the shareholders of the Company at the forthcoming annual general meeting of the Company (the "AGM") to be held on Friday, 21 August 2020.

During the Year, there was no arrangement that a shareholder of the Company has waived or agreed to waive any dividend.

MANAGEMENT'S DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 March 2020, the Group had total assets of approximately HK\$185.5 million (as compared to approximately HK\$141.8 million as at 31 March 2019), including net cash and cash equivalents of approximately HK\$40.7 million (as compared to approximately HK\$32.1 million as at 31 March 2019). The total assets increased approximately HK\$43.7 million, or 30.7%, was mainly attributable to the increase in recognised contract assets from the completion of our building protection works.

Equity attributable to equity holders of the Company as at 31 March 2020 stood at approximately HK\$123.5 million, representing an increase of approximately HK\$19.4 million compared with approximately HK\$104.1 million as at 31 March 2019.

The Group's financial position is solid and we have sufficient cash and cash equivalent to meet our liabilities when they become due.

Gearing ratio

The Group's gearing ratio (dividing the lease liabilities by equity attributable to equity holders of the Company at year end date) decreased from 2.3% as at 31 March 2019 to 1.3% as at 31 March 2020. The decrease was mainly due to the fulfillment of lease liabilities during the Year.

Current ratio

As at 31 March 2020, the Group had net current assets of approximately HK\$118.5 million, representing a significant increase of approximately HK\$21.7 million as compared to that of approximately HK\$96.8 million as at 31 March 2019, due to the increased contract assets recognised. The current ratio slightly decreased to 3.0 times as at 31 March 2020 (from 3.7 times as at 31 March 2019).

Treasury Policy

The Group has adopted a prudent financial management approach towards its treasury policy and thus maintained a healthy liquidity position throughout the reporting period. The management of the Group regularly reviews the recoverable amounts of contract assets and trade receivables by performing ongoing credit assessments and monitoring prompt recovery and if necessary to make adequate impairment losses for irrecoverable amounts. In order to achieve better cost control and minimise the cost of funds, the Group's treasury activities are centralised and cash is generally deposited with leading licensed banks in Hong Kong and denominated in Hong Kong dollars.

MANAGEMENT'S DISCUSSION AND ANALYSIS

PRINCIPAL RISKS AND UNCERTAINTIES

There are certain risks and uncertainties involved in the Group's current operations, some of which are beyond the Group's control. The following table shows the principal risks and uncertainties of the Group and how the Group mitigates those risks.

Principal Risks Identified	Description of the Principal Risks Identified	Mitigation of Risks
Risk of cost overruns	The actual amount of project costs may exceed our initial estimated costs.	The Directors frequently monitor the progress of each project. Our pricing strategy is based on certain percentage of mark-up over our estimated cost which is reviewed by our management team.
Risk relating to subcontractors' performance	The quality of services of our subcontractors may not meet the requirements of our Group or our customers.	We regularly evaluate our subcontractors by taking into account their quality of services, qualifications, skills and technique, prevailing market price, delivery time, availability of resources in accommodating our requests and reputation. Generally, works performed by our subcontractors are inspected and monitored by our project management team based on our quality management system.
Credit risk management	Our customers usually settle our bills after the certification of our works. The timing for certification of the completed work by our customers varies from different projects and different customers based on their own certification process and approval procedures. Therefore, our Group might experience a longer time to collect our trade receivables and contract assets.	Our credit risk is primarily attributable to trade and other receivables, contract assets and cash and bank balances as set out in notes 20, 22 and 23 to the consolidated financial statements. We have a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis. Our project team is responsible for conducting individual credit evaluations on our customers on a regular basis.
Liquidity risk management	There are often time lags between making payment to our suppliers (including subcontractors) and receiving payment from our customer when undertaking buildings protection works, resulting in possible cash flow mismatch.	Directors are responsible for the overall monitoring of our current and expected liquidity requirements on a monthly basis; We only procure materials on an as-needed basis; and We closely monitor our working capital to ensure that our financial obligations can be fulfilled when due, by, amongst other things, (i) ensuring sufficient cash balances for payments of our short-term working capital needs; (ii) performing regular review of our trade receivables and aging analysis, and following up closely to ensure prompt receipt of trade receivables due from our customers.

A detailed discussion of the risk factors is set out in the section headed "Risk Factors" of the Prospectus.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOREIGN CURRENCY FLUCTUATION

The revenue of the Group is mainly denominated in Hong Kong dollars. However, some of our waterproofing products are sourced from overseas countries and the Mainland China and settled in currencies including Euro, US Dollars, Hong Kong dollars and Renminbi. Therefore, the Group is subject to risks associated with foreign exchange rate fluctuations, particularly the Hong Kong dollars against Renminbi or Euro. The Group currently has no foreign currency hedging policy and the management will monitor the foreign exchange exposure by closely monitoring the movements of foreign currency rates. The Group will consider hedging significant foreign currency exposure should the need arise.

CAPITAL STRUCTURE

As at 31 March 2020, the share capital of the Group comprised only ordinary shares. The capital structure of the Group is solely equity attributable to equity holders of the Group, in which comprises share capital and reserves.

MATERIAL ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

During FY2020, the Company did not have any significant acquisition or disposal of subsidiaries, associates or joint ventures.

CAPITAL EXPENDITURE

During FY2020, the Group had no significant capital expenditure (FY2019: nil) and no significant capital expenditure commitments as at 31 March 2020 (as at 31 March 2019: nil).

SIGNIFICANT INVESTMENT HELD

As at 31 March 2020, the Group did not have any significant investment held (as at 31 March 2019: nil).

CONTINGENT LIABILITIES

As at 31 March 2020, the Group did not have any contingent liabilities.

PERFORMANCE GUARANTEE

As at 31 March 2020, a performance bond of HK\$755,000 was given by a bank in favour of a Group's customer as security for the due performance and observance of the Group's obligations under the contract for building protection works entered into between the Group and such customer.

The performance guarantee was secured by a pledged deposit in the sum of HK\$0.8 million placed by Sunray Engineering (HK) Company Limited ("**Sunray Engineering**") with the bank.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

Save as disclosed in the Prospectus, the Group did not have any other plan for material investments and capital assets.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 March 2020, the Group had 76 employees excluding the Directors. Total staff costs excluding Directors' remuneration amounted to approximately HK\$22.8 million. The remuneration packages the Group offers to its employees include salary, commission and discretionary bonuses. The Group's remuneration policies are in line with the prevailing market practices and the staff remuneration is determined on the basis of the performance and experience of each individual employee.

MANAGEMENT'S DISCUSSION AND ANALYSIS

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

Since 23 April 2020 (the “**Listing Date**”) and up to the date of this report, we are starting to implement our business objectives as set out in the section headed “Business Objective, Future Plans and Use of Proceeds” of the Prospectus.

SIGNIFICANT EVENT AFTER THE REPORTING PERIOD

Save as disclosed elsewhere in this report, after the year ended 31 March 2020 and up to the date of this report, there was no significant event relevant to the business or financial performance of the Group that comes to the attention of the Directors.

AUDIT COMMITTEE

The audit committee of the Company (the “**Audit Committee**”) has reviewed the annual results of the Group for the Year and opined that the applicable accounting standards and requirements have been complied with and adequate disclosures have been made.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the Year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company.

PROSPECTS

The Shares of the Company were listed on GEM on the Listing Date. Net proceeds from the Listing were approximately HK\$22.5 million after deduction of the underwriting commission and relevant listing expenses. The Group will utilise the proceeds for acquiring additional machinery and equipment for building protection works and developing our own-brand products. In addition, we will apply the fund for our staff recruitment on new projects.

In view of the Epidemic since January 2020, the Group has implemented measures, including frequent workspace cleaning with disinfectant, ensuring the wearing of face masks of all staff at work, and conducting body temperature test, etc., to protect the health and safety of the employees. We closely monitor the development of the Epidemic and use every effort on epidemic prevention and control during our daily operations. We are communicating with our suppliers to source necessary materials to maintain our projects progress. We believe this situation will not be lasting, and up to the date of this report, our supplies are able to fulfill our orders and no shortage is noted. Our Directors believe that COVID-19 will not have significant impact on the Group's business operations.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Lam Ka Wing (林嘉榮) (“Mr. Lam”), aged 59, is an executive Director, chairman of the Board and chief executive officer of our Group. Mr. Lam is the spouse of Mrs. Lam. Mr. Lam founded our Group in 1988 and has over 30 years of experience in the building protection industry. He is primarily responsible for the overall strategic planning and business development and overseeing the daily operation of our Group. Mr. Lam completed secondary education in 1980.

Prior to founding our Group, Mr. Lam worked as a salesperson in a supplier and manufacturer of building protection products from 1986 to 1989. He founded our Group in 1988. Mr. Lam has been the director of Karcenar Limited and Sunray Engineering since March 1989 and December 2006 respectively and has been responsible for formulating overall business strategies and overseeing daily operations of our Group.

Ms. Wong Pui Yee Edith (汪佩儀) (“Mrs. Lam”), aged 48, is an executive Director of our Group and the spouse of Mr. Lam. She is responsible for overseeing overall administrative affairs of our Group.

Mrs. Lam obtained her diploma in executive secretarial studies from Sara Beattie College in September 1993.

Prior to joining our Group in July 2018, Mrs. Lam began her career as a secretary to the commercial director at Caldbecks Limited, a company primarily engaged in the trading of wine and spirits, from September 1993 to July 1999. She then joined the group company of Mason Financial Holdings Limited (formerly known as Willie International Holdings Limited), a company listed on the Stock Exchange (stock code: 273) and primarily engaged in investment and finance related business, as a personnel and administration officer in November 1999 and left as a corporate administration manager in August 2015. She worked in HEC Corporate Services Ltd., a financial services provider, as a corporate administration manager from August 2015 to July 2018 and was responsible for overseeing administrative and human resources matters of the company. Since July 2018, Mrs. Lam has been the human resources and administration manager of our Group and has been responsible for overseeing overall administrative affairs of our Group. Since August 2018, she has become a consultant of Cordoba Homes Management Limited, a property management company and provides advice on various human resources and office administrative matters.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Ng Kwun Wan (吳冠雲) (“Mr. Ng”), aged 56, was appointed as an independent non-executive Director of our Group on 18 March 2020. He is also the chairman of the Audit Committee and a member of the remuneration committee (the “**Remuneration Committee**”) and nomination committee (the “**Nomination Committee**”) with effect from the Listing Date. He is responsible for providing independent advice to the Board and advising on corporate governance matters.

Mr. Ng obtained his Bachelor’s degree in Accounting and Finance from the University of Manchester (formerly known as the Manchester Polytechnic) and his Master’s degree majoring in Accounting from the University of New South Wales in July 1988 and May 1990 respectively. He has been a member of Hong Kong Institute of Certified Public Accountants since July 1993.

Mr. Ng has over 20 years of experience in management. From November 1994 to August 2004, he worked for New World Development (China) Limited and New World China Enterprises Projects Limited, both wholly owned subsidiaries of New World Development Company Limited, a company listed on the Stock Exchange (stock code: 17) and engages in the business of property development and property investment, with his last position as a deputy general manager. He then joined Smart Faith Management Limited, a subsidiary of South China Holdings Company Limited, a company listed on the Stock Exchange (stock code: 413) as a general manager of industrial operations in the real estate department, responsible for overseeing the company’s operations in the Tianjin Region, from September 2006 to March 2009. He has also been an independent non-executive director of China Boton Group Company Limited (formerly known as China Flavors and Fragrances Company Limited) since December 2009, the shares of which are listed on the Stock Exchange (stock code: 3318) and an independent non-executive director of Zhongzhi Pharmaceutical Holdings Limited since July 2015, the shares of which are listed on the Stock Exchange (stock code: 3737).

Ms. Cho Mei Ting (曹美婷) (“Ms. Cho”), aged 56, was appointed as an independent non-executive Director of our Group on 18 March 2020. She is also the chairlady of the Remuneration Committee and a member of the Audit Committee and Nomination Committee with effect from the Listing Date. She is responsible for providing independent advice to the Board and advising on corporate governance matters.

Ms. Cho obtained her Bachelor’s degree in Arts from The University of Hong Kong in November 1986. She then obtained her Bachelor’s degree in Laws from Manchester Metropolitan University in September 2000 and further obtained her postgraduate certificate in laws from The University of Hong Kong in June 2001. Ms. Cho is a qualified solicitor in Hong Kong since 2003.

Ms. Cho had worked for several solicitor firms during 2004 to 2010, during which she handled a wide range of legal matters covering matrimonial, commercial and conveyancing matters. From April 2004 to October 2007, Ms. Cho worked as an assistant solicitor in Messrs. Paul W. Tse. She later joined Messrs. Au-Yeung, Cheng, Ho & Tin as a lawyer from October 2007 to August 2010. She then founded Messrs. Cho Mei Ting & Co., Solicitors in 2010 as a sole proprietor. She was an independent non-executive director of China Ludao Technology Company Limited (stock code: 2023) from October 2013 to July 2017.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Ho Ka Kit (何家傑) (“Mr. Ho”), aged 48, was appointed as an independent non-executive Director of our Group on 18 March 2020. He is also the chairman of the Nomination Committee and a member of the Remuneration Committee and Audit Committee with effect from the Listing Date. He is responsible for providing independent advice to the Board and advising on corporate governance matters.

Mr. Ho is a chartered civil engineer, a chartered structural engineer and a registered structural engineer under the Buildings Ordinance (Cap.123 of the Laws of Hong Kong). Mr. Ho obtained his bachelor’s degree in applied science majoring in civil engineering from The University of Toronto in June 1996. He was admitted as a member of the Institution of Structural Engineer, a member of the Hong Kong Institution of Engineers and a member of the Institution of Civil Engineer since November 2003, August 2004 and December 2007 respectively. He was also admitted as a member of the Hong Kong Concrete Institute and a member of the Hong Kong Institution of Highways and Transportation since January 2014 and June 2015 respectively.

Mr. Ho has over 18 years of experience in the construction industry, specialising in civil and structural engineering. He worked as an engineer in Liu Kwong & Associates Ltd., an architectural and engineering firm, from April 2000 to June 2002, during which he was responsible for performing structural design and site supervision of construction works. He joined Meinhardt (C&S) Ltd., a construction and engineering company, as an engineer II in June 2002 and left as the director of structural works in February 2019 and was responsible for project management and coordination. Since January 2019, Mr. Ho has been a director of Kenith Ho & Associates Limited, a company principally engaged in the provision of architectural and structural engineering consultancy services.

SENIOR MANAGEMENT

Mr. Lam Kwun Leung (林冠良) (“Mr. Sammy Lam”), aged 34, is the financial controller and company secretary of our Group and is responsible for supervising financial affairs and corporate secretary matters of our Group. He has over 10 years of experience in accounting and internal control.

Mr. Sammy Lam obtained his Bachelor’s degree in Business Administration majoring in Accounting from the Hong Kong University of Science and Technology in November 2007. He has been a member of the Hong Kong Institute of Certified Public Accountants since September 2010.

Mr. Sammy Lam began his career working as an auditor in KPMG from January 2007 and left as an audit manager in June 2014. He then joined Huawei Tech. Investment Co., Ltd., an information and communications technology company, as a project audit manager in June 2014 and left as a senior inspection manager in February 2018, during which he was responsible for conducting operational inspection and implementing internal control policies. During February 2018 to December 2018, Mr. Sammy Lam was the senior accounting manager of Reignwood International Investment (Group) Company Limited, a diversified international investment company, and was responsible for overseeing financial matters of the company. Since December 2018, Mr. Sammy Lam joined our Group as a financial controller and company secretary.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Wong Hang Tai (黃恒泰) (“Mr. Wong”), aged 48, is the general manager of our Group and is responsible for formulating overall business strategies and overseeing the sales and marketing department. He has over 23 years of experience in the building materials trading industry.

Mr. Wong obtained his Bachelor’s degree in Science from the Chinese University of Hong Kong in December 1993. He further obtained his diploma in marketing from the Hong Kong Institute of Marketing and his postgraduate diploma in marketing from the Chartered Institute of Marketing in July 1997 and June 1998 respectively.

During June 1993 to May 1995, Mr. Wong worked in DMT International Hong Kong Limited, a plastics and chemicals trading company and a wholly-owned subsidiary of Chinney Alliance Group Limited, a company listed on the Stock Exchange (stock code: 385), as a marketing officer. He then joined Arnhold & Co., Ltd., a building materials and engineering equipment trading company, as a sales officer in July 1995 and left as a senior sales officer in June 1998. From July 1998 to May 2002, he joined Hampton Building Materials Ltd., a building materials trading and construction company as a product manager with his last position as a general manager during which he was principally responsible for overseeing the sales and marketing department and project department. Since May 2002, he has been the manager in Tech Link and is responsible for formulating overall business strategies and overseeing business operation of the company.

Mr. Au Yeung Kai Sang (歐陽繼生) (“Mr. Au Yeung”), aged 57, is the project manager of our Group and is responsible for administering activities on sites and overseeing the progress of construction projects. Mr. Au Yeung has over 20 years of experience in the construction industry.

Mr. Au Yeung obtained his diploma in management studies from the Hong Kong Management Association and the Hong Kong Polytechnic University (formerly known as the Hong Kong Polytechnic) in March 1993.

From 1995 to 2006, Mr. Au Yeung worked in a number of construction materials trading and/or manufacturing companies including Daido Group, the holding company of which is listed on the Stock Exchange (stock code: 544), and LP&G Coating Group and was principally responsible for overseeing the sales and marketing department. Prior to joining our Group, he joined B&Q Asia Limited, an indirect subsidiary of Kingfisher Group, an international home improvement retailer listed on the London Stock Exchange (stock code: KGF), as a decoration centre and trade manager and was responsible for overseeing sales and projects in December 2006. Since August 2011, Mr. Au Yeung became a project manager of Sunray Engineering.

COMPANY SECRETARY

Mr. Sammy Lam is the company secretary of our Company. Please refer to the paragraph headed “Senior management” in this section for his biography.

COMPLIANCE OFFICER

Mrs. Lam is the compliance officer of our Company. Please refer to the paragraph headed “Executive Directors” in this section for her biography.

CORPORATE GOVERNANCE REPORT

The Board hereby presents this corporate governance report (“**CG Report**”) in the Group’s annual report for the year ended 31 March 2020.

CORPORATE GOVERNANCE PRACTICES

The Company is committed to achieving high standards of corporate governance. The Directors believe that sound and reasonable corporate governance practices are essential in providing a framework for the Company to safeguard the interests of shareholders, enhance corporate value, formulate its business strategies and policies, and enhance its transparency and accountability.

The Company has adopted the principles and code provisions as set out in the corporate governance code (“**CG Code**”) contained in Appendix 15 to the GEM Listing Rules as the basis of the Company’s corporate governance practices.

The CG Code has been applicable to the Company with effect from the Listing Date. The Board is of the view that since the Listing Date and up to the date of this report, the Company has complied with all applicable code provisions as set out in the CG Code except for the following code provision A.2.1 of the CG Code.

Securities Transactions by Directors

The Company has adopted a Code of Ethics and Securities Transactions (the “**Code**”) on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules as its own code of conduct regarding securities transactions by Directors. Having made specific enquiry of all Directors, all Directors confirmed that they had complied with the required standard of dealings and the Code regarding securities transactions during the Year.

The Board has also adopted the Code to regulate all dealings by relevant employees who are likely to be in possession of unpublished inside information of the Company in respect of securities in the Company as referred to in code provision A.6.4 of the CG Code. No incident of non-compliance with the Code by the Company’s relevant employees was noted during the Year after making reasonable enquiry.

BOARD OF DIRECTORS

Board composition

The Board consists of five Directors, including two executive Directors and three independent non-executive Directors. Details of their composition by category are as follows:

Executive Directors

Mr. Lam Ka Wing (Chairman and chief executive officer) (Spouse of Mrs. Lam) (appointed as a Director on 12 February 2019)

Ms. Wong Pui Yee Edith (Spouse of Mr. Lam) (appointed as a Director on 12 February 2019)

Independent non-executive Directors

Mr. Ng Kwun Wan (appointed on 18 March 2020)

Ms. Cho Mei Ting (appointed on 18 March 2020)

Mr. Ho Ka Kit (appointed on 18 March 2020)

Details of the background and qualifications of all Directors are set out in the section headed “Biographical Details of Directors and Senior Management” from pages 12 to 15 of this report. Save as disclosed above, there is no relationship, including financial, business, family or other material/relevant relationship(s) among members of the Board.

RESPONSIBILITIES OF THE BOARD

The Board oversees the overall management and administration of the business and operations of the Group. The Board is primarily responsible for, among other things, overall development, strategic planning, reviewing and monitoring the business performance, approving the financial statements and annual budgets, internal controls and risk management as well as supervising the management of the Group. The Board delegates to the management the authority and responsibilities of the day-to-day management and operation of the Company. Despite the foregoing delegation, the Board would review and supervise the performance of the management periodically.

The Board may delegate any of its powers, authorities and discretions to committees, consisting of such Director(s) and other person(s) as the Board thinks fit, and it may, from time to time, revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes. Any committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to applicable laws and regulations, including the CG Code, and any regulations which may be imposed on it by the Board.

Regular meetings of the Board will be held to deliberate the strategic policies of the Company including but not limited to significant acquisitions and disposals, review and approve annual budgets, review the performance of the business and approve the public release of periodic financial results. Directors are also provided, at the expense of the Company, with access to independent professional advice in carrying out their obligations when required.

Appointment and Re-election of Directors

Each of the executive Directors has entered into a service contract with the Company for an initial fixed term of three years commencing from the Listing Date. Each of the independent non-executive Directors has respectively entered into a letter of appointment with the Company and is appointed for an initial fixed term of three years commencing from the Listing Date. According to article 108(a) of the articles of association of the Company (the “Articles”), at each annual general meeting, one-third of the Directors shall retire from office by rotation provided that each Director is subject to retirement by rotation at least once every three years but is eligible for re-election at an annual general meeting in accordance with the Articles.

Article 112 of the Articles specifies that any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting. Any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

Accordingly, Mr. Lam, Mrs. Lam and Mr. Ng shall retire at the forthcoming AGM. The retiring Directors, all being eligible, offer themselves for re-election.

CORPORATE GOVERNANCE REPORT

Independent non-executive Directors

During the Year, the Board comprised of five members, three of which are independent non-executive Directors, which represented more than one-third of the Board. As such, the Company has fully complied with Rules 5.05(1) and 5.05A of the GEM Listing Rules. Mr. Ng Kwun Wan, our independent non-executive Director, is a certified public accountant. Accordingly, the Company has fully complied with Rule 5.05(2) of the GEM Listing Rules. For more details regarding the qualifications of Mr. Ng, please refer to the section headed “Biographical Details of Directors and Senior Management” of this report.

The Company has received annual written confirmation from each of the independent non-executive Directors in respect of his/her independence in accordance with the independence guidelines set out in Rule 5.09 of the GEM Listing Rules. The Company is of the view that all independent non-executive Directors fulfil the relevant independence requirements.

Continuous Professional Development of Directors

Pursuant to code provision A.6.5 of the CG Code, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. During the Year, all Directors participated in continuous professional development by attending a training session in respect of the roles and responsibilities of directors of a company listed on GEM of the Stock Exchange, and further enhance their knowledge by reading related materials. They also from time to time received from the Company updates on laws, rules and regulations which may be relevant to their roles, duties and functions as directors of a listed company on the Stock Exchange.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Under code provision A.2.1 of the CG Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. For FY2020, Mr. Lam was the chairman of the Board and the chief executive officer of the Group. In view of the fact that Mr. Lam has been operating and managing the Group since its establishment, the Directors believe that it is in the best interest of the Group to have Mr. Lam taking up both roles for effective management and business development. Therefore, the Board considers that deviation from code provision A.2.1 of the CG Code is appropriate in such circumstance.

BOARD COMMITTEES

In order to assist the Board in discharging its duties in a more efficient manner, the Board has established, with written terms of reference, three Board committees, namely the Audit Committee, the remuneration committee (the “**Remuneration Committee**”) and the nomination committee (the “**Nomination Committee**”), to oversee particular aspects of the Company’s affairs. The Board committees are provided with sufficient resources to discharge their duties. The written terms of reference for each Board committee are in compliance with the GEM Listing Rules and they are published on the websites of the Stock Exchange and the Company accordingly.

Audit Committee

Our Company established the Audit Committee on 18 March 2020 in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules. Written terms of reference in compliance with paragraph C.3.3 of the CG Code were adopted. The primary roles of our Audit Committee include, but are not limited to, (a) making recommendations to the Board on the appointment and removal of external auditors; (b) reviewing the financial statements and material advice in respect of financial reporting; and (c) overseeing internal control procedures of the Company. Our Audit Committee consists of three members, namely, Mr. Ng, Ms. Cho and Mr. Ho. Mr. Ng is the chairman of our Audit Committee.

As the Company was listed on 23 April 2020, no meeting of Audit Committee was held during the Year.

From the Listing Date and up to the date of this annual report, two Audit Committee meetings were held on 15 May 2020 and 30 June 2020. The summary of the Audit Committee meetings is as follows:

- (a) Met with the external auditor, Deloitte Touche Tohmatsu and approved the audit strategy for year ended 31 March 2020;
- (b) Confirmed the Group's annual results for the year ended 31 March 2020 and opined that the applicable accounting standards and requirements have been complied with and adequate disclosures have been made;
- (c) Evaluated and agreed the effectiveness of the Company's risk management and internal control systems.

According to the current terms of reference, meetings of the Audit Committee shall be held at least twice a year and the external auditor may request a meeting if they consider that one is necessary.

Nomination Committee

Our Company established the Nomination Committee on 18 March 2020 in compliance with paragraph A.5.1 of the CG Code. Written terms of reference in compliance with paragraph A.5.2 of the CG Code were adopted. The primary roles of our Nomination Committee include, but are not limited to, (a) reviewing the structure, size and composition of the Board on a regular basis; (b) identifying individuals suitably qualified to become Board members; (c) assessing the independence of the independent non-executive Directors; and (d) making recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors.

Our Nomination Committee consists of three independent non-executive Directors, being Mr. Ng, Ms. Cho and Mr. Ho. Mr. Ho is the chairman of our Nomination Committee.

Pursuant to the terms of reference of the Nomination Committee, the Nomination Committee should meet at least once a year.

CORPORATE GOVERNANCE REPORT

As the Company was listed on 23 April 2020, no meeting of the Nomination Committee was held during the Year. From the Listing Date and up to the date of this annual report, one Nomination Committee meeting was held on 30 June 2020 to (i) review, among other things, the independence of the independent non-executive Directors; (ii) consider the qualifications of the retiring Directors standing for re-election at the forthcoming AGM; (iii) review the structure, size and composition of the Board; and (iv) review the Board Diversity Policy adopted by the Company. In identifying and selecting suitable candidates for directorships, the Nomination Committee would consider various factors including the candidate's character, qualifications, experience, independence and other relevant criteria necessary to complement the corporate strategy and achieve board diversity, where appropriate, before making recommendation to the Board. Having reviewed the composition of the Board, the Nomination Committee considered that there is an appropriate balance of board diversity.

Remuneration Committee

Our Company established the Remuneration Committee on 18 March 2020 in compliance with Rule 5.34 of the GEM Listing Rules. Written terms of reference in compliance with paragraph B.1.2 of the CG Code were adopted. The primary roles of our Remuneration Committee include, but are not limited to, (a) making recommendations to the Board on the overall remuneration policy and structure relating to all Directors and senior management of the Group; (b) reviewing performance based remuneration and ensuring none of the Directors determine their own remuneration.

Our Remuneration Committee consists of three independent non-executive Directors, being Mr. Ng, Ms. Cho and Mr. Ho. Ms. Cho is the chairlady of our Remuneration Committee.

As the Company was listed on 23 April 2020, no Remuneration Committee meeting was held during the Year. From the Listing Date and up to the date of this annual report, one Remuneration Committee meeting was held on 30 June 2020 to review the remuneration of the Directors and senior management of the Group. Pursuant to code provision B.1.5 of the CG Code, details of the remuneration of the senior management (other than Directors) by band for the year ended 31 March 2020 is as follows:

	Number of employees
HK\$1,000,001 to HK\$1,500,000	2
HK\$5,500,001 to HK\$6,000,000	1

Details of the remuneration of each Director for the year ended 31 March 2020 are set out in note 13 to the consolidated financial statements for the year ended 31 March 2020.

Corporate Governance Functions

The Board as a whole is responsible for performing the corporate governance functions set out in code provision D.3.1 of the CG Code, namely:

- (i) to develop and review the Company's policies and practices on corporate governance;
- (ii) to review and monitor the training and continuous professional development of Directors and senior management;
- (iii) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

- (iv) to develop, review and monitor the code of conduct and compliance manual (including in relation to securities trading) applicable to employees and Directors; and
- (v) to review the Company's compliance with the CG Code and the disclosure in the CG Report in the Company's annual reports.

During the Board meeting on 30 June 2020, the Board has reviewed the corporate governance measures of the Group and this CG Report and is of the view that the Company has fully complied with the CG Code in the manner as detailed in this CG Report, except for the above code provision A.2.1 of the CG Code.

Summary of Board Diversity Policy

In assessing the Board composition, the Nomination Committee would take into account various aspects as well as factors concerning Board diversity as set out in the Company's Board diversity policy and procedures for shareholders to propose a person for election as a the Director of the Company, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service etc. The Nomination Committee would discuss and agree on measurable objectives for achieving diversity on the Board, where necessary, and recommend them to the Board for adoption.

Board Nomination Policy

The Company adopted a nomination policy in compliance with the CG Code with effect from the Listing Date, which establishes written guidelines to Nomination Committee to identify suitable individuals to be qualified as Board members and make recommendations to the Board on the selection of individuals nominated for directorships with reference to the formulated criteria. The Board is ultimately responsible for selection and appointment of new Directors.

The Board, through the delegation of its authority to the Nomination Committee, has used its best efforts to ensure that Directors appointed to the Board has a balance of skills, experience and diversity of perspectives that are required to support the execution of the Company's business strategy.

Nomination Process

The Nomination Committee is responsible for ensuring that the selection criteria are being applied consistently and fairly in the nomination process and confirming the same to the Board when making its recommendation on appointment.

Procedures for Appointment of New Director

Subject to the provisions in the Articles, if the Board recognises the need to appoint a new Director, the Nomination Committee shall identify candidates in accordance with the selection criteria set out in the nomination policy, evaluate the candidates and recommend to the Board accordingly before the Board decides on the appointment based upon its recommendation.

Procedures for Re-election of Director at General Meeting

The Nomination Committee shall review the overall contribution to the Company of the retiring Director and determine whether the retiring Director continues to meet the selection criteria set out in the nomination policy before making recommendation to the Board which shall then make recommendation to shareholders in respect of the proposed re-election of Director at the general meeting.

CORPORATE GOVERNANCE REPORT

Procedures for Nomination by Shareholders

The Company's website (www.sunray.com.hk) sets out the procedures for shareholders to propose a person for election as a Director. The proposed candidate shall go through the same review and recommendation procedures by the Nomination Committee.

Selection Criteria

The Nomination Committee will propose a candidate for nomination or a Director for re-election based on (i) merit; (ii) the board diversity policy; (iii) the requirements under the GEM Listing Rules; (iv) the expected contribution to the Board and to ensure the Board has a balance of skills, experience and diversity of perspectives that are required to support the execution of the Company's business strategy; (v) the ability of the candidate to commit and devote sufficient time and attention to the Company's affairs; (vi) the level of independence from the Company, and potential or actual conflicts of interest of the candidate; and (vii) other relevant factors considered on a case-by-case basis.

These factors are for reference only, and not meant to be exhaustive and decisive. The Nomination Committee has the discretion to nominate any person as it considers appropriate. The Company shall review and reassess the nomination policy and its effectiveness on a regular basis or as required.

Board Meetings and Attendance Records of Directors

Code provision A.1.1 of the CG Code states that the Board should meet regularly and Board meetings should be held at least four times each year at approximately quarterly intervals with active participation of a majority of Directors, either in person or through other electronic means of communication.

The Company was listed on 23 April 2020. Therefore, the Board did not hold any regular Board meetings during the Year. The Board will schedule to have regular Board meetings at least four times during the year ending 31 March 2021. Other Board meetings will also be held if necessary.

In the Board meeting held on 30 June 2020, the Board had reviewed the Company's corporate governance policies and practices, training and continuous professional development of directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of Rules 5.48 to 5.67 of the GEM Listing Rules and the Company's compliance with the CG Code and disclosure in this CG Report.

The attendance records of each of the Directors at the Board meeting, committee meetings and annual general meeting held during the period from the Listing Date and up to the date of this report are set out in the table below:

Name of Directors	Attendance/Number of Meeting				Annual General Meeting
	Board Meeting	Audit Committee	Nomination Committee	Remuneration Committee	
Mr. Lam	1/1	N/A	N/A	N/A	N/A
Mrs. Lam	1/1	N/A	N/A	N/A	N/A
Mr. Ng	1/1	2/2	1/1	1/1	N/A
Ms. Cho	1/1	2/2	1/1	1/1	N/A
Mr. Ho	1/1	2/2	1/1	1/1	N/A

The forthcoming annual general meeting which will be held on 21 August 2020 is the first general meeting of the Company since the Listing Date.

Apart from the Board meeting, the Chairman also held meeting with the independent non-executive Directors without the presence of the executive Directors during the Year.

COMPANY SECRETARY

Mr. Sammy Lam has been the company secretary of the Company since 12 February 2019. He reports to the executive Directors and is responsible for advising the Board on corporate governance matters and ensuring that the Board policy and procedures, and the applicable laws, rules and regulations are followed. All Directors have access to the advice and services from the company secretary to ensure that the Board procedures and all applicable laws are followed and complied with. Furthermore, the company secretary is responsible for facilitating communications amongst Directors as well as with management. During the Year, Mr. Sammy Lam undertook over 15 hours of professional training to update his skill and knowledge and complied with the relevant professional training requirement under Rule 5.15 of the GEM Listing Rules.

Biographical details of the company secretary of the Company is set out in the section headed “Biographical Details of Directors and Senior Management” of this report.

DIRECTORS' AND AUDITOR'S RESPONSIBILITY IN PREPARING THE FINANCIAL STATEMENTS

The Directors are responsible for the preparation of the financial statements in accordance with the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Companies Ordinance (Chapter 622 of Laws of Hong Kong), which give a true and fair view of the state of affairs, profit or loss and cash flow of the Group on a going concern basis.

The Directors acknowledge their responsibility for the preparation of consolidated financial statements of the Group for FY2020. In preparing the consolidated financial statements for FY2020, the Board has adopted appropriate and consistent accounting policies and made prudent, fair and reasonable judgments and estimates. The Directors are responsible for maintaining proper accounting records which reflect with reasonable accuracy the state of affairs, operating results, cash flows and equity movement of the Group at any time. The Directors confirm that the preparation of the financial statements of the Group is in accordance with statutory requirements and applicable accounting standards.

The Directors also confirm that, to the best of their knowledge, information and belief, having made all reasonable enquiries, they are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The Directors are responsible for taking all reasonable and necessary steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities. The statement of auditor about their reporting responsibilities on the consolidated financial statements is set out in the Independent Auditor's Report.

The reporting responsibilities of the Company's auditor, are set out in the Independent Auditor's Report on pages 53 to 57 of this report.

CORPORATE GOVERNANCE REPORT

AUDITOR'S REMUNERATION

The fees paid or payable to auditor for FY2020 are as follows:

Services rendered	Fees paid/ payable HK\$'000
Annual audit services for FY2020	1,280
Non-statutory audit services as reporting accountant in relation to the Listing	<u>1,342</u>

RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledges its responsibility for the effectiveness of the Group's risk management and internal control systems in order to safeguard the Group's assets and the shareholders' interests and conduct a review on an annual basis. The main features of the risk management and internal control systems of the Group include:

- (i) the identification of potential risks;
- (ii) the assessment and evaluation of risks;
- (iii) the development and continuous updating of mitigation measures; and
- (iv) the ongoing review of internal control procedures to ensure their effectiveness in respects of the Group's financial, operational, compliance controls and risk management functions.

In order to protect the Group's assets against improper use and ensure compliance with applicable laws, rules and regulations, the Group has also established organisational structure within such risk management and internal control systems by clearly defining the power and obligations of each department in the Group. The risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable but not absolute assurance against material misstatement or loss.

Process used to identify, evaluate and manage significant risks

The Group's risk management process involves the identification, evaluation, response, monitoring and reporting of risks. After having successfully identified the risks that may potentially affect the Group's business and operations by the management of the Company, the Board will perform risk assessment by prioritising the risks identified to determine key risks that the Group is exposed to and discuss mitigation measures. Besides, existing risk mitigation measures are subject to regular monitoring and review by the management of the Company, which will review the Group's risk management strategies, report such results and make appropriate suggestions to the Board.

RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS

The Company has in place policies and procedures in relation to risk management and internal control. The Board, with the support of the Audit Committee, is primarily responsible for overseeing the risk management and internal control systems of the Company and for reviewing their effectiveness. The Company's internal control system and procedures are designed to meet its specific business needs and to minimise its risk exposure. The Company has adopted different internal guidelines, along with written policies and procedures to monitor and lessen the impact of risks which are relevant to its business and control its daily business operations. Management will identify the risks associated with the Group's day-to-day operations for review by the Board. The Board is responsible for evaluating and determining the nature and extent of the risks that the Company is willing to take in achieving the Company's strategic objectives, and ensuring that the Company establishes and maintains appropriate and effective risk management and internal control systems. The Board oversees management in the design, implementation and monitoring of the risk management and internal control systems. The Board acknowledges that such risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable but not absolute assurance against material misstatement or loss.

In preparation for the Listing, the Company has engaged an independent internal control consultant to perform a detailed evaluation of the Group's internal control system including the areas of anti-fraud policy, whistle blowing policy, human resources, anti-corruption, conflict of interest, financial reporting, legal compliance and risk management with the aims of, among other matters, improving the Group's corporate governance and ensuring compliance with the applicable laws and regulations. Based on its internal control review, the independent internal control consultant identified some weaknesses and deficiencies in the internal control system and remedial actions based upon the recommendations from the independent internal control consultant were taken.

Pursuant to C.2.1 of the CG Code, the Board engaged an independent internal control consultant to review the effectiveness of the Group's risk management and internal control systems to assess their effectiveness and adequacy for the Year. With a view of further enhancing the Group's internal control systems on an ongoing basis, the Group will continue to engage external professional advisers to conduct review and consider establishing a formal in-house internal audit department where necessary from time to time, taking into account the development of the business and the scale and complexity of our operation in the future.

The Board, having reviewed the effectiveness of the risk management and internal control systems of the Company through the Audit Committee, considers that the Company's risk management and internal control systems are adequate and effective and no significant control failings or weaknesses were identified for FY2020. The level of resources, staff qualifications and experience, training programmes and budget of the Company's internal audit and accounting and financial reporting functions were also assessed and considered adequate for FY2020. The Company will continue to improve its system of internal control. The Board shall conduct such review through the Audit Committee at least once annually.

CORPORATE GOVERNANCE REPORT

Handling and Dissemination of Inside Information

With respect to procedures and internal controls for the handling and dissemination of inside information, the Company is aware of its relevant obligations under the Securities and Futures Ordinance (Chapter 571 of Laws of Hong Kong) (the “SFO”) and the GEM Listing Rules. The Group adopts and implements an information disclosure policy and procedures in order to protect inside information from unauthorised and inaccurate disclosures.

The Group has strictly prohibited unauthorised use of confidential or inside information. Any inside information and any information which may potentially constitute inside information is promptly identified, assessed and escalated to the Chairman and the financial controller to decide on the need for disclosure. The Audit Committee regularly reviews and assesses the effectiveness of the information disclosure policy and procedures and proposes recommendations to the Board.

SHAREHOLDERS' RIGHTS

The general meetings of the Company provide a forum for the shareholders to exchange views directly with the Board. Subject to provisions of the applicable laws in the Cayman Islands and GEM Listing Rules, an annual general meeting of the Company should be held each year and at the venue as determined by the Board. Each general meeting, other than an annual general meeting, is called an extraordinary general meeting (“EGM”). To safeguard shareholders’ interests and rights, separate resolutions will be proposed for each substantially separate issue at general meetings. All resolutions put forward at general meetings will be voted on by poll pursuant to the GEM Listing Rules, and poll results will be published on the websites of the Company and GEM after each general meeting.

RIGHTS TO CONVENE EGMS AND PROCEDURES BY SHAREHOLDERS

Pursuant to article 64 of the Articles, the Board may, whenever it thinks fit, convene an EGM. Any one or more shareholders, at the date of deposit of the requisition, holding not less than one-tenth of the paid up capital of the Company and having the right of voting at general meetings of the Company shall have the right, by written requisition to the Board or the company secretary, to require an EGM to be called by the Board for the transactions of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. The requisition must be deposited at the registered office or the head office of the Company.

If within 21 days of such deposit, the Board fails to proceed to convene such EGM, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to requisitionist(s) by the Company.

Rights to Put Forward Proposals at General Meetings

The Board is not aware of any provisions allowing shareholders to propose new resolutions at the general meetings under the Articles and the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the “Companies Law”). Subject to the provisions of the Articles, eligible Shareholders who wish to move a resolution may by means of requisition convene an EGM following the procedures set out above.

Putting Forward Enquiries to the Board

To put forward any enquiries to the Board, shareholders may send written enquiries to the Company with sufficient contact details. The Company will not normally deal with verbal or anonymous enquiries.

Contact Details

Shareholders may send their enquiries or requests as mentioned above to the following:

Address: Unit 803-804, 8/F, Laford Centre, 838 Lai Chi Kok Road, Cheung Sha Wan, Kowloon

Attention: Board of Directors

Tel: +852 3977 6789

Fax: +852 3977 6728

Email: info@sunrayeng.com.hk

For the avoidance of doubt, shareholder(s) must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address and provide their full names, contact details and identifications in order to give effect thereto. Shareholders' information may be disclosed as required by law.

COMPLIANCE OFFICER

Mrs. Lam, an executive Director, has been designated as the compliance officer of the Group to oversee all compliance matters.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company endeavours to maintain an on-going dialogue with shareholders and in particular, through annual general meetings and other general meetings. At the annual general meeting, Directors (or their delegates as appropriate) are available to meet shareholders and answer their enquiries.

The Company maintains a website at www.sunray.com.hk as a communication platform with the shareholders and potential investors, where the latest business development, financial information and other relevant information of the Company are available for public access. The information on the Company's website is updated on a regular basis in order to maintain a high level of transparency.

Information released by the Company, including but not limited to, the publication of quarterly, interim and annual reports, the publication and posting of notices, announcements and circulars will also be posted to the Stock Exchange's website at the same time.

CONSTITUTIONAL DOCUMENTS

Pursuant to Rule 17.102 of the GEM Listing Rules, the Company has published its memorandum of association and the Articles on the respective websites of the Stock Exchange and the Company. Since the Listing, no amendments have been made to the constitutional documents of the Company.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ABOUT THIS REPORT

The Group is pleased to present our first Environmental, Social and Governance Report (the “**Report**”) to provide an overview of the Group’s management on significant issues affecting the operation, and the performance of the Group in terms of environmental and social aspects.

Preparation Basis and Scope

This Report is prepared in accordance with Appendix 20 to the GEM Listing Rules — “Environmental, Social and Governance Reporting Guide” and has complied with the “comply or explain” provisions in the GEM Listing Rules.

This Report details the environmental, social and governance performance of the Group and demonstrates our sustainability initiatives during the reporting period from 1 April 2019 to 31 March 2020 (the “**reporting period**”).

With the aim to improving the disclosure requirements in the Report, the Group has committed to formulate policies, record relevant data as well as implement and monitor measures. Should there be any discrepancy between the Chinese and the English versions of this Report, the English version shall prevail.

Confirmation and Approval

Information disclosed in this Report is sourced from the internal documents and statistical data of the Group. This Report has been confirmed and approved by the Board in June 2020.

Contact Information

The Group values your feedback in assisting us to improve our sustainability management. Please contact us by email at info@sunrayeng.com.hk if you have any questions regarding this Report.

CORPORATE PROFILE

The Group is a Hong Kong-based building protection solution provider and our solutions integrate (i) the provision of building protection works with a focus on waterproofing works; and (ii) the supply of building protection products. Under the leadership of the management, the Group has been successfully listed on GEM of the Stock Exchange on 23 April 2020.

Our principal business objectives and strategies are to achieve sustainable growth in our business and increase long-term shareholder value, by continuing to actively seek business opportunities in the building protection industry in both private and public sectors in Hong Kong and Macau and enhance our building protection product portfolio. We believe we are a well-established building protection solution provider as we have successfully operated such business for approximately 22 years.

To maintain competitiveness in the market and provide outstanding services to the customers, the Group places significant focus on the long-term sustainability. We are determined to comply with relevant regulations and rules as well as requirements from our stakeholders. Various policies and procedures are established to assist the management on monitoring the operation risks regarding the environment and society.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

As at 31 March 2020, there were 11 subsidiaries directly or indirectly wholly owned by the Company. For the list of subsidiaries, please refer to Note 36 to the consolidated financial statements. Our major business operation are carried through the below 4 subsidiaries:

1. Karcenar Limited
2. Tech Link Construction Engineering Limited
3. Sunray Engineering (HK) Limited
4. Fair Building Material Company Limited

STAKEHOLDER ENGAGEMENT AND MATERIALITY ASSESSMENT

To prepare for further development and business growth, the Group recognises the importance of intelligence gained from the stakeholders' insights, inquiries and continuous feedback on the Group's business activities. We maintain various channels with our stakeholders on relevant issues including the performances and challenges that we come across. The Group engages with its stakeholders to develop mutually beneficial relationships and to seek their views on its business proposals and initiatives as well as to promote sustainability in the marketplace, workplace, community and environment. The outcomes of these stakeholder engagement processes have been consistently applying to our continuous improvement activities. The following table provides an overview of the Group's key stakeholders, and various platforms and methods of communication are used to reach, listen and respond.

Major Stakeholders	Expectations	Engagement channels
Government	<ul style="list-style-type: none"> — Comply with the laws and regulations — Proper tax payment — Promote regional economic development and employment 	<ul style="list-style-type: none"> — On-site inspections and checkings — Work reports preparation and submission for approval — Annual reports — Website
Shareholders and Investors	<ul style="list-style-type: none"> — Business performance — Corporate governance — Protection of interests of shareholders 	<ul style="list-style-type: none"> — Annual general meeting and other shareholder meetings — Annual reports and announcements
Employees	<ul style="list-style-type: none"> — Health and safety — Labour rights — Comfortableness of the working environment — Career development path 	<ul style="list-style-type: none"> — Trainings and orientation — Internal meetings and email communication — Corporate activities
Customers	<ul style="list-style-type: none"> — Quality of the services — Project management — Integrity — Business ethics 	<ul style="list-style-type: none"> — Business visits — Email communication — Regular meetings — Group's website
Public and communities	<ul style="list-style-type: none"> — Social responsibilities — Environmental awareness — Contribution to the communities 	<ul style="list-style-type: none"> — Charity activities — Volunteer works

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

With these on-going dialogues, we obtain more understandings on the expectations and concerns from stakeholders. The Group believes it enhances our business management as well as decision making for the Group's long-term development.

The principle of materiality strengthens the Group's ESG reporting which means understanding the ESG issues that are important to the Group's business, informing the issue and key performance indicators (KPIs) to cover in the Report. The Group's approach to materiality in this Report is based on the best-practice recommendations of the ESG Reporting Guide and the Global Reporting Initiative ("GRI") Guidelines.

We evaluated and analysed the importance of any changes in business environment, as well as overall sustainability challenges to the Group. As part of this exercise, internal and external stakeholders, including the public community, our employees, consumers, shareholders and investors, contributed their perspectives regarding ESG reporting and the broader ESG issues relevant to the Group. The assessment, through the following steps, also considered ESG issues relevant to the Group's industry and operation locations.

Step 1: Identification – Industry Benchmarking

- The Group identified relevant ESG issues based on the feedback from the stakeholders, sustainability indices and the ESG reports of the Group's industry peers.
- The materiality of each ESG issue was determined based on the frequency of its disclosure by selected peer companies.

Step 2: Prioritisation – Stakeholder Engagement

- Key stakeholders were engaged on ESG issues with impact on our Group.
- The Group asked the stakeholders on ranking each of the identified ESG issues according to their view of its importance to the operation and business development of the Group.

Step 3: Validation – Determining Material Issues

- Our management performed an all rounded review and finalised on the range of ESG issues being reported, so as to ensure the results of the materiality assessment properly reflected the importance of the issues to the Group's business development and long term sustainability.

As a result of the above assessment, the important issues to the Group were discussed in this Report.

ENVIRONMENTAL ASPECTS

As a building protection solution provider, we recognise that we have an obligation to reduce the impact of our operations on the environment and be accountable for the resources and materials that we used in our daily operations. We would place strong effort on protecting the environment by promoting the importance of the environmental protection to our employees, adopting the latest rules and standards relating to the environment and community, using environmental friendly products as well as encouraging the recycle and reuse of materials. Through continuously improving the environmental sustainability of our business, we believe we would fulfill our obligations to both the environment and community.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

EMISSIONS

The Group is subject to various local environmental laws and regulations relating to the operations. During the reporting period, the Group had no material non-compliance regarding environmental issues.

Air Pollutant Emission

Air pollutants such as nitrogen oxides (“**NO_x**”), sulphur oxides (“**SO_x**”) and respiratory suspended particles (“**RSP**”, also known as Particulate Matters (“**PM**”)) bring significant impact to our environment and thus the health of our staff. To mitigate the impact, the Group has taken initiatives to formulate plans for the reduction of air pollutants.

Our air pollutants are mainly generated from the motor vehicles through consumption of fuels. We carry out regular quarterly or yearly vehicle maintenance, including replacement of any wear components and generator cleaning. Vehicle usage is well controlled by proper route planning and encouragement of using public transport.

The air pollutant emission during the reporting period is as follows:

Air Pollutants	Unit	2020 Total
Nitrogen oxides (NO _x)	kg	18.76
Sulphur dioxide (SO ₂)	kg	0.23
Particulate matters (PM)	kg	1.38

Greenhouse Gas (“GHG”) Emission

Global warming is a serious environmental issue that our world is facing. The major sources of air and greenhouse gas (GHG) emissions we associated are energy consumptions, including the purchased electricity used in our daily operations and the fuels consumed by the motor vehicles and machinery. Our Group is taking different measures to minimise the GHG emissions. We have adopted energy saving initiatives that are mentioned in the section headed “Use of Resources” below. During the reporting period, the emission of GHG is as follows:

GHG Emission ¹	Unit	2020 Total
Scope 1 ²	tonnes of CO ₂ -e	43.15
Scope 2 ³	tonnes of CO ₂ -e	21.44
Total	tonnes of CO ₂ -e	64.58
Intensity	tonnes of CO ₂ -e/employee	0.83

1 The calculation of the GHG emission is based on the “Corporate Accounting and Reporting Standard” from greenhouse gas protocol.

2 Scope 1: Direct emission from sources that are owned or controlled by the Group.

3 Scope 2: Indirect emissions from purchased electricity consumed by the Group.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Hazardous and Non-hazardous Wastes

No hazardous wastes were produced during our operating process. In case any hazardous wastes are produced, we would have the wastes properly handled by the qualified contractor.

Non-hazardous wastes generated from the Group mainly include paper. We have adopted several environmental friendly practices, which include:

- Encouraging double-sided printing and photocopying; and
- Promoting the usage of e-documents for internal and external communication.

The amount of non-hazardous wastes produced from the Group is not significant. The Group has also put effort in recycling/reusing waste papers. The amount of the waste recycled during the reporting period is as follows:

Waste recycled/reused (company to confirm)	Unit	2020 Total
Paper	kg	453.59

USE OF RESOURCES

The Group places high priority on the efficient use of resources. We have adopted a set of guidelines to improve the efficient use of energy and water.

Energy

The Group aims to promote resource saving and implement suitable energy saving measures in order to improve the energy saving performance and reduce resource consumption as much as possible. For example, we would proactively switch off any unnecessary electrical appliances, and make use of light-emitting diode (“LED”) bulbs which give higher efficiency. During the reporting period, the energy consumptions are as follows:

Energy	Unit	2020 Total
Purchased electricity	kWh in '000s	34.03
Fuel	kWh in '000s	145.00
Total energy consumption	kWh in '000s	179.03
Intensity	kWh in '000s/employee	2.30

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Water

Another resource that we have used for the daily operation is water. Though the amount of water that we use or discharge is not significant due to our business nature, for saving the use of water, the Group also promotes water saving practices among our staff. For example, we encourage our staff not to keep running water taps while cleaning any stuff in pantry. The water consumption during the reporting period is as follow:

Water	Unit	2020 Total
Water consumption	m ³	16
Intensity	m ³ /employee	0.21

Packaging Material

As the Group's business is focused on waterproof works, there were no significant amounts of packaging material used for finished products during the reporting period.

THE ENVIRONMENT AND NATURAL RESOURCES

As a building protection solution provider, we recognise our impact on the environment in our daily operations by conducting our business in an environmentally responsible manner. In order to minimise the significant impact on the environment and natural resources, we are committed to carry out necessary measures as mentioned in the sections headed "Emission" and "Use of Resources" in energy saving, emissions reduction and environmental protection. The Group would also promote environmental awareness amongst the customers, subcontractors, suppliers, business partners and other stakeholders aiming to mitigate the waste of resources as a whole.

SOCIAL ASPECTS

EMPLOYMENT AND LABOUR PRACTICES

EMPLOYMENT

The Group believes people are important and valuable assets and competent staff is the foundation for the long term business success of the Group. The delivery of high-quality works relies on each professional team effectively executing their part of the project. There are different policies in place to stipulate key human resources management practices in working hours, equal opportunities, recruitment, promotion, resignation and compensation benefits. The Group's recruitment and promotion policies have followed the principle of equal opportunities. All employees are hired based on the merits and treated equally, regardless of their nationality, age, race, gender, religion and marital status, etc.

With each new hire, a formal introduction and orientation is provided, aiming at sharing with them a better understanding of the Group. An employee handbook would also be provided to each of our employees for their understanding on the relevant policies and code of conduct of our Group.

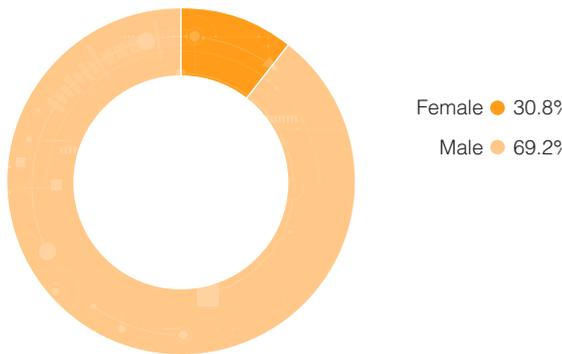
The Group supports harmonious and work-life balance culture. Through organising annual dinner and employee gatherings during the reporting period, not only can the employees enjoy a relaxing moment, but also enhance their team spirit building and promote friendly working environment.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

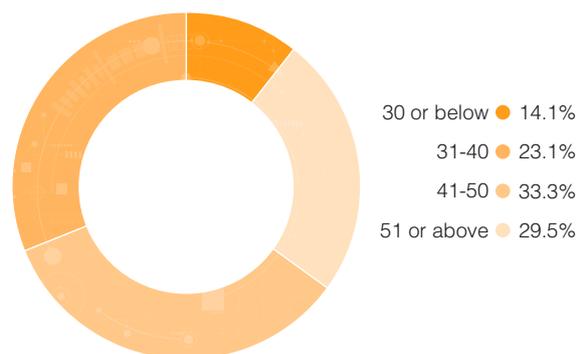
The adoption of these human resources policies and procedures also ensures the Group's compliance with the relevant labour laws and regulations where it operates, including the Employment Ordinance in Hong Kong. During the reporting period, we did not record material non-compliance incident relating to applicable employment laws and regulations, save as disclosed in the Prospectus.

At the end of the reporting period, the employee composition (in percentage of total staff) by gender, employee category and age group, employment mode and geographical region are as follows:

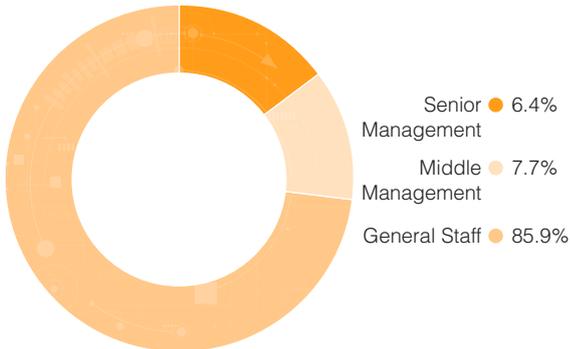
By Gender



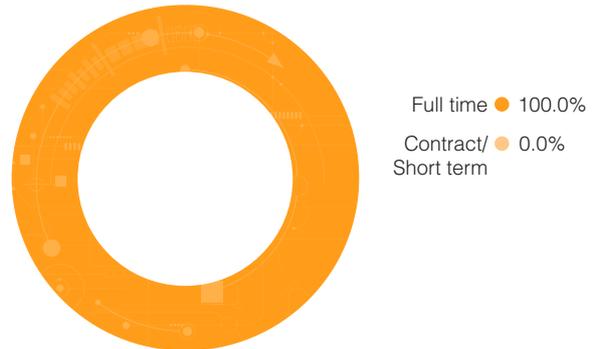
By Age Group



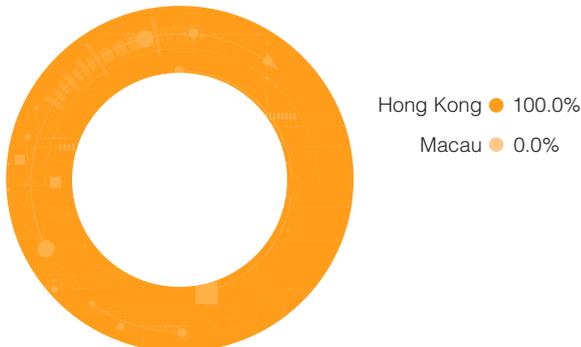
By Employment Category



By Employment Mode



By Geographical Region



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The employee turnover rates by gender and age group at the end of the reporting period are as follows:

Employment	Turnover rates (%) 2020
By gender ⁴	
– Male	33.3
– Female	29.2
By age group ⁵	
– 30 years old or below	36.4
– 31-40 years old	33.3
– 41-50 years old	23.1
– 51 years old or above	39.1
Overall	32.1

HEALTH AND SAFETY

The nature of work performed by the Group expose employees to potential occupational hazards.

The Group is committed to provide a safe and healthy working environment to our employees and the employees of our subcontractors. We take work safety seriously in all of our projects and have established measures to promote work safety and to ensure compliance with applicable laws and regulations. During the reporting period, no concluded cases regarding health and safety brought against the Company or its employees were noted.

Our employees are provided with work safety trainings, including the safety operation of construction machinery and equipment to emphasise the importance of the awareness of work safety. Through different on-the-job training, we would also encourage all our employees to get a better understanding with the applicable laws such as the Occupational Safety and Health Ordinance, policies and the necessary procedures to be followed in order to prevent occupational hazards.

We have incorporated a series of safety guidelines, rules and procedures for different aspects throughout our operating process, including fire safety, electricity safety, work-related injuries and emergency and evacuation procedures. Key safety precautions and measures are implemented as follows:

- Regular checks with any necessary maintenance are carried out for all the electrical appliances and machines; and
- Protective equipment is provided to workers according to their positions and job nature.

4 Turnover rate by gender refers to total number of employee turnover of the gender group per the total number of employees of the corresponding gender group at the end of the year.

5 Turnover rate by age group refers to total number of employee turnover of the age group per the total number of employees of the corresponding age group at the end of the year.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

DEVELOPMENT AND TRAINING

The Group recognises the importance of providing our staff the opportunity to continuously improve the professional skill set and hence the quality of our services. The Group encourages the senior management and department heads to carry out proactive coaching and provide detailed guidance to the subordinates in order to meet their current and future business needs.

All of our new staff are provided with detailed orientation from which our staff would get an understanding of the job responsibilities, work safety as well as the corporate culture and policies. We provide training to our employees in aspects such as general and technical skills and management skills. To ensure the staff bears with certain technical skills, on-the-job coaching would be provided to staff at different position. The Group also promotes lifelong learning among its staff and encourages staff to attend different external seminars or trainings such as first aid training course and safety supervisor training course.

LABOUR STANDARDS

The Group prohibits the employment of child labour and forced labour. We strictly comply with the relevant laws and regulations including the Employment Ordinance in Hong Kong. We have established transparent labour policies and dynamic reporting channels to ensure a fair labour practice is adopted. During the reporting period, the Group did not find any cases relating to child labour or forced labour.

OPERATING PRACTICES

SUPPLY CHAIN MANAGEMENT

The Group relies on subcontractors and suppliers to provide different construction materials. We are fully aware of the potential environmental and social risks associated with our supply chain and are committed to reducing such risks in the collaboration with our subcontractors and suppliers. Before and during the engagement with our subcontractors and suppliers, we would carry out regular assessment on the supplier's corporate conditions, reputation, credibility as well as the quality of the services provided. The Group maintains a long-term strategic relationship with our subcontractors and suppliers based on the results from the assessment.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

SERVICES RESPONSIBILITY

We place the quality of our services as the utmost important focus in our operation. The Group is in strict compliance with the related laws and regulations, aiming to provide a high-quality standard of services to our customers. During the reporting period, the Group did not discover any significant risk exposure in relation to our services.

We have maintained a quality management system in order to execute the quality control policy of our Group. Our quality management system is part of our project quality plans which specify the steps to be carried out and complied with throughout the execution of our foundation projects from the pre-construction stage to maintenance stage. To ensure that our works meet the required standard, we normally assign one foreman on a full time basis at each of the construction sites to monitor the quality of foundation works done by our own staff and, as the case may be, our subcontractors. Our project managers visit the construction sites from time to time and monitor the work quality, the progress of construction work and ensure that the works are duly completed according to the implementation schedules.

During the reporting period, no complaints relating to the quality of services were received by the Group.

Intellectual Property Protection

Our Group protects intellectual property rights and regards it as an area of substantial importance. We would take active steps to protect our trademarks and other intellectual property rights by completing necessary filing and registration. For any new trademark to be licensed, the Group shall take all appropriate action to register and protect trademarks in the jurisdictions in which our operations are carried out.

Customer Information Protection

We fully respect customer data privacy. The Group is committed to preventing customer data leakage or loss and has taken proper measures to safeguard data integrity by restricting the access of confidential customer data. All collected customer personal data and property are only accessible by authorised personnel and handled with care. During the reporting period, there were no complaints received concerning breaches of customer privacy and loss of data.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ANTI-CORRUPTION

The Group is committed and determined to maintain a culture of honesty and opposition to fraud and corruption, with zero tolerance towards any kind of bribery and money laundering activities.

The Group implements related policies and procedures including an anti-fraud framework and whistle-blower program. These policies and procedures outline the principles to which we are committed to preventing, reporting and managing fraud, corruption and bribery. We have communicated with our employees on these policies and procedures throughout our daily operations. To prevent conflict of interest, the Group has also identified procedures with relatively high risk on conflict of interest, such as project bidding, recruitment and promotion, etc. and established transparent policy to minimise its impact.

All of our employees are required to make a declaration to the management through the reporting channels once there is any actual or potential conflict of interest found. Employees cannot receive any gift from any external business parties unless prior approval is obtained from the management.

During the reporting period, the Group was not aware of any non-compliance or violation of any relevant laws and regulations in respect of anti-corruption and money laundering.

COMMUNITY

COMMUNITY INVESTMENT

Contribution to the community and maintaining a harmonious and prosperous society are crucial for the sustainable development of the Group. Apart from our pursuit of the business development, we encourage our staff to actively participate in charitable activities and volunteer works, especially on those relating to environmental protection.

DIRECTORS' REPORT

The Directors are pleased to present their first annual report together with the audited consolidated financial statements of the Group for the year ended 31 March 2020 after the Listing on GEM of the Stock Exchange on the Listing Date.

CORPORATE REORGANISATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 12 February 2019. The Group completed the group reorganisation (the “**Reorganisation**”) on 29 March 2019 in preparation for the Listing, pursuant to which the Company became the holding company of the companies now comprising our Group. Details of the Reorganisation are set out in the section headed “History, Development and Reorganisation” in the Prospectus. The Shares were listed on GEM of the Stock Exchange on the Listing Date by way of share offer.

PRINCIPAL ACTIVITIES

The Company is an investment holding company and the Group is principally engaged in provision of building protection works and supply of building protection products.

Details of the principal activities of the principal subsidiaries are set out in note 36 to the consolidated financial statements.

RESULTS AND DIVIDENDS

Profit of the Group for the year ended 31 March 2020 and the state of affairs of the Company and the Group as at that date are set out in the consolidated financial statements on pages 58 to 117 of this annual report.

On 30 June 2020, the Board proposed a final dividend of 0.58 HK cents per share, payable to the shareholders of the Company whose names appear on the register of members of the Company on Monday, 31 August 2020. It is expected that the final dividend will be paid in cash on or before Monday, 21 September 2020. The total amount of the final dividend to be distributed is estimated to be HK\$5.8 million. The proposal for the distribution of final dividend is subject to the approval of the shareholders of the Company at the forthcoming AGM of the Company.

FINANCIAL SUMMARY

A summary of the results, and assets and liabilities of the Group announced in the past three years are set out on page 118 of this annual report.

BUSINESS REVIEW

Overview

A review of the business of the Group for the year ended 31 March 2020 and a discussion on the Group’s future business development are provided in the “Management’s Discussion and Analysis” on pages 4 to 11 of this annual report.

Principal Risks and Uncertainties

The principal risks faced by the Group are set out in page 9 of this annual report. As it is a non-exhaustive list, there may be other risks and uncertainties further to the disclosures. Besides, this annual report does not constitute a recommendation or an advice for anyone to invest in the securities of the Company. Investors are advised to make their own judgement or consult professionals before making any investment in the securities of the Company.

Important Events

The Board has not identified any important events affecting the Group that have occurred since the end of the financial year ended 31 March 2020.

DIRECTORS' REPORT

Key Performance Indicators

The key performance indicators are detailed in the financial review set out in the section headed "Management's Discussion and Analysis" on pages 4 to 11 of this annual report. This discussion constitutes a part of this Directors' Report.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 March 2020, the five largest customers accounted for approximately 48.0% (FY2019: 46.6%) of the Group's total revenue. The five largest suppliers accounted for approximately 70.5% (FY2019: 72.8%) of the Group's total purchases. In addition, for the year ended 31 March 2020, the largest customer accounted for approximately 21.2% (FY2019: 15.2%) of the Group's total revenue while the largest supplier accounted for approximately 25.2% (FY2019: 36.4%) of the Group's total purchases.

None of the Directors, their associates or any shareholders who own more than 5% of the Company's issued share capital had any interest in any of the Group's five largest customers and suppliers.

RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group maintains a good relationship with its employees, and certain policies have been implemented to ensure that its employees are provided with competitive remuneration, good welfare benefits and continuous professional training. The Group also maintains good relationships with its customers and suppliers, without whom success in the Group's operation would be at risk.

DONATIONS

During the year ended 31 March 2020, there is no charitable and other donations made by the Group.

DIVIDEND POLICY

The declaration and payment of future dividends will be subject to the decision of our Board having regard to various factors including our operation and financial performance profitability, business development, prospects, capital requirements and economic outlook. It is also subject to the approval of our shareholders as well as any applicable laws. The historical dividend payments may not be indicative of future dividend trends. We do not have any predetermined dividend payment ratio.

PROPERTY AND EQUIPMENT

Details of the movements in property and equipment of the Group for the year ended 31 March 2020 are set out in note 17 to the consolidated financial statements.

BANK OVERDRAFTS AND BORROWING

The Group did not have any bank overdrafts and borrowing as at both 31 March 2020 and 2019.

INTEREST CAPITALISED

The Group has not capitalised any interest during the year ended 31 March 2020.

SHARE CAPITAL

Details of the movements in the share capital of the Company during the year ended 31 March 2020 is set out in note 27 to the consolidated financial statements.

RESERVES

Details of movements in reserves of the Group and the Company during the year ended 31 March 2020 are set out in the consolidated statement of changes in equity on page 61 and in note 33 to the consolidated financial statements, respectively.

DISTRIBUTABLE RESERVES

As at 31 March 2020, the Company had distributable reserve of approximately HK\$8.2 million, calculated under the Companies Law (as revised), of the Cayman Islands (2019: nil).

PRE-EMPTIVE RIGHTS

There is no provision regarding pre-emptive right under the Articles or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to its existing shareholders.

EQUITY-LINKED AGREEMENTS

Save for the share option scheme as set out below, no equity-linked agreement was entered into by the Group, or existed during the year ended 31 March 2020.

SHARE OPTION SCHEME

The following is a summary of the principal terms of the rules of the Share Option Scheme conditionally adopted by the resolutions in writing of the then sole shareholder passed on 18 March 2020 (the “**Adoption Date**”). The Share Option Scheme became effective on the Listing Date. The terms of the Share Option Scheme are in accordance with the provisions of Chapter 23 of the GEM Listing Rules.

(a) Purpose

The Share Option Scheme enables the Company to grant options to subscribe for the Shares (the “**Options**”) to any director, employee or officer, consultant, professional, customer, supplier, agent, partner or adviser of or contractor to the Company or any of the subsidiaries (the “**Eligible Person**”), as incentives or rewards for their contributions to our Group.

(b) Participants

The basis of eligibility of any person to the grant of any Option shall be determined by our Board from time to time on the basis of his or her contribution or potential contribution to the development and growth of our Group.

(c) Grant of Options

Our Board shall not offer the grant of Options to any Eligible Persons after inside information has come to our Company's knowledge until we have announced the information in accordance with the requirements of the GEM Listing Rules. In particular, during the period commencing one month immediately preceding the earlier of (a) the date of our Board meeting (as such date is first notified to the Stock Exchange in accordance with the GEM Listing Rules) for the approval of our Company's results for any year, half-year, quarter-year period or any other interim period (whether or not required under the GEM Listing Rules), and (b) the deadline for our Company to publish an announcement of our results for any year, half-year or quarter-year period under the GEM Listing Rules or any other interim period (whether or not required under the GEM Listing Rules), and ending on the date of the results announcement. The period during which no Option may be granted will cover any period of delay in the publication of a result announcement.

Subject to paragraph (k) below, the total number of Shares issued and to be issued upon exercise of the Options granted and to be granted to a participant under the Share Option Scheme and other schemes (including both exercised and outstanding Options) in any 12-month period must not exceed 1% of the Shares from time to time in issue, and provided that if approved by Shareholders in general meeting with such participant and his or her close associates (or his or her associates if the participant is a connected person) abstaining from voting, our Company may make a further grant of Options to such participant (the "**Further Grant**") notwithstanding that the Further Grant would result in the total number of Shares issued and to be issued upon exercise of the Options granted and to be granted under the Share Option Scheme and other schemes to such participant (including exercised, cancelled and outstanding Options) in the 12-month period up to and including the date of the Further Grant representing in aggregate over 1% of the Shares from time to time in issue. In relation to the Further Grant, our Company must send a circular to our Shareholders, which discloses, amongst other, information from time to time as required by the GEM Listing Rules, the number and the terms of the Options to be granted. The number and terms (including the exercise price) of Options which is the subject of the Further Grant shall be fixed before the relevant Shareholders' meeting and the date of meeting of our Board for proposing the Further Grant should be taken as the date of grant for the purpose of calculating the exercise price.

(d) Exercise Price

The exercise price for any Shares under the Share Option Scheme will be a price determined by our Board and notified to each participant and shall be at least the highest of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the Options, which must be a trading day; (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of grant of the relevant Options; and (iii) the nominal value of a Share on the date of the grant.

(e) Maximum number of Shares

- (i) The total number of Shares which may be issued upon the exercise of all Options to be granted under the Share Option Scheme and other Schemes must not in aggregate exceed 10% of the Shares in issue as at the Listing Date (the "**Scheme Mandate**") unless approved by the Shareholders pursuant to the terms of the Share Option Scheme. Options lapsed in accordance with the terms of the Share Option Scheme or other schemes will not be counted for the purpose of calculating the Scheme Mandate Limit. On the basis of 1,000,000,000 Shares in issue on the Listing Date, the Scheme Mandate Limit will be equivalent to 100,000,000 Shares, representing 10% of the Shares in issue as at the Listing Date.

- (ii) The Scheme Mandate Limit may be renewed by our Shareholders in general meeting provided always that to the extent that the total number of Shares which may be issued upon exercise of all Options to be granted under the Share Option Scheme and other schemes under the Scheme Mandate Limit so renewed must not exceed 10% of the Shares in issue as at the date of such Shareholders' approval provided that Options previously granted under the Share Option Scheme and other schemes (including those exercised, outstanding, cancelled or lapsed in accordance with the terms thereof) shall not be counted for the purpose of calculating the Scheme Mandate Limit as renewed. In relation to the Shareholders' approval referred to in this paragraph (ii), our Company shall send a circular to our Shareholders containing the information from time to time as required by the GEM Listing Rules.
- (iii) Subject to the terms of the Share Option Scheme and the approval of Shareholders in general meeting, our Company may also grant Options beyond the Scheme Mandate Limit provided that Options in excess of the Scheme Mandate Limit are granted only to Eligible Persons specifically identified by our Company before such Shareholders' approval is sought. In relation to the Shareholders' approval referred to in this paragraph (iii), our Company shall send a circular to our Shareholders containing such relevant information from time to time as required by the GEM Listing Rules.
- (iv) Notwithstanding the foregoing, no Options may be granted by our Company if the maximum number of Shares which may be issued upon exercise of all outstanding Options granted and yet to be exercised under the Share Option Scheme and other schemes in aggregate exceeds 30% of the Shares in issue from time to time.

No Option has been granted under the Share Option Scheme since the Listing Date and up to the date of this report. Accordingly, the total number of Shares available for issue under the Share Option Scheme is 100,000,000 Shares, representing 10% of the issued Shares as at the date of this annual report.

(f) Time of exercise of Option

An Option may be exercised in accordance with the terms of the Share Option Scheme at any time during the applicable option period, provided that, amongst others, the period within which the Option must be exercised shall not be more than 10 years from the date on which that Option is deemed to have been granted. The exercise of an Option may be subject to the achievement of performance target and/or any other conditions to be notified by our Board to each participant, which our Board may in its absolute discretion determine.

(g) Rights are personal to grantee

An Option shall be personal to the Participant and shall not be assignable or transferable and no participant shall in any way sell, transfer, charge, mortgage, encumber or create any interest whether legal or beneficial in favour of any third party over or in relation to any Option. Any breach of the foregoing by the participant shall entitle our Company to cancel any Option or any part thereof granted to such Participant (to the extent not already exercised) without incurring any liability on our Company.

(h) Minimum period for which an option must be held before it can be exercised

There is no minimum period for which an option granted must be held before it can be exercised except otherwise imposed by the Board.

(i) Amount payable on application or acceptance of the Option and the period within which payments or calls must or may be made, or loans for such purposes must be repaid

The Eligible Person shall remit HK\$1.00 to our Company as consideration for the grant upon acceptance of the Option. The Option shall be offered for acceptance for a period of not less than 5 business days from the date on which the Option is granted.

(j) Period of Share Option Scheme

The Share Option Scheme shall be valid and effective for a period of 10 years commencing on the Listing Date, after which no further Options will be issued but the provisions of the Share Option Scheme shall remain in full force and effect in all other respects and the Options granted during the life of the Share Option Scheme may continue to be exercisable in accordance with their terms of issue.

The Board may impose such terms and conditions on the offer of Option(s) either on a case-by-case basis or generally as are not inconsistent with the Share Option Scheme, including but not limited to the minimum period for such an Option must be held, if applicable.

(k) Granting of Options to a director, chief executive or substantial shareholder of our Company or any of their respective associates

Any grant of Options to any director, chief executive or substantial shareholder of our Company, or any of their respective associates, must be approved by the independent non-executive directors (excluding any independent non-executive director who is the proposed participant). If a grant of Options to a substantial shareholder of our Company or an independent non-executive director, or any of their respective associates will result in the total number of the Shares issued and to be issued upon exercise of the Options granted and to be granted (including the Options exercised, cancelled and outstanding) to such person in any 12-month period up to and including the date of the grant (i) representing in aggregate over 0.1% (or such other percentage as may from time to time specified by the Stock Exchange) of the Shares in issue, and (ii) having an aggregate value, based on the closing price of the Shares at the date of each grant, in excess of HK\$5 million, such further grant of Options must be approved by our Shareholders on a poll in a general meeting. The participant, his or her associates and all core connected persons of our Company must abstain from voting in favour at such general meeting. Our Company will send a circular to our Shareholders containing the information as required under the GEM Listing Rules. In addition, Shareholders' approval as described above will also be required for any change in terms of the Options granted to a participant who is a substantial shareholder of our Company, an independent non-executive director or any of their respective associates. The circular must contain the following:

- (i) details of the number and terms of the Options (including the exercise price relating thereto) to be granted to each Eligible Person, which must be fixed before the relevant Shareholders' meeting, and the date of Board meeting for proposing such further grant should be taken as the date of grant for the purpose of calculating the Exercise Price;
- (ii) a recommendation from our independent non-executive directors (excluding any independent non-executive director who is a proposed participant) to the independent Shareholders as to voting; and

(iii) all the information as required under the GEM Listing Rules from time to time.

For the avoidance of doubt, the requirements for the granting of Options to a Director or chief executive of our Company set out in this paragraph do not apply where the Eligible Person is only a proposed Director or proposed chief executive of our Company.

DIRECTORS

The members of the Board since the Listing Date and up to the date of this annual report are:

Executive Directors

Mr. Lam Ka Wing (*Chairman and Chief Executive Officer*)
Ms. Wong Pui Yee Edith

Independent non-executive Directors

Mr. Ng Kwun Wan
Ms. Cho Mei Ting
Mr. Ho Ka Kit

In accordance with article 108(a) of the Articles, at each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. Article 112 of the Articles specifies that any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting. Any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Accordingly, Mr. Lam, Mrs. Lam and Mr. Ng shall retire at the forthcoming AGM and being eligible, offer themselves for re-election.

BIOGRAPHIES OF THE DIRECTORS AND SENIOR MANAGEMENT

The biographical details of the Directors and senior management are set out under the section headed “Biographical Details of Directors and Senior Management” as set out on pages 12 to 15 of this annual report.

DIRECTORS' SERVICE CONTRACTS AND LETTERS OF APPOINTMENT

Each of the executive Directors has entered into a service contract with the Company on 18 March 2020 for an initial term of three years commencing from the Listing Date until terminated by not less than three months' notice in writing served by either party. The term of service of a Director is subject to retirement by rotation of Directors as set out in the Articles.

Each of the independent non-executive Directors has entered into a letter of appointment with the Company on 18 March 2020 for a term of three years commencing from the Listing Date until terminated by either party giving not less than one month's notice in writing. The term of service of a Director is subject to retirement by rotation of Directors as set out in the Articles.

Save as disclosed above, none of the Directors, including those to be re-elected at the forthcoming AGM has a service contract with the Company or any of its subsidiaries which is not determinable within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REPORT

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received annual confirmation of independence pursuant to Rule 18.39B of the GEM Listing Rules from each of the independent non-executive Directors and considers that all the independent non-executive Directors, namely Mr. Ng, Ms. Cho and Mr. Ho, are independent and meet the independent guidelines set out in Rule 5.09 of the GEM Listing Rules.

DIRECTORS' REMUNERATION

In compliance with the CG Code, the Company has established a Remuneration Committee to make recommendations to the Board on the Company's policy and structure for all the Directors' remuneration. The Directors' remuneration is determined by the Board with reference to, inter alia, the experience, responsibility, workload and time devoted to the Group. Details of Directors' remuneration are set out in note 13 to the consolidated financial statements of this annual report.

FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals of the Group during the year ended 31 March 2020 include 2 Directors (2019: 2 Directors). Details of the five highest paid individuals are set out in note 13 to the consolidated financial statements.

PERMITTED INDEMNITY PROVISION

Upon the Listing, the Company has in force indemnity provisions as permitted under the relevant statutes for the benefits of the Directors. The permitted indemnity provisions are provided for in the Company's Articles in respect of potential losses and liability associated with legal proceedings that may be brought against such Directors and the payment of any sum primarily due from the Company that may be liable by the Directors.

The Company has maintained appropriate directors and officers liability insurance and such permitted indemnity provision for the benefit of the Directors is currently in force.

RELATED PARTY TRANSACTIONS

Details of the related party transactions entered into by the Group are set out in note 29 to the consolidated financial statements of this annual report. Such related party transactions do not fall under the definition of connected transaction or continuing connected transaction under Chapter 20 of the GEM Listing Rules.

CONNECTED TRANSACTION AND CONTINUING CONNECTED TRANSACTION

During the Year, the Group has not entered into any connected transactions or continuing connected transactions that are not exempted under the GEM Listing Rules. The Board confirms that the Company has complied with the applicable disclosure requirements in accordance with Chapter 20 of the GEM Listing Rules.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as otherwise disclosed in this annual report, at no time during the year ended 31 March 2020 and up to the date of this annual report, have the Directors and the chief executive of the Company and their respective close associates (as defined in the GEM Listing Rules) had any interests in, or had been granted, or exercised any rights to acquire benefits by means of the acquisition of shares in, or debentures of, the Company and/or its associated corporations (within the meaning of SFO).

DIRECTORS' INTERESTS IN COMPETING BUSINESS

From the Listing Date to the date of this report, none of the Directors, the Controlling Shareholders and the substantial shareholders of the Company or their respective close associates (as defined under the GEM Listing Rules) had any business or interests in a business 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 with the Group. The independent non-executive Directors confirmed that the internal control measures in relation to managing actual or potential conflict of interest of the Group have been properly implemented.

DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTEREST IN CONTRACT OF SIGNIFICANCE

There was no transaction, arrangement or contract of significance connected to the business of the Group to which the Company, its subsidiaries, or its holding company or any of its fellow subsidiaries was a party and in which any Director or a connected entity of a Director had a direct or indirect material interest, subsisting at the end of the year or at any time during the year.

As at 31 March 2020, no transaction, arrangement or contract of significance had been entered into between the Company, or any of its subsidiaries and the Controlling Shareholders of the Company or any of its subsidiaries.

DIRECTORS' REPORT

INTERESTS AND SHORT POSITIONS OF DIRECTORS AND CHIEF EXECUTIVE IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATION

As at 31 March 2020, the interests or short positions of each of the Directors and the chief executive of the Company in the shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which (a) would have 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 short positions which such Directors and chief executives of the Company were taken or deemed to have under such provisions of the SFO); or (b) would be required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) would be required, pursuant to Rule 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by directors to be notified to the Company and the Stock Exchange, were as follows:

Long positions in the shares of the Company (the "Shares")

Name of Directors	Nature of Interest/holding capacity	Number of Shares	Percentage of Interests in the issued share capital of the Company ⁽¹⁾
Mr. Lam ⁽²⁾	Interest in a controlled corporation	750,000,000	75%
Mrs. Lam ⁽³⁾	Interest of spouse	750,000,000	75%

Notes:

1. These percentages are calculated on the assumption of 1,000,000,000 shares in issue as at 31 March 2020.
2. These Shares are registered in the name of Ultra Success Industries Limited ("**Ultra Success**"), a company which is wholly-owned by Mr. Lam. Under the SFO, Mr. Lam is deemed to be interested in all the Shares registered in the name of Ultra Success.
3. These Shares represent the Shares held indirectly by Mr. Lam, the spouse of Mrs. Lam, as ultimate beneficial owner.

Long positions in the shares of associated corporation

Name of Director	Name of associated corporation	Capacity	Number of ordinary share held	Percentage of shareholding
Mr. Lam	Ultra Success	Beneficial owner	1	100%

Save as disclosed above, as at the date of this report, none of the Directors or the chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required (i) 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 were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered into the register required to be kept therein; or (iii) pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by directors to be notified to the Company and the Stock Exchange.

INTERESTS AND SHORT POSITIONS OF THE SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 March 2020, so far as it is known to the Directors, the following persons (not being a Director or chief executive of the Company) had or were deemed to have interests in shares or underlying shares of the Company which (i) were recorded in the register required to be kept by the Company under Section 336 of the SFO, or (ii) which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO and the GEM Listing Rules, or (iii) who will be, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our Group.

Long position in the Shares

Name of substantial shareholders	Nature of Interest/ holding capacity	Number of ordinary shares held	Percentage of Interests in the issued share capital of the Company ⁽¹⁾
Ultra Success	Beneficial owner	750,000,000 ⁽²⁾	75%

Notes:

- This percentage is calculated on the assumption of 1,000,000,000 shares in issue as at 31 March 2020.
- Ultra Success is a company incorporated in the BVI and is wholly-owned by Mr. Lam. Mr. Lam is deemed to be interested in all Shares held by Ultra Success for the purpose of SFO. Mrs. Lam, the spouse of Mr. Lam, is also deemed to be interested in all the Shares held by Mr. Lam under the SFO.

Save as disclosed above, as at 31 March 2020, the Directors have not been notified by any person who had interests or short positions in the Shares or underlying Shares or debentures of the Company as recorded in the register required to be kept pursuant to Section 336 of the SFO, or which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO.

DIRECTORS' REPORT

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's shares during the year ended 31 March 2020.

CORPORATE GOVERNANCE

The Company is committed to maintain high standards of corporate governance to protect the interests of its Shareholders and to enhance corporate value and accountability. The Company has adopted the code provisions and, where applicable, the recommended best practices set out in the CG Code set out in Appendix 15 to the GEM Listing Rules. As the Shares of the Company were only listed on GEM of the Stock Exchange since the Listing Date, the CG Code was not applicable to the Company during the year ended 31 March 2020. Throughout the period since the Listing Date and up to the date of this annual report, the Company has complied with the relevant provisions of the CG Code, save and except for code provision A.2.1. Details of the principal corporate governance practices as adopted by the Company and the Company's compliance with the applicable code provisions are set out in the section headed "Corporate Governance Report" on pages 16 to 27 of this report.

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a Code of Ethics and Securities Transactions on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules as its own code of conduct regarding securities transactions by Directors. Having made specific enquiry of all Directors, all Directors confirmed that they had complied with the required standard of dealings and the Code regarding securities transactions since the Listing Date and up to the date of the report.

The Board has also adopted the Code to regulate all dealings by relevant employees who are likely to be in possession of unpublished inside information of the Company in respect of securities in the Company as referred to in code provision A.6.4 of the CG Code. No incident of non-compliance with the Code by the Company's relevant employees was noted since the Listing Date and up to the date of the report after making reasonable enquiry.

COMPLIANCE WITH LAWS AND REGULATIONS

The Group has adopted risk management and internal control policies to monitor the on-going compliance with the relevant laws and regulations. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, our Group has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of our Group during the year ended 31 March 2020, save as disclosed in the Prospectus.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this report there is sufficient public float of not less than 25% of the Company's issued share as required under the GEM Listing Rules.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is committed to enhancing environmental protection to minimise the impact of its activities on the environment. It is the policy of the Group to promote clean operation and strives to making the most efficient use of resources in its operations, and minimising wastes and emission. Details are set out in Environmental, Social and Governance Report on pages 28 to 38 of this annual report.

INTERESTS OF THE COMPLIANCE ADVISER

Pursuant to Rule 6A.19 of the GEM Listing Rule, the Company has appointed Alpha Financial Group Limited as the independent compliance adviser (the “**Compliance Adviser**”) on an on-going basis for consultation on compliance with the GEM Listing Rules. As at 31 March 2020, as informed by the Compliance Adviser, save for the compliance adviser’s agreement entered into between the Company and the Compliance Adviser dated 18 March 2020, neither the Compliance Adviser nor any of its directors, employees or close associates (as defined under the GEM Listing Rules) had any interests in the Group which is required to be notified to the Company pursuant to Rule 6A.32 of the GEM Listing Rules.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 March 2020, the Group had 76 employees (31 March 2019: 69 employees) excluding the Directors. The remuneration package the Group offered to our employees includes salary, bonuses and other cash subsidies. In general, our Group determines employees’ salaries based on each employee’s qualifications, position and seniority. The Group reviews the performance of the employees annually which will be taken into account in annual salary review and promotion appraisal.

SIGNIFICANT INVESTMENTS AND FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

During the year ended 31 March 2020, the Group did not have any significant investment, material acquisitions nor disposals of subsidiaries and affiliated companies save for those reorganisation activities done for the purpose of Listing as set out in the paragraph headed “Reorganisation” under the section headed “History, Development and Reorganisation” in the Prospectus.

MATERIAL ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES, ASSOCIATES OR JOINT VENTURES

Apart from the reorganisation in relation to the Listing as disclosed in the Prospectus, there were no other significant investments held, material acquisitions or disposals of subsidiaries, associates or joint ventures during the year ended 31 March 2020.

USE OF PROCEEDS

The Shares were listed on GEM of the Stock Exchange on the Listing Date. A total of 250,000,000 new shares with nominal value of HK\$0.01 each of the Company were issued at HK\$0.24 per share for a total of approximately HK\$60.0 million. The net proceeds raised from the issue of new shares of the Company, after deduction of the professional fees, underwriting commissions and other fees payable by the Company in connection with the listing, were estimated to be HK\$22.5 million.

MANAGEMENT CONTRACTS

There was no contract concerning the management or administration of the whole or any substantial part of the business of the Company which was entered into or existed during the year ended 31 March 2020.

ANNUAL GENERAL MEETING

The AGM of the Company will be held on 21 August 2020, the notice of which shall be sent to the shareholders of the Company in accordance with the Articles, the GEM Listing Rules and other applicable laws and regulations.

DIRECTORS' REPORT

CLOSURE OF THE REGISTER OF MEMBERS OF SHARES

To be eligible to attend and vote in the forthcoming AGM, the register of members of the Company will be closed from Tuesday, 18 August 2020 to Friday, 21 August 2020 (both dates inclusive) during which period no transfer of Shares will be registered. To be qualified for attending and voting at the forthcoming AGM, all Share transfer documents must be lodged with Tricor Investor Services Limited, the Company's branch share registrar and transfer office Hong Kong, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration no later than 4:30 p.m. on Monday, 17 August 2020.

To be eligible to entitle to the proposed final dividend, the register of members of the Company will be closed from Thursday, 27 August 2020 to Monday, 31 August 2020 (both dates inclusive) during which period no transfer of Shares will be registered. To be qualified for the proposed final dividend, all Share transfer documents must be lodged with Tricor Investor Services Limited, the Company's branch share registrar and transfer office in Hong Kong, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration no later than 4:30 p.m. on Wednesday, 26 August 2020.

SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

Save as disclosed elsewhere in this report, there were no significant event affecting the Group have occurred after the reporting period and up to the date of this report.

AUDITOR

The consolidated financial statements for the year ended 31 March 2020 have been audited by Deloitte Touche Tohmatsu, who will retire at the forthcoming AGM and offer themselves for re-appointment. A resolution will be proposed at the forthcoming AGM of the Company to re-appoint Deloitte Touche Tohmatsu as the auditor of the Company.

There was no change in auditor of the Company since the Listing.

By order of the Board
Sunray Engineering Group Limited
Lam Ka Wing
Chairman

Hong Kong, 30 June 2020

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF SUNRAY ENGINEERING GROUP LIMITED

(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Sunray Engineering Group Limited (the “**Company**”) and its subsidiaries (collectively referred to as the “**Group**”) set out on pages 53 to 117, which comprise the consolidated statement of financial position as at 31 March 2020, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 March 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing (“**HKSAs**”) issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA’s Code of Ethics for Professional Accountants (the “**Code**”), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTER

Key audit matter is the matter that, in our professional judgment, was of most significance in our audit of the consolidated financial statements of the current period. This matter was addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTER

Key audit matter

How our audit addressed the key audit matter

Recognition of revenue from provision of building protection works

We identified recognition of revenue from provision of building protection works as a key audit matter due to its significance to the Group's consolidated financial statements as a whole and involvement of significant management estimates in estimating each contract's outcome and value of works completed.

The Group recognised revenue from provision of building protection works of HK\$120,602,000 during the year ended 31 March 2020 as set out in note 6 to the consolidated financial statements.

As disclosed in note 5 to the consolidated financial statements, budgeted contract costs and profit margin are prepared by the management of the Group on the basis of quotations from time to time provided by the subcontractors or suppliers of contract materials involved. In order to keep the budget accurate and up-to-date, the management of the Group conducts periodic reviews and revisions of the budgets of contracts by comparing the budgeted amounts to the actual amounts incurred. Such estimate may have impact on the revenue and profit recognised in each period.

Our procedures in relation to the recognition of revenue from provision of building protection works included:

- Obtaining an understanding on how the Group's management recognises the revenue from provision of building protection works and how the budgeted contract costs are determined;
- Agreeing the contract sum and any variation orders to respective signed contracts and the correspondence with customers, on a sample basis;
- Checking the estimated total budgeted contract costs against the underlying contracts, quotations or latest payment certificates or invoices issued by subcontractors or suppliers of contract materials, on a sample basis, of individual contracts and understanding the causes for significant revisions of the estimated total budgeted costs, where applicable;
- Assessing the accuracy of the actual costs incurred for the year by checking against the payment certificates or invoices issued by subcontractors or suppliers of contract materials, on a sample basis; and
- Evaluating the reliability of the Group's management's estimation by comparing their budgeted contract costs against actual costs on completed projects, on a sample basis.

INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

INDEPENDENT AUDITOR'S REPORT

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSA's, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors of the Company.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.



INDEPENDENT AUDITOR'S REPORT

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Kwok Lai Sheung.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
30 June 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 March 2020

	Notes	2020 HK\$'000	2019 HK\$'000
Revenue	6	199,278	191,731
Cost of sales and services		(121,215)	(112,646)
Gross profit		78,063	79,085
Other income	8	200	265
Other gains and losses	9	(452)	381
Impairment losses under expected credit loss model, net of reversal	10	(1,283)	(274)
Selling and distribution costs		(5,875)	(8,059)
Administrative expenses		(31,084)	(29,943)
Finance costs	11	(57)	(169)
Listing expenses		(13,997)	(5,074)
Profit before taxation	12	25,515	36,212
Income tax expense	14	(6,135)	(7,202)
Profit and total comprehensive income for the year		19,380	29,010
Profit and total comprehensive income for the year attributable to:			
– Owners of the Company		19,380	20,793
– Non-controlling interests		–	8,217
		19,380	29,010
Earnings per share			
Basic (HK cents)	15	2.58	2.77

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 March 2020

	Notes	2020 HK\$'000	2019 HK\$'000
Non-current assets			
Property and equipment	17	4,362	5,937
Right-of-use assets	18	1,612	2,418
Rental deposits	20	256	260
		<u>6,230</u>	<u>8,615</u>
Current assets			
Inventories	19	6,482	12,446
Trade and other receivables	20	29,529	18,592
Contract assets	22	102,488	70,116
Pledged bank deposit	23	806	800
Bank balances and cash	23	39,920	31,271
		<u>179,225</u>	<u>133,225</u>
Current liabilities			
Trade and other payables	24	42,025	15,460
Contract liabilities	22	8,784	10,763
Lease liabilities	25	953	1,903
Taxation payables		8,915	8,287
		<u>60,677</u>	<u>36,413</u>
Net current assets		<u>118,548</u>	<u>96,812</u>
Total assets less current liabilities		<u>124,778</u>	<u>105,427</u>
Non-current liabilities			
Lease liabilities	25	699	504
Deferred tax liabilities	26	578	802
		<u>1,277</u>	<u>1,306</u>
Net assets		<u>123,501</u>	<u>104,121</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 March 2020

	Note	2020 HK\$'000	2019 HK\$'000
Capital and reserves			
Share capital	27	— #	— #
Reserves		<u>123,501</u>	<u>104,121</u>
Total equity		<u><u>123,501</u></u>	<u><u>104,121</u></u>

Less than HK\$1,000

The consolidated financial statements on pages 58 to 117 were approved and authorised for issue by the Board of Directors on 30 June 2020 and are signed on its behalf by:

Lam Ka Wing
DIRECTOR

Wong Pui Yee Edith
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2020

	Attributable to owners of the Company					Total	Non-controlling interests	Total equity
	Share capital	Legal reserve	Other reserve	Capital contribution	Retained profits			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2018	49	24	—	—	94,172	94,245	28,507	122,752
Profit and total comprehensive income for the year	—	—	—	—	20,793	20,793	8,217	29,010
Dividend declared (note 16)	—	—	—	—	(47,641)	(47,641)	—	(47,641)
Adjustments arising from Group Reorganisation (note 2)	(49)	—	49	—	—	—	—	—
Acquisition of additional shareholdings of subsidiaries from non-controlling interests (Note ii)	—	—	—	36,724	—	36,724	(36,724)	—
At 31 March 2019	—	24	49	36,724	67,324	104,121	—	104,121
Profit and total comprehensive income for the year	—	—	—	—	19,380	19,380	—	19,380
At 31 March 2020	—	24	49	36,724	86,704	123,501	—	123,501

Notes:

- (i) In accordance with the Article 377 of the Commercial Code of Macau Special Administrative Region, the subsidiaries registered in Macau are required to transfer part of their profits of the accounting period of not less than 25% to legal reserve, until the amount reaches an amount equal to half of the respective share capital.
- (ii) This represented the acquisition of the non-controlling interests by the controlling shareholder of the Group and injecting the relevant interests to the Company as further disclosed in the section headed "History, Development and Reorganisation" in the prospectus dated 31 March 2020 issued by the Company in connection with the initial listing of shares of the Company on GEM of The Stock Exchange of Hong Kong Limited.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 March 2020

	2020 HK\$'000	2019 HK\$'000
Operating activities		
Profit before taxation	25,515	36,212
Adjustments for:		
Loss (gain) on disposal of property and equipment	1	(945)
Loss arising from early termination of lease contracts	—	91
Depreciation	3,839	4,143
Bank interest income	(55)	(229)
Impairment losses under expected credit loss model, net of reversal	1,283	274
Finance costs	57	169
Operating cash flows before movements in working capital	30,640	39,715
(Increase) decrease in trade and other receivables	(7,139)	3,488
Increase in contract assets	(33,660)	(29,063)
Decrease in inventories	5,964	189
Increase (decrease) in trade and other payables	25,072	(10,819)
(Decrease) increase in contract liabilities	(1,979)	4,554
Cash generated from operations	18,898	8,064
Hong Kong Profits Tax paid	(5,694)	(6,410)
Macau Complementary Tax paid	(37)	(153)
Net cash from operating activities	13,167	1,501
Investing activities		
Proceeds from disposal of property and equipment	199	4,442
Interest received	55	229
Proceeds of rental deposits refunded	30	—
Purchase of property and equipment	(342)	(2,078)
Payments for rental deposits	(26)	—
Placement of a pledged bank deposit	(6)	(800)
Repayments from a director	—	1,217
Advances to a director	—	(5,156)
Net cash used in investing activities	(90)	(2,146)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 March 2020

	2020 HK\$'000	2019 HK\$'000
Financing activities		
Issue costs paid	(2,300)	(909)
Payments of lease liabilities	(2,071)	(2,925)
Interest paid	(57)	(169)
Dividend paid	—	(43,702)
Repayments to a director	—	(10,255)
Net cash used in financing activities	<u>(4,428)</u>	<u>(57,960)</u>
Net increase (decrease) in cash and cash equivalents	8,649	(58,605)
Cash and cash equivalents at beginning of the year	<u>31,271</u>	<u>89,876</u>
Cash and cash equivalents at end of the year, represented by bank balances and cash	<u>39,920</u>	<u>31,271</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

1. GENERAL

Sunray Engineering Group Limited (the “**Company**”) was incorporated and registered as an exempted company with limited liability in the Cayman Islands under the Companies Law Chapter 22 of the Cayman Islands on 12 February 2019. The address of the Company’s registered office is P.O. Box 1350, Clifton House, 75 Fort Street, Grand Cayman KY1-1108, Cayman Islands and the principal place of business is Unit 803-804, 8/F., Laford Centre, 838 Lai Chi Kok Road, Cheung Sha Wan, Kowloon, Hong Kong.

Its immediate and ultimate holding company is Ultra Success Industries Limited (“**Ultra Success**”), a limited liability company incorporated in the British Virgin Islands (“**BVI**”). The ultimate controlling shareholder of the Group is Mr. Lam Ka Wing (“**Mr. Lam**”).

The Company acts as an investment holding company and its subsidiaries are principally engaged in provision of building protection works and supply of building protection products.

The consolidated financial statements are presented in HK\$, which is also the functional currency of the Company.

2. BASIS OF PREPARATION AND PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements have been prepared based on the accounting policies set out in note 4 in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”).

Before the completion of a group reorganisation (the “**Group Reorganisation**”) as more fully explained in the section headed “History, Development and Reorganisation” in the prospectus dated 31 March 2020 (the “**Prospectus**”) issued by the Company in connection with the initial listing of shares of the Company on GEM of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) (the “**Listing**”), the companies comprising the Group were controlled by Mr. Lam.

Upon completion of the Group Reorganisation on 29 March 2019, the Company has become the holding company of the companies now comprising the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

3. APPLICATION OF NEW AND AMENDMENTS TO HKFRSs

The Group has consistently applied the new and amendments to HKFRSs issued by the HKICPA which are effective for the Group's annual accounting period beginning on 1 April 2019 for the years ended 31 March 2020 and 2019.

New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 17	Insurance Contracts ¹
Amendment to HKFRS 16	Covid-19-Related Rent Concessions ⁶
Amendments to HKFRS 3	Definition of a Business ²
Amendments to HKFRS 3	Reference to the Conceptual Framework ⁵
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to HKAS 1 and HKAS 8	Definition of Material ⁴
Amendments to HKAS 16	Property, Plant and Equipment - Proceeds before Intended Use ⁵
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract ⁵
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform ⁴
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018-2020 ⁵

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

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

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

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

⁵ Effective for annual periods beginning on or after 1 January 2022

⁶ Effective for annual periods beginning on or after 1 June 2020

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

Except for the new and amendments to HKFRSs mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

3. APPLICATION OF NEW AND AMENDMENTS TO HKFRSs (CONTINUED)

New and amendments to HKFRSs in issue but not yet effective (Continued)

Amendments to HKAS 1 and HKAS 8 “Definition of Material”

The amendments provide refinements to the definition of material by including additional guidance and explanations in making materiality judgments. In particular, the amendments:

- include the concept of “obscuring” material information in which the effect is similar to omitting or misstating the information;
- replace threshold for materiality influencing users from “could influence” to “could reasonably be expected to influence”; and
- include the use of the phrase “primary users” rather than simply referring to “users” which was considered too broad when deciding what information to disclose in the financial statements.

The amendments also align the definition across all HKFRSs and will be mandatorily effective for the Group’s annual period beginning on 1 April 2020. The application of the amendments is not expected to have significant impact on the financial positions and performance but may affect the presentation and disclosure in the consolidated financial statements.

Conceptual Framework for Financial Reporting 2018 (the “New Framework”) and the Amendments to References to the Conceptual Framework in HKFRS Standards

The New Framework:

- reintroduces the terms stewardship and prudence;
- introduces a new asset definition that focuses on rights and a new liability definition that is likely to be broader than the definition it replaces, but does not change the distinction between a liability and an equity instrument;
- discusses historical cost and current value measures, and provides additional guidance on how to select a measurement basis for a particular asset or liability;
- states that the primary measure of financial performance is profit or loss, and that only in exceptional circumstances other comprehensive income will be used and only for income or expenses that arise from a change in the current value of an asset or liability; and
- discusses uncertainty, derecognition, unit of account, the reporting entity and combined financial statements.

Consequential amendments have been made so that references in certain HKFRSs have been updated to the New Framework, whilst some HKFRSs are still referred to the previous versions of the framework. These amendments are effective for the Group’s annual periods beginning on or after 1 April 2020. Other than specific standards which still refer to the previous versions of the framework, the Group will rely on the New Framework on its effective date in determining the accounting policies especially for transactions, events or conditions that are not otherwise dealt with under the accounting standards.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on GEM of the Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if the market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in the consolidated financial statements are determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 “Share-based Payment”, leasing transactions that are within the scope of HKFRS 16, and measurement that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 “Inventories” or value in use in HKAS 36 “Impairment of Assets” (“**HKAS 36**”).

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of consolidation (Continued)

Profit or loss and each item of other comprehensive income are attributed to owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiary to bring its accounting policies into line with the Group's accounting policies.

All intra-group assets, liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions.

Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

Merger accounting for business combination involving entities under common control

The consolidated financial statements incorporate the financial statements items of the combining businesses in which the common control combination occurs as if they had been combined from the date when the combining businesses first came under the control of the controlling party.

The net assets of the combining businesses are consolidated using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or bargain purchase gain at the time of common control combination. The consolidated statement of profit or loss and other comprehensive income includes the results of each of the combining businesses from the earliest date presented or since the date when the combining businesses first came under the common control, where this is a shorter period.

The comparative amounts in the consolidated financial statements are presented as if the businesses had been combined at the beginning of the previous reporting period or when they first came under common control, whichever is shorter.

Revenue from contracts with customers

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue from contracts with customers (Continued)

Control is transferred over time and the revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates or enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9 "Financial Instruments". In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

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

A contract asset and a contract liability relating to the same contract are accounted for and presented on a net basis.

If control of the asset transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the asset.

Revenue is measured based on the consideration specified in a contract with a customer. The Group recognises revenue when it transfers control of a product or service to a customer. The Group recognises revenue from two major sources, namely (i) provision of building protection works; and (ii) supply of building protection products.

Specifically, revenue is recognised in profit or loss as follows:

Provision of building protection works

The Group provides the provision of building protection works based on contracts entered with customers. Such contracts are entered into before the services begin. Under the terms of the contracts, the Group is contractually required to perform services at the customers' specified sites that the Group creates or enhances an asset that the customers controls as the Group performs. Revenue from provision of building protection works is therefore recognised over time using input method, i.e. based on the proportion that costs incurred for work performed by the Group to date relative to the estimated total costs in measuring the percentage of completion for the revenue recognised during each of the reporting period. The Group would consider if there is any adjustment required to the input method for uninstalled materials, to ensure that the input method meets the objective of measuring progress towards complete satisfaction of a performance obligation. The management of Group considers that input method would faithfully depict the Group's performance towards complete satisfaction of these performance obligation under HKFRS 15 "Revenue from Contracts with Customers".

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue from contracts with customers (Continued)

Provision of building protection works (Continued)

For contracts that contain variable consideration (i.e. variation order), the Group estimates the amount of consideration to which it will be entitled using either (a) the expected value method or (b) the most likely amount, depending on which method would better predict the amount of consideration to which the Group will be entitled.

The estimated amount of variable consideration is included in the transaction price only to the extent that it is highly probable that such an inclusion will not result in a significant revenue reversal in the future when the uncertainty associated with the variable consideration is subsequently resolved.

At the end of the reporting period, the Group updates the estimated transaction price (including updating its assessment of whether an estimate of variable consideration is constrained) to represent faithfully the circumstances present at the end of the reporting period and the change in circumstances during the reporting period.

For warranty embedded to the construction contracts, the Group accounts for the warranty in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets" unless the warranty provides the customer with a service in addition to the assurance that the contracting work complies with the agreed-upon specifications.

Supply of building protection products

Revenue from the supply of building protection products are recognised at a point in time when the control of goods has transferred, being when the goods have been delivered to the customers' specified location. The goods delivered can only be returned to the Group in case of serious quality defects. A receivable is recognised by the Group when the goods are delivered to the customers as this represents the point in time at which the Group's right to consideration becomes unconditional, as only the passage of time is required before payment of that consideration is due.

Contract assets or liabilities

A contract asset represents the Group's right to consideration in exchange for services that the Group has transferred to a customer that is not yet unconditional. In contrast, a receivable represents the Groups' unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

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

A contract asset and a contract liability relating to the same contract are accounted for and presented on a net basis.

Contract asset is recognised when (i) the Group completes the provision of building protection works under such services contracts but yet certified by architects, surveyors or other representatives appointed by customers, or (ii) the customers retain retention money to secure the due performance of the contracts. Any amount previously recognised as a contract asset is reclassified to trade receivables at the point at which it is invoiced to the customer when the Group's right to consideration becomes unconditional other than passage of time. For the provision of building protection works, if the considerations (including advances received from customers) exceeds the revenue recognised to date under the input method, the Group recognises a contract liability for the difference. For the supply of building protection products, the Group recognises a contract liability if an advance payment is received from the customer and the contract liability is recognised as revenue when the Group performs its obligations under the contract.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue from contracts with customers (Continued)

Principal versus agent

When another party is involved in providing goods or services to a customer, the Group determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the Group is a principal) or to arrange for those goods or services to be provided by the other party (i.e. the Group is an agent).

The Group is a principal if it controls the specified good or service before that good or service is transferred to a customer.

Property and equipment

Property and equipment are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property and equipment over their estimated useful lives using the straight line method. The estimated useful lives and depreciation method are reviewed at the end of the reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Impairment on property and equipment and right-of-use assets

At the end of the reporting period, the Group reviews the carrying amounts of its property and equipment and right-of-use assets to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

The recoverable amount of property and equipment and right-of-use assets are estimated individually, or when it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

In testing a cash-generating unit for impairment, corporate assets are allocated to the relevant cash generating unit when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of cash generating units for which a reasonable and consistent allocation basis can be established. The recoverable amount is determined for the cash-generating unit or group of cash-generating units to which the corporate asset belongs, and is compared with the carrying amount of the relevant cash-generating unit or group of cash-generating units.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment on property and equipment and right-of-use assets (Continued)

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, the Group compares the carrying amount of a group of cash-generating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating units. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of cash-generating units. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit or the group of cash-generating units. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit or a group of cash-generating units) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit or a group of cash-generating units) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Leases

The Group as lessee

The Group leases various assets as its offices, director's quarters, warehouse, printing machines and motor vehicles. The leases are typically made for fixed periods of two to five years. Lease terms are negotiated on an individual basis. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

The Group assesses whether a contract is or contains a lease, at inception of a contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee at the lease commencement date, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (Continued)

The Group as lessee (Continued)

Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- the exercise price of purchase options, if the lessee is reasonably certain to exercise the option; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented on a separate line in the consolidated statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments changes due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets". The costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (Continued)

The Group as lessee (Continued)

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

When the Group obtains ownership of the underlying leased assets at the end of the lease term, upon exercising purchase options, the cost of the relevant right-of-use assets and the related accumulated depreciation and impairment loss are transferred to property and equipment.

The right-of-use assets are presented separately from other assets in the consolidated statement of financial position.

The Group applies HKAS 36 to determine whether the right-of-use asset is impaired and accounts for any identified impairment loss as described in “Impairment on property and equipment and right-of use assets” section.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which they are incurred in the consolidated statement of profit or loss and other comprehensive income.

As a practical expedient, HKFRS 16 permits a lessee not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single component. The Group has not used this practical expedient.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of inventories are determined on a first-in, first-out method. Net realisable value represents the estimated selling price for inventories less all costs necessary to make the sale.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, where appropriate, a shorter period to the net carrying amount on initial recognition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets

Classification and subsequent measurement of financial assets

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at fair value.

Amortised cost and effective interest method

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit-impaired.

Impairment of financial assets and contract assets

The Group performs impairment assessment under expected credit loss (“ECL”) model on financial assets (including trade and other receivables, pledged bank deposit, bank balances and rental deposits) and contract assets which are subject to impairment under HKFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instruments.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast 12-months ECL (“12m ECL”) represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment is done based on the Group’s historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables and contract assets. Except for a credit-impaired debtor which was assessed individually, the ECL on these assets are assessed collectively for debtors based on the Group’s internal credit rating, historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets and contract assets (Continued)

For all other financial instruments, the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12m ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition instead of on evidence of a financial asset being credit-impaired at the reporting date or an actual default occurring.

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the end of the reporting period with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time of the extent to which the fair value of a financial asset has been less than its amortised cost;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor; and
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets and contract assets (Continued)

(ii) Definition of default

The Group considers an event of default when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- (a) significant financial difficulty of the issuer or the counterparty;
- (b) breach of contract, such as a default or past due event;
- (c) the lender(s) of the counterparty, for economic or contractual reasons relating to the counterparty's financial difficulty, having granted to the counterparty a concession(s) that the lender(s) would not otherwise consider; or
- (d) it is becoming probable that the counterparty will enter bankruptcy or other financial reorganisation.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets and contract assets (Continued)

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Where lifetime ECL is measured on a collective basis to cater for cases where evidence of significant increases in credit risk at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- nature of financial instruments;
- past-due status; and
- nature and size of debtors.

The grouping is regularly reviewed by the Group's management to ensure the constituents of each group continue to share similar credit risk characteristics.

If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to 12m ECL at the current reporting date.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amounts, with the exception of trade receivables and contract assets where the corresponding adjustment is recognised through a loss allowance account.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by group entities are recognised at the proceeds received, net of direct issue costs.

Financial liabilities at amortised cost

Financial liabilities including trade and other payables are subsequently measured at amortised cost, using the effective interest method.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, canceled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Borrowing costs

All borrowing costs not related to the construction, acquisition or production of qualifying assets are recognised in profit or loss in the period in which they are incurred.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Provisions for the expected cost of assurance-type warranty obligations under the provision of building protection works contracts with customers that with agreed-upon specification are recognised at the date of services performed, based on the best estimate made by the management of the Group of the expenditure required to settle the Group's obligation.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in term of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the group entities are translated into the presentation currency of the Group (i.e. HK\$) using exchange rates prevailing at the end of the reporting period. Income and expenses items are translated at the average exchange rates for each of the reporting period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (attributed to non-controlling interests as appropriate). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Retirement benefits costs

Payments to the Mandatory Provident Fund Scheme in Hong Kong and the Social Security Fund Contribution in Macau as defined contribution retirement benefit plans are recognised as an expense when employees have rendered services entitling them to the contributions.

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries) after deducting any amount already paid.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before taxation as reported in the consolidated statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation (Continued)

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 “Income Taxes” requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption. Temporary differences arising from subsequent revision to the carrying amounts of right-of-use assets and lease liabilities resulting from remeasurement of lease liabilities and lease modifications, that are not subject to initial recognition exemption are recognised on the date of remeasurement or modification.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxable entity by the same taxation authority.

Current and deferred tax are recognised in profit or loss.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group’s accounting policies, which are described in note 4, the following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next twelve months.

Recognition of revenue from provision of building protection works

The Group reviews and revises the estimated total costs to complete the satisfaction of these services as the contract progresses. Budgeted contract costs and profit margin are prepared by the management of the Group on the basis of quotations from time to time provided by the major subcontractors, suppliers or vendors involved. In order to keep the budget accurate and up-to-date, management of the Group conducts periodic reviews and revisions of the budgets of contracts by comparing the budgeted amounts to the actual amounts incurred. Such estimate may have impact on the revenue and profit recognised in each period.

Recognised amounts of contract revenue from provision of building protection works reflect the Group’s management’s best estimate of each contract’s outcome and value of works completed, which are determined on the basis of a number of estimates. This includes the assessment of the profitability of on-going construction contracts. The actual outcomes in terms of total costs or revenue may be higher or lower than estimated at the end of the reporting period, which would affect the revenue and profit or loss recognised in future years as an adjustment to the amounts recorded to date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

5. KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Estimated impairment of trade receivables and contract assets

The management of the Group estimates the amount of impairment loss for ECL on trade receivables and contract assets using a provision matrix based on appropriate groupings on shared credit risk characteristics of customers, except for balances with a credit-impaired debtor which was assessed for ECL individually, after considering internal credit ratings of trade debtors, ageing, repayment history and/or past due status of respective debtors. Estimated loss rates are based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information. The amount of the impairment loss based on ECL model is measured as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition. Where the future cash flows are less than expected, or being revised downward due to changes in facts and circumstances, a material impairment loss may arise.

As at 31 March 2020, the carrying amount of trade receivables and contract assets are HK\$23,317,000 (2019: HK\$14,929,000) and HK\$102,488,000 (2019: HK\$70,116,000) (net of loss allowances of HK\$207,000 (2019: HK\$212,000) and HK\$1,838,000 (2019: HK\$550,000)), respectively.

6. REVENUE

Revenue represents the fair value of amounts received and receivable from provision of building protection works and supply of building protection products.

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

	2020 HK\$'000	2019 HK\$'000
Contract revenue from provision of building protection works, recognised over time:		
Residential buildings	55,819	40,196
Community facilities (Note)	22,558	19,145
Commercial buildings	42,225	47,031
	<u>120,602</u>	<u>106,372</u>
Contract revenue from supply of building protection products, recognised at a point in time	78,676	85,359
	<u>199,278</u>	<u>191,731</u>

Note: Community facilities include hospitals, police offices, museums, sports centres and other community facilities.

All the Group's provision of building protection works are made directly with customers which are mainly construction companies and contractors in Hong Kong. The period of building protection works normally varies from 1 to 4 years. The customers for supply of building protection products are mainly located in Hong Kong and Macau.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

6. REVENUE (CONTINUED)

Transaction price allocated to the remaining performance obligations

The following table shows the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied (or partially unsatisfied) as at the end of the reporting period.

	2020 HK\$'000	2019 HK\$'000
Provision of building protection works for:		
Residential buildings	87,490	98,345
Community facilities	68,994	37,179
Commercial buildings	62,597	36,534
	<u>219,081</u>	<u>172,058</u>

Based on the information available to the Group at the end of the 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 building protection works as of 31 March 2020 will be recognised as revenue during the years ending 31 March 2021 to 2024 (2019: the years ended/ending 31 March 2020 to 31 March 2022).

As a practical expedient, the Group does not disclose the information about its remaining obligations in respect of supply of building protection products as the contracts have an original expected duration of one year or less.

7. SEGMENT INFORMATION

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker (the "CODM"), being Mr. Lam, in order for CODM to allocate resources and assess performance. No operating segments identified by the CODM have been aggregated in arriving at the reporting segments of the Group.

Specifically, the Group's reporting and operating segments under HKFRS 8 "Operating Segments" are as follows:

- Provision of building protection works; and
- Supply of building protection products.

The CODM makes decisions according to the operating results of each segment. No analysis of segment assets and segment liabilities is presented as the CODM does not regularly review such information for the purposes of resources allocation and performance assessment. Therefore, only segment revenue and segment results are presented.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

7. SEGMENT INFORMATION (CONTINUED)

Segment revenue and results

The following is an analysis of the Group's revenue and results by operating segments:

For the year ended 31 March 2020

	Provision of building protection works HK\$'000	Supply of building protection products HK\$'000	Total HK\$'000
Segment revenue - external	120,602	78,676	199,278
Segment results	42,633	35,430	78,063
Other income			200
Other gains and losses			(452)
Impairment losses under expected credit loss model, net of reversal			(1,283)
Selling and distribution costs			(5,875)
Administrative expenses			(31,084)
Finance costs			(57)
Listing expenses			(13,997)
Profit before taxation			25,515

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

7. SEGMENT INFORMATION (CONTINUED)

Segment revenue and results (Continued)

For the year ended 31 March 2019

	Provision of building protection works HK\$'000	Supply of building protection products HK\$'000	Total HK\$'000
Segment revenue - external	106,372	85,359	191,731
Segment results	40,975	38,110	79,085
Other income			265
Other gains and losses			381
Impairment losses under expected credit loss model, net of reversal			(274)
Selling and distribution costs			(8,059)
Administrative expenses			(29,943)
Finance costs			(169)
Listing expenses			(5,074)
Profit before taxation			36,212

The accounting policies of the operating and reportable segments are the same as the Group's accounting policies described in note 4. Segment results represent the profit before tax earned by each segment without allocation of other income, other gains and losses, impairment losses under expected credit loss model, net of reversal, selling and distribution costs, administrative expenses, finance costs and listing expenses. This is the measure reported to the CODM for the purposes of resources allocation and assessment of segment performance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

7. SEGMENT INFORMATION (CONTINUED)

Geographical information

The Group's operations are located in Hong Kong and Macau. Analysis of the Group's revenue by geographical location is detailed below:

	2020 HK\$'000	2019 HK\$'000
Hong Kong	173,757	158,763
Macau	25,521	32,968
	<u>199,278</u>	<u>191,731</u>

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

Information about major customers

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

	2020 HK\$'000	2019 HK\$'000
Provision of building protection works and supply of building protection products:		
Customer A	42,267	20,975
Customer B	N/A*	29,206
	<u>42,267</u>	<u>29,206</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

8. OTHER INCOME

	2020 HK\$'000	2019 HK\$'000
Bank interest income	55	229
Sundry income	145	36
	<u>200</u>	<u>265</u>

9. OTHER GAINS AND LOSSES

	2020 HK\$'000	2019 HK\$'000
Net exchange loss	(451)	(473)
(Loss) gain on disposal of property and equipment	(1)	945
Loss arising from early termination of lease contracts	—	(91)
	<u>(452)</u>	<u>381</u>

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

	2020 HK\$'000	2019 HK\$'000
Net impairment losses (reversed) recognised on:		
– trade receivables	(5)	78
– contract assets	1,288	196
	<u>1,283</u>	<u>274</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

11. FINANCE COSTS

	2020 HK\$'000	2019 HK\$'000
Interest expenses on lease liabilities	<u>57</u>	<u>169</u>

12. PROFIT BEFORE TAXATION

	2020 HK\$'000	2019 HK\$'000
Profit before taxation has been arrived at after charging:		
Directors' emoluments (note 13)	5,996	3,503
Other staff costs	22,241	22,231
Retirement benefit schemes contributions for other staff	<u>604</u>	<u>600</u>
Total staff costs	<u>28,841</u>	<u>26,334</u>
Auditor's remuneration	1,280	657
Variable lease payments in respect of land and buildings which are not included in the measurement of lease liabilities (Note)	2,005	2,634
Cost of inventories recognised as an expense	84,353	76,746
Depreciation of property and equipment	1,717	1,775
Depreciation of right-of-use assets	<u>2,122</u>	<u>2,368</u>

Note: The variable lease payments for certain warehouses are determined according to predetermined unit cost and the usage of storage units of respective warehouses pursuant to terms and conditions that are set out in respective rental agreements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

13. DIRECTORS' AND CHIEF EXECUTIVE OFFICER'S EMOLUMENTS AND EMPLOYEES' EMOLUMENTS

Directors' emoluments and chief executive officer's emoluments

Details of the emoluments paid or payable to the directors of the Company and the chief executive officer of the Group (including emoluments for services as employee or directors of the group entities prior to becoming the directors of the Company) during the year are as follows:

	Other emoluments					Total HK\$'000
	Fees HK\$'000	Salaries and other allowances HK\$'000	Accommodation benefits HK\$'000	Discretionary bonus HK\$'000 (Note)	Retirement benefit schemes contributions HK\$'000	
For the year ended 31 March 2020						
<i>Executive directors:</i>						
Mr. Lam (Chief executive officer)	—	2,917	540	1,173	18	4,648
Ms. Wong Pui Yee, Edith ("Mrs. Lam")	—	1,235	—	95	18	1,348
<i>Independent non-executive directors:</i>						
Mr. Ng Kwun Wan	—	—	—	—	—	—
Ms. Cho Mei Ting	—	—	—	—	—	—
Mr. Ho Ka Kit	—	—	—	—	—	—
Total	—	4,152	540	1,268	36	5,996
For the year ended 31 March 2019						
<i>Executive directors:</i>						
Mr. Lam (Chief executive officer)	—	1,977	540	—	18	2,535
Mrs. Lam	—	864	—	90	14	968
Total	—	2,841	540	90	32	3,503

Note: The discretionary bonus is determined based on the performance of the individuals within the Group and market conditions during the year.

The emoluments of the above directors were for their services in connection with the management of the affairs of the companies now comprising the Group for the year ended 31 March 2020.

Mr. Lam was appointed as an executive director, the chairman and chief executive officer of the Company on 12 February 2019. Mrs. Lam was appointed as an executive director of the Company on 12 February 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

13. DIRECTORS' AND CHIEF EXECUTIVE OFFICER'S EMOLUMENTS AND EMPLOYEES' EMOLUMENTS (CONTINUED)

Independent non-executive directors' emoluments

All independent non-executive directors were appointed on 18 March 2020. No emoluments were paid or payable to the independent non-executive directors of the Company during the year ended 31 March 2020.

Employees' emoluments

The five highest paid individuals of the Group for the year ended 31 March 2020 include two (2019: two) directors. Details of whose emoluments are set out above. Details of the remaining three (2019: three) highest paid individuals are as follows:

	2020 HK\$'000	2019 HK\$'000
Salaries and other allowances	4,980	7,591
Discretionary bonus	2,744	—
Retirement benefit schemes contributions	54	54
	<u>7,778</u>	<u>7,645</u>

The discretionary bonus is determined by reference to individual performance of the employees and approved by the management of the Group.

Their emoluments were within the following bands:

	Number of individuals	
	2020	2019
Nil to HK\$1,000,000	—	1
HK\$1,000,001 to HK\$1,500,000	2	1
HK\$5,500,001 to HK\$6,000,000	1	1
	<u>3</u>	<u>3</u>

No emoluments were paid by the Group to any of the directors or chief executive officer of the Company or five highest paid individuals of the Group as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors nor the chief executive officer waived or agreed to waive any emoluments for both years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

14. INCOME TAX EXPENSE

	2020 HK\$'000	2019 HK\$'000
The tax charge comprises:		
Hong Kong Profits Tax		
Current tax	6,359	7,229
Deferred tax (note 26)	(224)	(27)
	<u>6,135</u>	<u>7,202</u>

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the “**Bill**”) which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK\$2,000,000 of profits of qualifying group entity will be taxed at 8.25%, and profits above HK\$2,000,000 of that qualifying group entity will be taxed at 16.5%. According, Hong Kong Profits Tax of the qualifying entity is calculated in accordance with the two-tiered profits tax rates regime. The profits of other group entities in Hong Kong not qualifying for the two-tiered profits tax rates regime continue to be taxed at the flat rate of 16.5%.

Macau Complementary Tax (“**CT**”) is calculated at the rate of 12% on the estimated assessable profits exceeding Macau Pataca (“**MOP**”) 600,000 for both years.

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

	2020 HK\$'000	2019 HK\$'000
Profit before taxation	<u>25,515</u>	<u>36,212</u>
Tax at Hong Kong Profits Tax rate of 16.5%	4,210	5,975
Tax effect of expenses not deductible for tax purpose	2,588	1,619
Tax effect of income not taxable for tax purpose	(463)	(158)
Tax concession	(60)	(60)
Tax effect on two-tiered profits tax rates	(165)	(165)
Tax effect of tax exemption under CT	(79)	(13)
Others	<u>104</u>	<u>4</u>
Income tax expense	<u>6,135</u>	<u>7,202</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

15. EARNINGS PER SHARE

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

	2020 HK\$'000	2019 HK\$'000
Earnings:		
Earnings for the purpose of calculating basic earnings per share (profit for the year attributable to owners of the Company)	<u>19,380</u>	<u>20,793</u>
	'000	'000
Number of shares (Note):		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	<u>750,000</u>	<u>750,000</u>

Note: The weighted average number of ordinary shares of the Company for the purpose of calculating basic earnings per share has been determined on the assumption that the Group Reorganisation as set out in note 2 and the capitalisation issue as set out in note 38 in connection with the Listing have been effective on 1 April 2018.

No diluted earnings per share is presented as the Group has no potential ordinary shares in issue during both years.

16. DIVIDENDS

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 March 2020 of 0.58 HK cents per share, in an aggregate amount of HK\$5,800,000, has been proposed by the directors of the Company and is subject to approval by the shareholders in the forthcoming general meeting.

During the year ended 31 March 2019, Sunray Engineering (HK) Company Limited ("**Sunray HK**") declared dividends of HK\$47,641,000 to its then sole shareholder. The rate of dividends and number of shares ranking for dividends are not presented as such inclusion of information is not considered meaningful for the purpose of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

17. PROPERTY AND EQUIPMENT

	Leasehold improvements HK\$'000	Furniture and office equipment HK\$'000	Machinery and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
COST					
At 1 April 2018	375	759	2,228	9,306	12,668
Additions	—	50	148	1,880	2,078
Transfer from right-of-use assets	—	—	—	4,105	4,105
Disposals	—	—	—	(3,665)	(3,665)
At 31 March 2019	375	809	2,376	11,626	15,186
Additions	—	61	11	270	342
Disposals	—	—	—	(600)	(600)
At 31 March 2020	375	870	2,387	11,296	14,928
DEPRECIATION					
At 1 April 2018	263	580	1,678	3,148	5,669
Provided for the year	38	117	139	1,481	1,775
Transferred from right-of-use assets	—	—	—	1,973	1,973
Eliminated on disposal	—	—	—	(168)	(168)
At 31 March 2019	301	697	1,817	6,434	9,249
Provided for the year	38	80	149	1,450	1,717
Eliminated on disposal	—	—	—	(400)	(400)
At 31 March 2020	339	777	1,966	7,484	10,566
CARRYING VALUES					
At 31 March 2020	36	93	421	3,812	4,362
At 31 March 2019	74	112	559	5,192	5,937

Depreciation is provided to write off the cost of items of property and equipment over their estimated useful lives using the straight line method as follows:

Leasehold improvements	Over the shorter of 5 years or the terms of the leases
Furniture and office equipment	3 - 5 years
Machinery and equipment	5 years
Motor vehicles	5 years

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

18. RIGHT-OF-USE ASSETS

For both years, the lease terms of the Group's offices, director's quarters, warehouse, printing machines and motor vehicles range from 2 - 5 years. Depreciation is provided to write off the cost of items of right-of-use assets over their expected useful lives using straight line method. When there is no reasonable certainty that ownership will be obtained by the end of the lease term, the assets are depreciated over the lease term. Their useful lives are as follows:

Buildings	2 years
Printing machines	5 years
Motor vehicles	5 years

Except for certain motor vehicles, the Group does not have the option to purchase the right-of-use assets for a nominal amount at the end of the lease terms.

	Buildings HK\$'000	Printing machines HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
COST				
At 1 April 2018	2,640	553	4,869	8,062
Additions	2,591	—	—	2,591
Expiration of lease contracts	(1,346)	—	—	(1,346)
Transfer to property and equipment upon early termination of lease contracts	—	—	(4,105)	(4,105)
At 31 March 2019	3,885	553	764	5,202
Additions	1,316	—	—	1,316
Expiration of lease contracts	(1,293)	—	(764)	(2,057)
At 31 March 2020	3,908	553	—	4,461
DEPRECIATION				
At 1 April 2018	1,346	55	2,334	3,735
Charge for the year	1,916	111	341	2,368
Expiration of lease contracts	(1,346)	—	—	(1,346)
Transfer to property and equipment upon early termination of lease contracts	—	—	(1,973)	(1,973)
At 31 March 2019	1,916	166	702	2,784
Charge for the year	1,950	110	62	2,122
Expiration of lease contracts	(1,293)	—	(764)	(2,057)
At 31 March 2020	2,573	276	—	2,849
CARRYING VALUES				
At 31 March 2020	1,335	277	—	1,612
At 31 March 2019	1,969	387	62	2,418

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

19. INVENTORIES

	2020 HK\$'000	2019 HK\$'000
Materials of building protection works or products	<u>6,482</u>	<u>12,446</u>

20. TRADE AND OTHER RECEIVABLES

	2020 HK\$'000	2019 HK\$'000
Trade receivables	23,524	15,141
Less: Allowance for impairment	<u>(207)</u>	<u>(212)</u>
	23,317	14,929
Deferred issue costs	5,157	1,363
Other receivables	413	15
Prepayment and deposits	868	1,278
Prepaid listing expenses	<u>30</u>	<u>1,267</u>
	29,785	18,852
Less: Rental deposits classified as non-current portion	<u>(256)</u>	<u>(260)</u>
Current portion	<u>29,529</u>	<u>18,592</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

20. TRADE AND OTHER RECEIVABLES (CONTINUED)

Trade receivables

Trade receivables represent the amounts receivable, after deduction of retention receivables. For provision of building protection works, the trade receivables usually fall due within 14 to 30 days after the work is certified. For supply of building protection products, the Group normally allows a credit period ranging from 15 to 30 days to its customers.

The following is an ageing analysis of trade receivables, net of loss allowances, presented based on the approval dates of work certified or dates of invoices at the end of the reporting period.

	2020 HK\$'000	2019 HK\$'000
0 to 30 days	7,222	7,354
31 to 90 days	12,824	2,626
91 to 180 days	454	279
181 to 365 days	189	1,376
Over 365 days	2,628	3,294
	23,317	14,929

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

In addition, the management of the Group is of the opinion that no event of default occurred for trade receivables past due over 90 days as the balances are still considered fully recoverable based on the management's historical experience on the settlement pattern from these customers.

The Group applies the simplified approach to provide for ECL prescribed by HKFRS 9 as disclosed in note 21.

For the other receivables including rental deposits, allowance for impairment was insignificant and thus negligible to be made since the management of the Group considers the probability of default is minimal after assessing the counterparties' financial background and creditability.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

21. IMPAIRMENT ASSESSMENT ON TRADE RECEIVABLES AND CONTRACT ASSETS

In order to minimise credit risk, the Group makes periodic collective assessment on the recoverability of trade receivables and contract assets and develops and maintains the Group's credit risk gradings to categorise exposures according to their degree of risk of default. The credit rating information is supplied by independent rating agencies where available and, if not available, the Group's management uses other publicly available financial information and the Group's own trading records to rate its major customers and other debtors.

Internal credit rating	Description	Basis for recognising ECL
Strong	The counterparty, as a listed company with strong financial background based on the published financial information publicly available in the market, creditability and good repayment record, has very low probability of default.	Lifetime ECL - not credit-impaired
Good	The counterparty, having no balances past due over 90 days and with good repayment record, has low risk of default.	Lifetime ECL - not credit-impaired
Satisfactory	The counterparty, occasionally having certain balances past due over 90 days and with good repayment record, has moderate default risk.	Lifetime ECL - not credit-impaired
Watch list	The counterparty, usually having balances past due over 90 days, frequently repays after due dates. Requires varying degrees of attention and default risk is of greater concern.	Lifetime ECL - not credit-impaired
Loss	There is evidence indicating the asset is credit-impaired.	Lifetime ECL - credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery.	Amount is written off

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

21. IMPAIRMENT ASSESSMENT ON TRADE RECEIVABLES AND CONTRACT ASSETS (CONTINUED)

In determining the ECL for trade receivables and contract assets, the management of the Group has taken into account the historical default experience and the future prospect of the industries and/or considering various external sources of actual and forecast economic information, as appropriate, as well as any cash flows that are expected from the realisation of the collateral, in estimating the probability of default of each of the trade receivables and contract assets occurring within their respective loss assessment time horizon, as well as the loss upon default in each case.

The following table provides information about the exposure to credit risk and ECL for trade receivables and contract assets which are assessed collectively based on internal credit ratings within lifetime ECL (not credit-impaired). A credit-impaired debtor with a total gross carrying amount of HK\$1,642,000 (2019: nil) was assessed individually as at 31 March 2020.

At 31 March 2020

Internal credit rating	Average loss rate	Gross carrying amount HK\$'000	Impairment losses HK\$'000
Strong	0.09%	86,666	80
Good	0.38%	30,209	115
Satisfactory	1.60%	8,617	138
Watch list	9.78%	716	70
		<u>126,208</u>	<u>403</u>

At 31 March 2019

Internal credit rating	Average loss rate	Gross carrying amount HK\$'000	Impairment losses HK\$'000
Strong	0.12%	52,622	61
Good	0.51%	15,725	80
Satisfactory	2.24%	11,509	258
Watch list	6.10%	5,951	363
		<u>85,807</u>	<u>762</u>

A trade receivable or contract asset is written off when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings. None of the trade receivables that have been written off is subject to enforcement activities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

21. IMPAIRMENT ASSESSMENT ON TRADE RECEIVABLES AND CONTRACT ASSETS (CONTINUED)

There has been no change in the estimation techniques or significant assumptions made for both years in assessing the loss allowances for the trade receivables and contract assets.

The Group's management assessed the expected loss on trade receivables and contract assets collectively using a provision matrix based on appropriate groupings on shared credit risk characteristics of customers, except for balances with a credit-impaired debtor which was assessed for ECL individually. As at 31 March 2020, the loss allowances for not credit-impaired trade receivables and contract assets were HK\$120,000 (2019: HK\$212,000) and HK\$283,000 (2019: HK\$550,000), respectively.

The movement of the impairment losses in respect of trade receivables and contract assets during the year is as follows:

	Lifetime ECL-not credit-impaired			Lifetime ECL-credit-impaired			Total HK\$'000
	Trade receivables	Contract assets	Subtotal HK\$'000	Trade receivables	Contract assets	Subtotal HK\$'000	
	HK\$'000	HK\$'000		HK\$'000	HK\$'000		
At 1 April 2018	134	354	488	—	—	—	488
Impairment losses, net of reversal	78	196	274	—	—	—	274
At 31 March 2019	212	550	762	—	—	—	762
Transfer to credit-impaired	(5)	(87)	(92)	5	87	92	—
Impairment losses, net of reversal	(87)	(180)	(267)	82	1,468	1,550	1,283
At 31 March 2020	120	283	403	87	1,555	1,642	2,045

Changes in the loss allowances for the trade receivables and contract assets during the year ended 31 March 2020 are mainly due to the increase in ECL arising from a gross carrying amount of HK\$1,642,000 from one debtor which showed significant financial difficulty and becoming probable that the debtor will undergo financial restructuring. Therefore, the management of the Group considered this debtor was credit-impaired.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

22. CONTRACT ASSETS/LIABILITIES

	2020 HK\$'000	2019 HK\$'000
Analysed for reporting purposes, on a net basis for each respective contract:		
Contract assets	102,488	70,116
Contract liabilities	<u>(8,784)</u>	<u>(10,763)</u>

As at 1 April 2018, the carrying amount of contract assets is HK\$41,249,000, net of loss allowance of HK\$354,000.

Included in carrying amounts of contract assets are retention receivables of HK\$17,168,000 (2019: HK\$13,668,000) as at 31 March 2020, net of loss allowance of HK\$974,000 (2019: HK\$174,000).

Retention receivables represent the money retained by the Group's customers to secure the due performance of the contracts. The customers normally withhold 10% of the certified amount payable to the Group as retention money (accumulated up to maximum 5% of contract sum), 50% of which is normally recoverable upon completion of respective project and the remaining 50% is recoverable after the completion of defect liability period of the relevant contracts or in accordance with the terms specified in the relevant contracts, ranging from 1 year to 2 years from the date of completion of respective projects. The amount is unsecured and interest-free.

The retention receivables, net of loss allowance, included in contract assets are to be settled, based on the expiry of the defect liability period of the relevant contracts or in accordance with the terms specified in the relevant contracts, at the end of the reporting period as follows:

	2020 HK\$'000	2019 HK\$'000
Within one year	2,125	3,466
After one year	<u>15,043</u>	<u>10,202</u>
	<u>17,168</u>	<u>13,668</u>

At the end of the reporting period, contract liabilities represent advanced payments from customers for unsatisfied performance obligations and are recognised as revenue when the Group performs its obligations under the contracts which are expected to be satisfied within one year.

The changes in contract assets and liabilities are due to i) changes in the progress of contracting works when the Group satisfies the performance obligations under the contracts, or ii) reclassification to trade receivables when the Group has unconditional right to the consideration.

The Group applies the simplified approach to provide for ECL prescribed by HKFRS 9 as disclosed in note 21.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

23. BANK BALANCES AND CASH/PLEDGED BANK DEPOSIT

Bank balances carry interest at prevailing market rate of 0.01% (2019: 0.01%) per annum.

Pledged bank deposit with an original maturity over 3 months which carries a fixed interest rate at 1.4% (2019: 0.8%) per annum has been pledged to secure performance guarantee as at 31 March 2020.

Details of impairment assessment of pledged bank deposit and bank balances for both years are set out in note 35.

24. TRADE AND OTHER PAYABLES

	2020 HK\$'000	2019 HK\$'000
Trade payables	20,477	7,940
Retention payables	4,332	2,996
Accrued expenses	2,896	1,141
Accrued staff costs	6,707	1,268
Accrued listing expenses and issue costs	7,613	2,115
	<u>42,025</u>	<u>15,460</u>

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

	2020 HK\$'000	2019 HK\$'000
Within 30 days	7,647	4,375
31 to 90 days	9,014	463
Over 90 days	3,816	3,102
	<u>20,477</u>	<u>7,940</u>

The credit period of trade payables ranges from 30 to 90 days.

Retention payables to sub-contractors of contract works are interest-free and payable by the Group after the completion of maintenance period of the relevant contracts or in accordance with the terms specified in the relevant contracts for a period of generally 12 months after completion of the relevant works.

The retention payables are to be settled, based on the expiry of maintenance period, at the end of each reporting period as follows:

	2020 HK\$'000	2019 HK\$'000
Within one year	1,454	1,967
After one year	2,878	1,029
	<u>4,332</u>	<u>2,996</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

25. LEASE LIABILITIES

	2020 HK\$'000	2019 HK\$'000
Lease liabilities payable:		
— Within one year	953	1,903
— Within a period of more than one year but not more than two years	597	301
— Within a period of more than two years but not more than five years	102	203
	<u>1,652</u>	<u>2,407</u>
Less: Amount due for settlement with 12 months shown under current liabilities	<u>(953)</u>	<u>(1,903)</u>
Amount due for settlement after 12 months shown under non-current liabilities	<u>699</u>	<u>504</u>

For both years, the Group leases various assets as its offices, director's quarters, warehouse, printing machines and motor vehicles and these lease liabilities are measured at the present value of the lease payments that are not yet paid. The lease terms range from two to five years. These leases have no terms of renewal clauses. Purchase options are included in certain lease agreements entered by the Group in respect of motor vehicles. No arrangements have been entered into for contingent rental payments on these leased assets.

During the both years, no expenses relating to short-term leases were recognised.

The total cash outflows for leases amounted to HK\$4,133,000 (2019: HK\$5,728,000) for the year.

The Group does not face a significant liquidity risk with regard to its lease liabilities. Lease liabilities are monitored within the Group's treasury function.

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For the year ended 31 March 2020

26. DEFERRED TAXATION

The following are the deferred tax assets and liabilities recognised and movements thereon during the current and prior years, without taking into account the offsetting of balances within the same tax jurisdiction:

	Accelerated tax depreciation HK\$'000	Unrealised profits HK\$'000	Total HK\$'000
At 1 April 2018	1,226	(397)	829
(Credit) charge to profit or loss	(420)	393	(27)
At 31 March 2019	806	(4)	802
Credit to profit or loss	(151)	(73)	(224)
At 31 March 2020	<u>655</u>	<u>(77)</u>	<u>578</u>

27. SHARE CAPITAL

For the purpose of presenting the consolidated financial statements, the share capital as at 1 April 2018 represented the combined share capital of Profit Partner Investments Limited (“**Profit Partner**”) of US\$2, Fair Building Material Company Limited (“**Fair Building**”) of MOP25,000, Karcenar Sunray Engineering Company Limited (“**Karcenar Macau**”) of MOP25,000, Sunray HK of HK\$1 and Karcenar Limited (“**Karcenar HK**”) of HK\$2.

The share capital as at 31 March 2020 and 31 March 2019 represented the share capital of the Company.

	Number of shares	Amount HK\$'000	Shown in consolidated financial statements as HK\$'000
Ordinary share of HK\$0.01 each			
Authorised:			
At 12 February 2019 (date of incorporation), (note i) and 31 March 2019	39,000,000	390	N/A
Increase in authorised share capital (note ii)	1,521,000,000	15,210	N/A
At 31 March 2020	<u>1,560,000,000</u>	<u>15,600</u>	<u>N/A</u>
Issued and paid:			
At 12 February 2019 (date of incorporation), 31 March 2019 and 31 March 2020	<u>1</u>	<u>—*</u>	<u>—*</u>

* Less than HK\$1,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

27. SHARE CAPITAL (CONTINUED)

Notes:

- (i) On 12 February 2019, the Company was incorporated in the Cayman Islands as an exempted company with limited liability with an initial authorised share capital of HK\$390,000 divided into 39,000,000 shares of HK\$0.01 each, of which one share of HK\$0.01 was allotted, issued and credited as fully paid to an independent initial subscriber. On the same date, such subscriber's share was transferred to Ultra Success for cash at par.
- (ii) On 18 March 2020, the authorised share capital of the Company was increased from HK\$390,000 divided into 39,000,000 shares to HK\$15,600,000 divided into 1,560,000,000 shares by the creation of 1,521,000,000 additional shares.

28. RETIREMENT BENEFITS SCHEMES

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group, in funds under the control of independent trustees. The Group contributes 5% of relevant payroll costs to the scheme, which contribution is matched by employees but subject to a maximum amount of HK\$1,500 per month for each employee to the scheme.

Eligible employees employed by the Macau subsidiaries of the Group are covered by a government-mandated defined contribution plan pursuant to which a fixed amount of retirement benefit would be determined and paid by the Macau Government. Contributions are generally made by both employees and employers by paying a fixed amount on a monthly basis to the Social Security Fund Contribution managed by the Macau Government. The Group funds the entire contribution and has no further commitments beyond its monthly contributions.

The total cost charged to profit or loss of HK\$640,000 (2019: HK\$632,000) represents contributions paid or payable to the above schemes by the Group.

29. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in the consolidated financial statements, the Group had entered into the following related party transactions:

(a)

Name of related party	Nature of transactions	2020 HK\$'000	2019 HK\$'000
Red Fame Limited ("Red Fame") (note i)	Interest expenses on lease liabilities	10	29
	Lease liabilities (note ii)	—	530

Notes:

- (i) The related company is controlled by the directors of the Company, Mr. Lam and Mrs. Lam.
- (ii) During the year ended 31 March 2019, the Group entered into a new lease agreement for the use of director's quarter with Red Fame for 2 years. The Group recognised an addition of right-of-use assets of HK\$1,040,000 and lease liabilities of HK\$1,040,000 for the year ended 31 March 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

29. RELATED PARTY TRANSACTIONS (CONTINUED)

- (b) A personal guarantee was given by Mr. Lam in respect of a banking facility granted to the Group amounted to approximately HK\$4,000,000 (2019: HK\$4,000,000) as at 31 March 2020 of which HK\$755,000 (representing a performance bond as set out in note 31) (2019: HK\$755,000) was utilised as at 31 March 2020. The personal guarantee was fully released on 22 April 2020.

The remuneration of key management personnel who are the directors of the Company during both years were disclosed in note 13.

30. MAJOR NON-CASH TRANSACTIONS

Right-of-use assets of HK\$1,316,000 (2019: HK\$2,591,000) with the corresponding amount of lease liabilities of HK\$1,316,000 (2019: HK\$2,591,000) were recognised for the year ended 31 March 2020.

During the year ended 31 March 2019, a dividend of HK\$47,641,000 was declared in which HK\$3,939,000 was settled through offsetting the amount due from Mr. Lam

31. PERFORMANCE GUARANTEE

As at 31 March 2020, a performance bond of HK\$755,000 (2019: HK\$755,000), was given by a bank in favour of a customer of the Group as security for the due performance and observance of the Group's obligations under the contract for building protection works entered into between the Group and this customer. If the Group fails to provide satisfactory performance to this customer to whom the performance guarantee has been given, such customer may demand the bank to pay for the sum or sum stipulated in such demand. The Group will become liable to compensate such bank accordingly. The performance guarantee will be released upon completion of the contract works. The performance guarantee was granted under a letter of guarantee of the Group.

The management of Group does not consider it is probable that a claim will be made against the Group in respect of the above performance guarantee.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

32. SHARE OPTION SCHEME

The Company adopted a share option scheme (the “**Share Option Scheme**”) on 18 March 2020. No share options were granted under the Share Option Scheme since its adoption.

The major terms of the Share Option Scheme are summarised as follows:

(a) Purpose of the Share Option Scheme

The purpose of the Share Option Scheme is to provide an incentive or a reward to participants for their contribution to the Group.

(b) Eligibility

Eligible participants include employees (any director, employee or officer) and consultant, professional, customer, supplier, agent, partner or adviser of or contractor to the Company or any of the subsidiaries.

(c) Maximum number of shares

- (i) Maximum number of shares must not, in aggregate, exceed 30% of the total number of shares in issue from time to time.
- (ii) Total number of shares in respect of which options may be granted shall not exceed 100,000,000 shares, being 10% of the total number of shares in issue as at the listing date, 23 April 2020, unless approved by the shareholders of the Company.

(d) Period of the Share Option Scheme

Subject to any prior termination by the Company, the Share Option Scheme shall be valid and effective for 10 years from the date of adoption.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

32. SHARE OPTION SCHEME (CONTINUED)

(e) Maximum entitlement of each participant

Not to exceed 1% of the shares in issue in any 12-month period unless approved by the shareholders.

(f) Payment on acceptance of the share option

HK\$1 is payable by the grantee to the Company on acceptance of the share option offer. The share option will be offered for acceptance for a period not less than 5 business days from the date on which the offer is granted.

(g) Subscription price for shares

Any particular option granted under the Share Option Scheme shall be a price determined by the board of directors at least the higher of:

- (i) the closing price of the shares on the date of grant;
- (ii) the average closing price of the shares for the five trading days immediately preceding the date of grant; and
- (iii) the nominal value of a share on the date of grant.

(h) The remaining life of the Share Option Scheme

Approximately 10 years (expiring on 22 April 2030).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

33. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2020 HK\$'000	2019 HK\$'000
Non-current asset		
Investment in a subsidiary	— #	— #
Current assets		
Other receivables	5,187	2,630
Amount due from a subsidiary	15,303	—
	<u>20,490</u>	<u>2,630</u>
Current liabilities		
Other payables	8,193	2,115
Amounts due to subsidiaries	4,105	2,711
	<u>12,298</u>	<u>4,826</u>
Net current assets (liabilities)	<u>8,192</u>	<u>(2,196)</u>
Net assets (liabilities)	<u>8,192</u>	<u>(2,196)</u>
Capital and reserve		
Share capital	— #	— #
Reserve	8,192	(2,196)
Total equity	<u>8,192</u>	<u>(2,196)</u>

Less than HK\$1,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

33. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

Movement of reserve

	(Accumulated losses) retained profits HK\$'000
At 12 February 2019 (date of incorporation)	—
Loss and total comprehensive expense for the period	(2,196)
At 31 March 2019	(2,196)
Profit and total comprehensive income for the year	10,388
At 31 March 2020	<u>8,192</u>

34. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that the group entities will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which includes lease liabilities disclosed in respective notes, net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital and reserves as disclosed in the consolidated financial statements.

The management of the Group reviews the capital structure regularly. The Group considers the cost of capital and the risks associated with each class of capital, and will balance its overall capital structure through the payment of dividends, new share issues as well as the raising of new debts or the repayment of the existing debts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

35. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2020 HK\$'000	2019 HK\$'000
Financial assets		
Financial assets at amortised cost	<u>65,062</u>	<u>47,618</u>
Financial liabilities		
Amortised cost	<u>32,422</u>	<u>13,051</u>

Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, pledged bank deposit, bank balances and cash, trade and other payables and lease liabilities. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risks (currency risk and interest rate risk), credit risk and liquidity risk, and the policies on how to mitigate these risks are set out below. The management of the Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Currency risk

Foreign currency risk refers to the risk that movement in foreign currency exchange rates will affect the Group's financial results and its cash flows. Several group entities have foreign currency sales and purchases, but the management considers the amount of foreign currency sales and purchases to be insignificant. The management considers that the Group is not exposed to significant foreign currency risk in relation to transactions denominated in MOP and US\$ as MOP is pegged to HK\$ and HK\$ is pegged to US\$ under the pegged exchange system in Hong Kong.

The carrying amounts of the Group's foreign currency denominated monetary assets and liabilities are insignificant. Therefore, the management of Group considers that the exposure to currency risk is minimal.

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to pledged bank deposit and lease liabilities. The management of the Group continuously monitors interest rate exposure.

The Group's cash flow interest rate risk mainly concentrates on the fluctuation of prevailing market interest rates arising from its bank balances. The Group currently does not have any interest rate hedging policy. However, the management monitors the Group's exposure on ongoing basis and will consider hedging interest rate risk should the need arise.

The management of the Group considers the Group's exposure of pledged bank deposit and bank balances to interest rate is not significant as interest bearing pledged bank deposit and bank balances are within short maturity period. Therefore, no sensitivity analysis for interest rate risk was presented.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

35. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations in relation to each class of recognised financial assets is the carrying amount of these assets as stated in the consolidated statement of financial position at the end of the reporting period.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. The Group reviews the recoverable amounts of trade and other receivables at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the management of the Group considers that the Group's credit risk is significantly reduced.

As at 31 March 2020, the Group has concentration of credit risk on trade receivables amounted to HK\$6,251,000 (2019: HK\$3,061,000) which was due from a single customer, representing approximately 26.8% (2019: 20.5%) of the total trade receivables. As at 31 March 2020, trade receivables from the five customers with the most significant balances amounted to HK\$17,037,000 (2019: HK\$9,966,000), representing approximately 73.1% (2019: 66.8%) of the total trade receivables.

In addition, as at 31 March 2020, the Group has concentration of credit risk on contract assets amounted to HK\$34,902,000 (2019: HK\$18,191,000) which was due from a single customer, representing approximately 34.1% (2019: 25.9%) of the contract assets. As at 31 March 2020, contract assets from the five customers with the most significant balances amounted to HK\$74,357,000 (2019: HK\$48,750,000), representing approximately 72.6% (2019: 69.5%) of the contract assets.

The major customers of the Group are certain reputable organisations. The management of the Group considers that the credit risk is limited in this regard.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies. Allowance for impairment for pledged bank deposit and bank balances was insignificant and thus negligible to be made as the management of the Group considers the probability of default is negligible.

Other than the concentration risk on liquid funds which are deposited with several banks with high credit ratings, trade receivables and contract assets, the Group does not have any other significant concentration of credit risk, with exposure spread over a number of counterparties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

35. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (Continued)

Liquidity risk

In management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities and lease liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

Liquidity and interest risk tables

	Weighted average interest rate %	On demand or less than 1 month HK\$'000	1 - 3 months HK\$'000	3 months to 1 year HK\$'000	1 - 5 years HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amounts HK\$'000
<u>At 31 March 2020</u>							
Non-derivative financial liabilities							
Trade and other payables	N/A	15,350	9,201	4,993	2,878	32,422	32,422
Lease liabilities	3.40	133	265	590	708	1,696	1,652
<u>At 31 March 2019</u>							
Non-derivative financial liabilities							
Trade and other payables	N/A	6,683	596	4,743	1,029	13,051	13,051
Lease liabilities	3.13	177	353	1,415	507	2,452	2,407

Fair value measurement of financial instruments

The management of the Group considers that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

36. PARTICULARS OF SUBSIDIARIES

(a) General information of subsidiaries

Particulars of the subsidiaries of the Company as at 31 March 2020 and 31 March 2019 are as follows:

Name of subsidiary	Place and the date of incorporation/ establishment	Place of operation	Issued and fully paid share capital/ registered capital	Equity interest attributable to the Company		Principal activity
				2020	2019	
Directly held						
Success Worldwide Group Limited	BVI 21 September 2018	Hong Kong	US\$1	100%	100%	Investment holding
Indirectly held						
Tech Link Construction Engineering Limited ("Tech Link")	Hong Kong 2 February 2002	Hong Kong	HK\$2	100%	100%	Supply of building protection products
Fair Building	Macau 29 September 2006	Macau	MOP25,000	100%	100%	Supply of building protection products
Karcenar HK	Hong Kong 31 January 1989	Hong Kong	HK\$2	100%	100%	Provision of building protection works
Sunray HK	Hong Kong 15 December 2006	Hong Kong	HK\$1	100%	100%	Provision of building protection works
Karcenar Macau	Macau 5 September 2003	Macau	MOP25,000	100%	100%	Provision of building protection works
Profit Partner	BVI 28 July 2011	Hong Kong	US\$100	100%	100%	Investment holding
DP ChemTech Limited	Hong Kong 4 April 2014	Hong Kong	HK\$2	100%	100%	Inactive
Big Group Asia Limited	BVI 5 September 2018	Hong Kong	US\$1	100%	100%	Investment holding
Primary Winner Investment Limited	BVI 5 September 2018	Hong Kong	US\$1	100%	100%	Investment holding
Ultimate Power Enterprises Limited	BVI 21 September 2018	Hong Kong	US\$1	100%	100%	Investment holding

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

36. PARTICULARS OF SUBSIDIARIES (CONTINUED)

(b) Details of non-wholly owned subsidiaries that have material non-controlling interest.

The table below shows details of non-wholly owned subsidiary of the Group that had material non-controlling interests:

Name of subsidiary	Place of incorporation and principal place of business	Proportion of ownership and voting rights held by non-controlling interests		Profit allocated to non-controlling interests		Accumulated non-controlling interests	
		2020	2019	2020	2019	2020	2019
		%	%	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Tech Link, a subsidiary of Profit Partner	Hong Kong	—	—	—	8,039	—	—
Other non-wholly owned subsidiaries with immaterial non-controlling interests				—	178	—	—
				—	8,217	—	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

36. PARTICULARS OF SUBSIDIARIES (CONTINUED)

(b) Details of non-wholly owned subsidiaries that have material non-controlling interest. (Continued)

Summarised financial information (prepared in accordance with HKFRSs) in respect of Tech Link that had material non-controlling interests up to 31 December 2018 (the date of acquisition to become the Company's wholly-owned subsidiary) is set out below. The summarised financial information below represents amounts before intra-group eliminations.

	Period from 1 April 2018 to 31 December 2018 HK\$'000
Revenue	85,660
Other income	1,470
Other gains and losses	655
Total expenses	<u>(71,707)</u>
Profit and total comprehensive income for the period	<u>16,078</u>
Profit and total comprehensive income for the period attributable to:	
– owners of the Company	8,039
– non-controlling interests	<u>8,039</u>
	<u>16,078</u>
Net cash inflow from operating activities	7,450
Net cash outflow from investing activities	(31,567)
Net cash inflow from financing activities	<u>10,007</u>
Net cash outflow	<u>(14,110)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

37. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows used in financing activities.

	Dividend payable HK\$'000	Amount due to a director HK\$'000	Lease liabilities HK\$'000	Accrued issue costs HK\$'000	Total HK\$'000
At 1 April 2018	—	10,255	2,650	—	12,905
Financing cash flows	(43,702)	(10,255)	(3,094)	(909)	(57,960)
Dividend declared	47,641	—	—	—	47,641
Dividend settled through offsetting (note 30)	(3,939)	—	—	—	(3,939)
Interest expense	—	—	169	—	169
Recognition of lease liabilities	—	—	2,591	—	2,591
Loss arising from early termination of lease contracts	—	—	91	—	91
Issue costs accrued	—	—	—	1,363	1,363
At 31 March 2019	—	—	2,407	454	2,861
Financing cash flows	—	—	(2,128)	(2,300)	(4,428)
Interest expense	—	—	57	—	57
Recognition of lease liabilities	—	—	1,316	—	1,316
Issue costs accrued	—	—	—	3,793	3,793
At 31 March 2020	—	—	1,652	1,947	3,599

38. EVENTS AFTER THE REPORTING PERIOD

- (i) The Company capitalised an amount of HK\$7,499,999.99 standing to the credit of the share premium account of the Company towards paying in full at par a total of 749,999,999 shares for allotment and issue to the shareholders of the Company on 23 April 2020. Such shares rank pari passu in all respects with then existing issued shares of the Company.
- (ii) The shares of the Company are listed on GEM of the Stock Exchange on 23 April 2020. On 23 April 2020, the Company allotted and issued 25,000,000 and 225,000,000 new shares of par value of HK\$0.01 each at offer price of HK\$0.24 each, by way of the public offer and placing. Such shares rank pari passu in all respects with then existing issued shares of the Company.

FINANCIAL SUMMARY

The following table summarises the consolidated results of our Group for the three years ended 31 March 2018, 2019 and 2020:

	For the year ended 31 March		
	2020 HKD'000	2019 HKD'000	2018 HKD'000
CONSOLIDATED RESULTS			
Revenue	199,278	191,731	153,237
Gross profit	78,063	79,085	61,350
Profit before taxation	25,515	36,212	27,171
Income tax expense	(6,135)	(7,202)	(5,256)
Profit and total comprehensive income for the year	<u>19,380</u>	<u>29,010</u>	<u>21,915</u>
CONSOLIDATED ASSETS AND LIABILITIES			
	As at 31 March		
	2020 HKD'000	2019 HKD'000	2018 HKD'000
Total assets	185,455	141,840	177,992
Total liabilities	(61,954)	(37,719)	(54,752)
Equity attributable to equity holders of the Company	<u>123,501</u>	<u>104,121</u>	<u>123,240</u>

Note:

The consolidated results and summary of assets and liabilities for the years ended 31 March 2018 and 2019 which were extracted from the Prospectus have been prepared on a combined basis to indicate the results of the Group as if the Group's structure, at time when the Company's shares were listed on GEM of the Stock Exchange, had been in existence through those years.