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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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 MARCH 2021

CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE

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

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

*This announcement, for which the directors (the “**Directors**”) of 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 announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement in this announcement misleading.*

FINAL RESULTS

The board of Directors (the “**Board**”) of the Company is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively the “**Group**”) for the year ended 31 March 2021, together with the comparative audited figures for the year ended 31 March 2020 as follows:

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 March 2021

	Notes	2021 HK\$'000	2020 HK\$'000
Revenue	3	178,943	199,278
Cost of sales and services		<u>(120,038)</u>	<u>(121,215)</u>
Gross profit		58,905	78,063
Other income	5	1,903	200
Other gains and losses	6	259	(452)
Impairment losses under expected credit loss model, net of reversal	7	(158)	(1,283)
Selling and distribution costs		(6,600)	(5,875)
Administrative expenses		(36,578)	(31,084)
Finance costs	8	(116)	(57)
Listing expenses		<u>(926)</u>	<u>(13,997)</u>
Profit before taxation	9	16,689	25,515
Income tax expense	10	<u>(4,247)</u>	<u>(6,135)</u>
Profit and total comprehensive income for the year		<u>12,442</u>	<u>19,380</u>
Earnings per share			
Basic (HK cents)	11	<u>1.26</u>	<u>2.58</u>
Diluted (HK cents)	11	<u>1.26</u>	<u>N/A</u>

Consolidated Statement of Financial Position

At 31 March 2021

	Notes	2021 HK\$'000	2020 HK\$'000
Non-current assets			
Property and equipment		4,096	4,362
Right-of-use assets		4,079	1,612
Rental and other deposits	13	414	256
		<u>8,589</u>	<u>6,230</u>
Current assets			
Inventories		9,457	6,482
Trade and other receivables	13	26,606	29,529
Contract assets	14	116,640	102,488
Tax recoverable		1,064	—
Pledged bank deposit		818	806
Bank balances and cash		57,777	39,920
		<u>212,362</u>	<u>179,225</u>
Current liabilities			
Trade and other payables	15	31,515	42,025
Contract liabilities	14	11,608	8,784
Lease liabilities		2,263	953
Taxation payables		1,739	8,915
		<u>47,125</u>	<u>60,677</u>
Net current assets		<u>165,237</u>	<u>118,548</u>
Total assets less current liabilities		<u>173,826</u>	<u>124,778</u>
Non-current liabilities			
Lease liabilities		1,930	699
Deferred tax liabilities		698	578
		<u>2,628</u>	<u>1,277</u>
Net assets		<u>171,198</u>	<u>123,501</u>
Capital and reserves			
Share capital		10,000	— [#]
Reserves		161,198	123,501
Total equity		<u>171,198</u>	<u>123,501</u>

Less than HK\$1,000

Consolidated Statement of Changes in Equity

For the year ended 31 March 2021

	Attributable to owners of the Company						
	Share capital	Share premium	Legal reserve	Other reserve	Capital contribution	Retained profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2019	—	—	24	49	36,724	67,324	104,121
Profit and other comprehensive income for the year	—	—	—	—	—	19,380	19,380
At 31 March 2020	—	—	24	49	36,724	86,704	123,501
Profit and other comprehensive income for the year	—	—	—	—	—	12,442	12,442
2020 final dividend paid (Note 12)	—	—	—	—	—	(5,800)	(5,800)
Issue of shares upon share offer (Note ii)	2,500	57,500	—	—	—	—	60,000
Share issuance costs (Note ii)	—	(18,945)	—	—	—	—	(18,945)
Capitalisation issue (Note iii)	7,500	(7,500)	—	—	—	—	—
At 31 March 2021	10,000	31,055	24	49	36,724	93,346	171,198

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) On 23 April 2020, the Company issued a total of 250,000,000 new shares of par value of HK\$0.01 each at offer price of HK\$0.24 per share, by way of the public offer and placing. Of the gross total proceeds of HK\$60,000,000, HK\$2,500,000 representing the par value was credited to the Company's share capital, and HK\$57,500,000 before reduction of issue costs of HK\$18,945,000, was credited to the share premium account.
- (iii) 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 (the "Capitalisation Issue"). Such shares rank pari passu in all respects with the then existing issued shares of the Company.

Notes:

1. Basis of preparation and presentation of consolidated financial statements

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

2. Application of new and amendments to HKFRSs

Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the “Amendments to References to the Conceptual Framework in HKFRS Standards” and the following amendments to HKFRSs issued by the HKICPA for the first time, which are mandatorily effective for the Group’s annual periods beginning on or after 1 April 2020 for the preparation of the consolidated financial statements:

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

The application of the “Amendments to References to the Conceptual Framework in HKFRS Standards” and the amendments to HKFRSs in the current year had no material impact on the Group’s financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

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 and the related Amendments ⁵
Amendments to HKFRS 3	Reference to the Conceptual Framework ⁴
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform - Phase 2 ²
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁶
Amendment to HKFRS 16	Covid-19-Related Rent Concessions ¹
Amendment to HKFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021 ³
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020) ⁵
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies ⁵
Amendments to HKAS 8	Definition of Accounting Estimates ⁵
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction ⁵
Amendments to HKAS 16	Property, Plant and Equipment - Proceeds before Intended Use ⁴
Amendments to HKAS 37	Onerous Contracts - Cost of Fulfilling a Contract ⁴
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018 - 2020 ⁴

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

² Effective for annual periods beginning on or after 1 January 2021

³ Effective for annual periods beginning on or after 1 April 2021

⁴ Effective for annual periods beginning on or after 1 January 2022

⁵ Effective for annual periods beginning on or after 1 January 2023

⁶ Effective for annual periods beginning on or after a date to be determined

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

3. 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:

	2021	2020
	HK\$'000	HK\$'000
Contract revenue from provision of building protection works, recognised over time:		
Residential buildings	28,981	55,819
Community facilities (Note)	51,172	22,558
Commercial buildings	30,023	42,225
	110,176	120,602
Contract revenue from supply of building protection products, recognised at a point in time	68,767	78,676
	178,943	199,278

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.

4. 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 Ka Wing ("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.

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 2021

	Provision of building protection works HK\$'000	Supply of building protection products HK\$'000	Total HK\$'000
Segment revenue - external	<u>110,176</u>	<u>68,767</u>	<u>178,943</u>
Segment results	<u>29,393</u>	<u>29,512</u>	<u>58,905</u>
Other income			1,903
Other gains and losses			259
Impairment losses under expected credit loss model, net of reversal			(158)
Selling and distribution costs			(6,600)
Administrative expenses			(36,578)
Finance costs			(116)
Listing expenses			<u>(926)</u>
Profit before taxation			<u>16,689</u>

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	<u>120,602</u>	<u>78,676</u>	<u>199,278</u>
Segment results	<u>42,633</u>	<u>35,430</u>	78,063
Other income			200
Other gains and losses			(452)
Impairment losses under ECL model, net of reversal			(1,283)
Selling and distribution costs			(5,875)
Administrative expenses			(31,084)
Finance costs			(57)
Listing expenses			<u>(13,997)</u>
Profit before taxation			<u>25,515</u>

The accounting policies of the operating and reportable segments are the same as the Group's accounting policies. 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 ("ECL") 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.

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:

	2021	2020
	HK\$'000	HK\$'000
Hong Kong	164,202	173,757
Macau	14,741	25,521
	<u>178,943</u>	<u>199,278</u>

The Group's non-current assets, excluding financial assets, are 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:

	2021	2020
	HK\$'000	HK\$'000
Provision of building protection works and supply of building protection products:		
Customer A	44,780	N/A *
Customer B	<u>N/A *</u>	<u>42,267</u>

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

5. Other income

	2021	2020
	HK\$'000	HK\$'000
Bank interest income	31	55
Government subsidies (Note)	1,833	—
Sundry income	39	145
	<u>1,903</u>	<u>200</u>

Note: The government subsidies recognised during the year ended 31 March 2021 are mainly related to the Employment Support Scheme in respect of COVID-19-related subsidies from Hong Kong Government.

6. Other gains and losses

	2021	2020
	HK\$'000	HK\$'000
Net exchange gain (loss)	480	(451)
Loss on disposal of property and equipment	(229)	(1)
Gain arising from early termination of a lease contract	8	—
	<u>259</u>	<u>(452)</u>

7. Impairment losses under expected credit loss model, net of reversal

	2021	2020
	HK\$'000	HK\$'000
Net impairment losses (reversed) recognised on:		
– trade receivables	(3)	(5)
– contract assets	161	1,288
	<u>158</u>	<u>1,283</u>

8. Finance costs

	2021	2020
	HK\$'000	HK\$'000
Interest expenses on lease liabilities	<u>116</u>	<u>57</u>

9. Profit before taxation

	2021	2020
	HK\$'000	HK\$'000
Profit before taxation has been arrived at after charging:		
Directors' emoluments	9,239	5,996
Other staff costs	28,153	22,241
Retirement benefit schemes contributions for other staff	<u>896</u>	<u>604</u>
Total staff costs	<u>38,288</u>	<u>28,841</u>
Auditor's remuneration	1,280	1,280
Variable lease payments in respect of land and buildings which are not included in the measurement of lease liabilities (Note)	2,242	2,005
Cost of inventories recognised as an expense	77,961	84,353
Depreciation of property and equipment	1,445	1,717
Depreciation of right-of-use assets	<u>2,118</u>	<u>2,122</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.

10. Income tax expense

	2021	2020
	HK\$'000	HK\$'000
The tax charge comprises:		
Hong Kong Profits Tax		
Current tax	4,371	6,359
Overprovision in prior years	(244)	—
	<u>4,127</u>	<u>6,359</u>
Deferred tax charge (credit)	120	(224)
	<u><u>4,247</u></u>	<u><u>6,135</u></u>

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for both years.

No provision for Macau Complementary Tax (“CT”) is made as the Group has no estimated assessable profits exceeding Macau Pataca 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:

	2021	2020
	HK\$'000	HK\$'000
Profit before taxation	<u>16,689</u>	<u>25,515</u>
Tax at Hong Kong Profits Tax rate of 16.5%	2,754	4,210
Tax effect of expenses not deductible for tax purpose	2,320	2,588
Tax effect of income not taxable for tax purpose	(364)	(463)
Tax concession	(30)	(60)
Tax effect on two-tiered profits tax rates	(165)	(165)
Tax effect of tax exemption under CT	(70)	(79)
Overprovision in prior years	(244)	—
Others	46	104
Income tax expense	<u>4,247</u>	<u>6,135</u>

11. Earnings per share

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

	2021 HK\$'000	2020 HK\$'000
Earnings:		
Earnings for the purpose of calculating basic and diluted earnings per share (profit for the year attributable to owners of the Company)	<u>12,442</u>	<u>19,380</u>
	'000	'000
Number of shares (Note):		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	984,932	750,000
Effect of dilutive potential ordinary shares:		
Offer size adjustment options	<u>—</u>	<u>N/A</u>
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	<u>984,932</u>	<u>N/A</u>

Note: The weighted average number of ordinary shares of the Company for the purpose of calculating basic earnings per share for the year ended 31 March 2020 had been determined on the assumption that the capitalisation issue as described in note 25 has been effective on 1 April 2019.

No diluted earnings per share was presented for the year ended 31 March 2020 as the Group had no potential ordinary shares in issue during the year ended 31 March 2020.

12. Dividends

	2021	2020
	HK\$'000	HK\$'000
Dividends recognised on distributions during the year:		
2020 final dividend of 0.58 HK cents per share	<u>5,800</u>	<u>—</u>

No dividend was proposed by the directors of the Company in respect of year ended 31 March 2021 or subsequent to 31 March 2021.

13. Trade and other receivables

	2021	2020
	HK\$'000	HK\$'000
Trade receivables	25,466	23,524
Less: Allowance for impairment	<u>(117)</u>	<u>(207)</u>
	25,349	23,317
Deferred issue costs	—	5,157
Other receivables	404	413
Prepayment and deposits	1,267	868
Prepaid listing expenses	<u>—</u>	<u>30</u>
	27,020	29,785
Less: Rental and other deposits classified as non-current portion	<u>(414)</u>	<u>(256)</u>
Current portion	<u>26,606</u>	<u>29,529</u>

As at 1 April 2019, the carrying amount of trade receivables is HK\$14,929,000, net of allowance for impairment of HK\$212,000.

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 allowance, presented based on the approval dates of work certified or dates of invoices at the end of the reporting period.

	2021	2020
	HK\$'000	HK\$'000
0 to 30 days	15,240	7,222
31 to 90 days	6,736	12,824
91 to 180 days	560	454
181 to 365 days	681	189
Over 365 days	2,132	2,628
	<u>25,349</u>	<u>23,317</u>

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.

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.

14. Contract assets/liabilities

	2021	2020
	HK\$'000	HK\$'000
Analysed on a gross basis of:		
Contract assets - provision of building protection works	117,084	104,326
Less: Allowance for impairment	(444)	(1,838)
	<u>116,640</u>	<u>102,488</u>
Contract liabilities		
– provision of building protection works	(10,151)	(7,849)
– supply of building protection products	(1,457)	(935)
	<u>(11,608)</u>	<u>(8,784)</u>

As at 1 April 2019, the carrying amount of contract assets is HK\$70,116,000, net of allowance for impairment of HK\$550,000.

As at 31 March 2021, included in carrying amounts of contract assets are retention receivables of HK\$19,788,000 (2020: HK\$17,168,000), net of loss allowance of HK\$89,000 (2020: HK\$974,000).

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:

	2021	2020
	HK\$'000	HK\$'000
Within one year	1,915	2,125
After one year	17,873	15,043
	<u>19,788</u>	<u>17,168</u>

As at 1 April 2018, the carrying amount of contract liabilities was HK\$10,763,000.

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.

15. Trade and other payables

	2021	2020
	HK\$'000	HK\$'000
Trade payables	19,479	20,477
Retention payables	4,339	4,332
Accrued expenses	2,484	2,896
Accrued staff costs	5,213	6,707
Accrued listing expenses and issue costs	—	7,613
	31,515	42,025

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

	2021	2020
	HK\$'000	HK\$'000
Within 30 days	14,194	7,647
31 to 90 days	2,241	9,014
Over 90 days	3,044	3,816
	19,479	20,477

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:

	2021	2020
	HK\$'000	HK\$'000
Within one year	1,570	1,454
After one year	2,769	2,878
	<u>4,339</u>	<u>4,332</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Management of the Group has continued to utilise our professional and committed workforce and financial resources to achieve maximum return to our shareholders.

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 2021, the Group had taken up 265 projects with an original contract sum of approximately HK\$595.6 million in which the Group had completed 24 projects with an original contract sum of approximately HK\$44.1 million. As at 31 March 2021, the Group had 242 contracts in progress with an original contract sum of approximately HK\$551.5 million.

Prospects

The impacts of COVID-19 epidemic (the “**Epidemic**”) have caused pressure worldwide and dampened the development of various industries, with no exception for the construction industry. Due to the sudden and rapid spread of the Epidemic, a series of enhanced precautionary and control measures have been undertaken by the governments across the world including Hong Kong and Macau. The significant reduction of social and business activities and the subsequent quarantine measures have adversely affected the economy in Hong Kong, including the slowdown in the progress of construction projects. As a result, some of the Group’s building protection works in the construction sites have been held up or delayed, such influences might continue until the Epidemic is contained and this would affect the operational and financial performance of the Group.

The Group estimates that the degree of COVID-19 impact would be dependent on the outcome of various preventive measures and the duration of the Epidemic. The Group is closely monitoring the market development and continuously evaluating the financial impact of the COVID-19 situation. Given the unpredictability of future development of COVID-19, the impacts to the Group could not be reasonably and accurately estimated at this stage. However, for the time being, the Group’s building protection work projects on hand are in steady progress and the Group did not experience any shortages or difficulties in the supply of building protection products.

Since the outbreak of the Epidemic in early 2020, the Group has implemented measures, including frequent workspace cleaning with disinfectant, ensuring the wearing of surgical masks of all staff at work, and conducting body temperature test to protect the health and safety of the employees. The Group will continue to closely monitor the development of the Epidemic and will take necessary actions to control costs and drive efficiency to maintain profitability and competitiveness in the market.

Going forward, the Group will continue to strengthen its market position by expanding its workforce and competing for more building protection work projects in Hong Kong. The Directors remain confident in the prospect of the Group and are committed in creating long-term and sustainable value for the Company and its shareholders.

Principal risks and uncertainties

There are certain risks that could adversely affect the Group's operations and financial results. The major uncertainties may include:

- (i) the Group derives revenue from projects and purchase orders of a non-recurrent nature, where there is no guarantee that customers will provide the Group with new business or that the Group will secure new contracts;
- (ii) the Group determines the contract price based on estimated time and costs involved in the project. An under-estimation or ineffective cost management may adversely affect the Group's financial results;
- (iii) the outbreak of COVID-19 worldwide may significantly and adversely impact the Group's business operation and financial performance;
- (iv) the timing of the Group's payment to suppliers may not match the receipt of payment from customers;
- (v) the Group relies on its major subcontractors to help complete the building protection works projects. Any material surges of their charges or any substandard work by subcontractors will affect the Group to a large extent;
- (vi) the Group relies on independent third party suppliers for production of all its own-brand building protection products; and
- (vii) the Group relies on brand owners and manufacturers for the supply of building protection products to satisfy its business operation needs. Failure to secure a steady supply of these products to the Group may adversely affect its results of business operations.

Save as disclosed above, principal risks and uncertainties affecting the Group as disclosed in the Prospectus remain substantially unchanged since the listing of the Company's shares on GEM of the Stock Exchange (the "**Listing**") on 23 April 2020 (the "**Listing Date**") and up to the date of this announcement. For details and other risks and uncertainties faced by the Group, please refer to the section headed "Risk Factors" in the Prospectus.

The Group will continue to use its best effort to ensure it has sufficiently mitigated the risks present in its operations and financial position as efficiently and effectively as possible.

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 2021.

Financial Performance

The Group recorded a total revenue of approximately HK\$178.9 million for the year ended 31 March 2021, representing a decrease of approximately HK\$20.4 million or 10.2% as compared to that of approximately HK\$199.3 million for the year ended 31 March 2020. Profit and total comprehensive income for the year ended 31 March 2021 was approximately HK\$12.4 million, representing a decrease of approximately HK\$7.0 million or 36.1% as compared to that of approximately HK\$19.4 million for the year ended 31 March 2020. Such decrease was mainly attributable to the combined effect of the postponement and slowdown of certain construction projects in Hong Kong caused by the prolonged outbreak of novel coronavirus (COVID-19) during the year, as well as the increase in the Group's staff costs and professional fee after the Listing.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 March 2021, the Group had total assets of approximately HK\$221.0 million (31 March 2020: HK\$185.5 million), including pledged bank deposit and bank balances and cash of approximately HK\$58.6 million (31 March 2020: HK\$40.7 million), representing an increase of approximately HK\$35.5 million, or 19.1%. Such increase was mainly attributable to the increase in recognised contract assets from the completion of our building protection works and cash proceeds upon the Listing.

Equity attributable to equity holders of the Company as at 31 March 2021 was approximately HK\$171.2 million, representing an increase of approximately HK\$47.7 million as compared to that of approximately HK\$123.5 million as at 31 March 2020. Such change was primarily attributable to (i) the capitalisation of listing expenses; and (ii) the issue of 250,000,000 new shares issued at the price of HK\$0.24 per share by the Share Offer on 23 April 2020.

The Group's financial position remains 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 lease liabilities by equity attributable to equity holders of the Company at the year-end date) increased from 1.3% as at 31 March 2020 to 2.5% as at 31 March 2021. Such increase was mainly attributable to the increase in lease liabilities during the year ended 31 March 2021.

Current ratio

As at 31 March 2021, the Group had net current assets of approximately HK\$165.2 million, representing a significant increase of approximately HK\$46.7 million as compared to that of approximately HK\$118.5 million as at 31 March 2020. As a result, the Group's current ratio, which was calculated based on the total current assets divided by total current liabilities at the year-end date, increased to approximately 4.5 times as at 31 March 2021 from 3.0 times as at 31 March 2020.

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 making 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.

SIGNIFICANT INVESTMENTS HELD

As at 31 March 2021, the Group did not hold any significant investment (31 March 2020: Nil).

MATERIAL ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

There were no material acquisition or disposal of subsidiaries, associates or joint ventures during the year ended 31 March 2021.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 March 2021, the Group had 100 employees excluding the Directors. Total staff costs incurred excluding Directors' remuneration for the year ended 31 March 2021 were approximately HK\$29.0 million (31 March 2020: HK\$22.8 million). The remuneration package offered to the Group's employees includes salary, commission and discretionary bonus. 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.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

Save as disclosed in this announcement as at 31 March 2021, the Group did not have any other plan for material investments or capital assets.

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.

CONTINGENT LIABILITIES

As at 31 March 2021, the Group did not have any significant contingent liabilities (31 March 2020: Nil).

EVENT AFTER THE REPORTING PERIOD

On 30 April 2021, Sunray Engineering (HK) Company Limited (“**Sunray HK**”) (an indirect wholly-owned subsidiary of the Company) entered into a sale and purchase agreement in relation to the acquisition of a property between Wellsum Development Co., Ltd (“**Vendor**”), pursuant to which Sunray HK agreed to purchase and the Vendor agreed to sell the property at a consideration of HK\$43,000,000 subject to the terms and conditions set out therein. It is a term in the agreement that Sunray HK agreed to lease back the property to the Vendor for a term of six months commencing on 1 July 2021 and ending on 31 December 2021.

Save as disclosed in this announcement, there is no other important event affecting the Group since 31 March 2021 and up to date of this announcement.

PURCHASE, SALE AND REDEMPTION OF SHARES

The Company did not redeem any of its securities listed and traded on the Stock Exchange, nor did the Company or any of its subsidiaries purchase or sell any of such securities during the year ended 31 March 2021 and up to the date of this announcement.

COMPETING INTERESTS

As at 31 March 2021, none of the Directors, nor the substantial shareholders of the Company and their respective close associates has any interest in a business that competes or may compete, whether directly or indirectly, with the business of the Group.

AUDIT COMMITTEE

The Group’s financial statements for the year ended 31 March 2021 have been reviewed by the audit committee of the Board, which is of the opinion that such statements comply with the applicable accounting standards, the GEM Listing Rules and legal requirements, and that adequate disclosures have been made.

CORPORATE GOVERNANCE

The Company is firmly committed to maintaining statutory and regulatory standards and adherence to the principles of corporate governance emphasising transparency, independence, accountability, responsibility and fairness. The Board ensures that effective self-regulatory practices exist to protect the interests of the shareholders of the Company.

The Company has applied the principles and complied with all the code provisions as set out in the Corporate Governance Code (the “Code”) contained in Appendix 15 of the GEM Listing Rules throughout the year ended 31 March 2021, save for the deviations discussed below.

Under the code provision A.2.1, the roles of chairman and chief executive officer should be separated and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing.

Mr. Lam is both the chairman and chief executive officer of the Company who is responsible for managing the Board and the Group’s business. Mr. Lam has been both chairman and chief executive officer of the Company since its incorporation. The Board considers that, with the present Board structure and scope of business of the Group, there is no imminent need to separate the roles into two individuals as Mr. Lam is perfectly capable of distinguishing the priority of these roles in which he has been acting. However, the Board will continue to review the effectiveness of the Group’s corporate governance structure to assess whether the separation of the positions of chairman and chief executive officer is necessary.

DIVIDEND

The Board does not recommend any payment of final dividend for the year ended 31 March 2021 (31 March 2020: 0.58 HK cents per share).

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 was paid in September 2020.

COMPLIANCE WITH RULES 5.48 TO 5.67 OF THE GEM LISTING RULES

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard of dealing as set out in Rules 5.48 to 5.67 of the GEM Listing Rules throughout the year ended 31 March 2021. Having made specific enquiry of all Directors, the Directors have complied with such code of conduct and the required standard of dealings throughout the year ended 31 March 2021.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 March 2021 as set out in this announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu (the "**Auditor**"), to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by the Auditor in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the Auditor on this announcement.

ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held on Friday, 20 August 2021, 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.

CLOSURE OF THE REGISTER OF MEMBERS OF SHARES

To be eligible to attend and vote in the forthcoming annual general meeting, the register of members of the Company will be closed from Tuesday, 17 August 2021 to Friday, 20 August 2021 (both dates inclusive) during which period no transfer of Shares will be registered. To be qualified for attending and voting at the forthcoming annual general meeting, 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 Monday, 16 August 2021.

PUBLICATION OF ANNUAL REPORT ON THE GEM WEBSITE

The annual report of the Company containing all the information required by the GEM Listing Rules will be despatched to shareholders of the Company and published on the GEM website (www.hkgem.com) and the Company's website (www.sunray.com.hk) in due course.

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

Hong Kong, 29 June 2021

As at the date of this announcement, the Board comprises two executive Directors, namely Mr. Lam Ka Wing and Ms. Wong Pui Yee Edith; and three independent non-executive Directors, namely Mr. Ng Kwun Wan, Ms. Cho Mei Ting and Mr. Ho Ka Kit.

This announcement will remain on the "Latest Listed Company Information" page of the GEM website at www.hkgem.com for at least 7 days from its date of publication and on the website of the Company at www.sunray.com.hk.