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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 2023

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 2023, together with the comparative audited figures for the year ended 31 March 2022 as follows:

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 March 2023

		2023	2022
	Notes	HK\$'000	HK\$'000
Revenue	3	222,809	199,859
Cost of sales and services		(165,370)	(137,603)
Gross profit		57,439	62,256
Other income	5	1,449	899
Other gains and losses	6	175	98
Impairment losses under expected credit loss model, net of reversal	7	(78)	(971)
Selling and distribution costs		(8,929)	(9,533)
Administrative expenses		(40,310)	(37,145)
Finance costs	8	(1,035)	(363)
Profit before taxation	9	8,711	15,241
Income tax expense	10	(3,199)	(4,388)
Profit and total comprehensive income for the year		<u>5,512</u>	<u>10,853</u>
Earnings per share			
Basic (HK cents)	11	<u>0.55</u>	<u>1.09</u>

Consolidated Statement of Financial Position

At 31 March 2023

	Notes	2023 HK\$'000	2022 HK\$'000
Non-current assets			
Property and equipment		51,296	48,119
Right-of-use assets		4,953	3,322
Rental and other deposits	13	277	170
Deposit paid for property and equipment		—	860
		<u>56,526</u>	<u>52,471</u>
Current assets			
Inventories		12,989	15,656
Trade and other receivables	13	23,196	21,910
Contract assets	14	135,358	118,598
Taxation recoverable		—	1,786
Pledged bank deposit		—	821
Bank balances and cash		29,436	46,978
		<u>200,979</u>	<u>205,749</u>
Current liabilities			
Trade and other payables	15	26,508	27,481
Contract liabilities	14	12,302	14,355
Lease liabilities		1,805	1,810
Taxation payable		2,400	4,900
Bank borrowings	16	23,587	25,203
		<u>66,602</u>	<u>73,749</u>
Net current assets		<u>134,377</u>	<u>132,000</u>
Total assets less current liabilities		<u>190,903</u>	<u>184,471</u>
Non-current liabilities			
Lease liabilities		2,390	1,615
Deferred taxation		950	805
		<u>3,340</u>	<u>2,420</u>
Net assets		<u>187,563</u>	<u>182,051</u>
Capital and reserves			
Share capital		10,000	10,000
Reserves		177,563	172,051
Total equity		<u>187,563</u>	<u>182,051</u>

Consolidated Statement of Changes in Equity

For the year ended 31 March 2023

	Attributable to owners of the Company						Total HK\$'000
	Share capital HK\$'000 (Note i & ii)	Share premium HK\$'000 (Note i & ii)	Legal reserve HK\$'000 (Note iii)	Other reserve HK\$'000	Capital contribution HK\$'000	Retained profits HK\$'000	
At 1 April 2021	10,000	31,055	24	49	36,724	93,346	171,198
Profit and total comprehensive income for the year	—	—	—	—	—	10,853	10,853
At 31 March 2022	10,000	31,055	24	49	36,724	104,199	182,051
Profit and total comprehensive income for the year	—	—	—	—	—	5,512	5,512
At 31 March 2023	10,000	31,055	24	49	36,724	109,711	187,563

Notes:

- (i) 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.
- (ii) 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 the then existing issued shares of the Company.
- (iii) 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.

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 AMENDMENTS TO HKFRSs

Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Company and its subsidiaries (collectively referred to as the “**Group**”) has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) for the first time, which are mandatorily effective for the Group’s annual periods beginning on 1 April 2022 for the preparation of the consolidated financial statements:

Amendments to HKFRS 3	Reference to the Conceptual Framework
Amendments to HKAS 16	Property, Plant and Equipment - Proceeds before Intended Use
Amendments to HKAS 37	Onerous Contracts - Cost of Fulfilling a Contract
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018 - 2020

The application of the amendments to HKFRSs in the current year has had no material impact on the Group’s financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

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 (including the October 2020 and February 2022 Amendments to HKFRS 17)	Insurance Contracts ¹
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ²
Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback ³
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020) ³
Amendments to HKAS 1	Non-current Liabilities with Covenants ³
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies ¹
Amendments to HKAS 8	Definition of Accounting Estimates ¹
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction ¹

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

² Effective for annual periods beginning on or after a date to be determined

³ Effective for annual periods beginning on or after 1 January 2024

The directors of the Company anticipate that the application of the new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

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:

	2023	2022
	HK\$'000	HK\$'000
Contract revenue from provision of building protection works, recognised over time:		
Residential buildings	31,782	30,538
Community facilities (Note)	71,629	48,588
Commercial buildings	59,314	38,495
	162,725	117,621
Contract revenue from supply of building protection products, recognised at a point in time	60,084	82,238
	222,809	199,859

Note: Community facilities include sports centres, theatre, hospitals, power station 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**”) 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 2023

	Provision of building protection works HK\$'000	Supply of building protection products HK\$'000	Total HK\$'000
Segment revenue - external	<u>162,725</u>	<u>60,084</u>	<u>222,809</u>
Segment results	<u>38,542</u>	<u>18,897</u>	57,439
Other income			1,449
Other gains and losses			175
Impairment losses under ECL model, net of reversal			(78)
Selling and distribution costs			(8,929)
Administrative expenses			(40,310)
Finance costs			<u>(1,035)</u>
Profit before taxation			<u>8,711</u>

For the year ended 31 March 2022

	Provision of building protection works HK\$'000	Supply of building protection products HK\$'000	Total HK\$'000
Segment revenue - external	<u>117,621</u>	<u>82,238</u>	<u>199,859</u>
Segment results	<u>28,223</u>	<u>34,033</u>	62,256
Other income			899
Other gains and losses			98
Impairment losses under ECL model, net of reversal			(971)
Selling and distribution costs			(9,533)
Administrative expenses			(37,145)
Finance costs			<u>(363)</u>
Profit before taxation			<u>15,241</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 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:

	2023	2022
	HK\$'000	HK\$'000
Hong Kong	212,239	183,825
Macau	10,570	16,034
	<u>222,809</u>	<u>199,859</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:

	2023	2022
	HK\$'000	HK\$'000
Provision of building protection works and supply of building protection products:		
Customer A	81,539	47,658
Customer B	N/A*	24,816
Customer C	<u>33,576</u>	<u>N/A*</u>

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

5. OTHER INCOME

	2023	2022
	HK\$'000	HK\$'000
Bank interest income	72	5
Short-term rental income	172	840
Government subsidies (Note)	1,091	—
Sundry income	114	54
	<u>1,449</u>	<u>899</u>

Note: The government subsidies recognised during the year ended 31 March 2023 were mainly related to the Employment Support Scheme in respect of COVID-19-related subsidies from Hong Kong Government.

6. OTHER GAINS AND LOSSES

	2023	2022
	HK\$'000	HK\$'000
Net exchange gain	256	65
(Loss) gain on disposal of property and equipment	(81)	33
	<u>175</u>	<u>98</u>

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

	2023	2022
	HK\$'000	HK\$'000
Net impairment losses recognised (reversed) on:		
– trade receivables	241	611
– contract assets	(163)	360
	<u>78</u>	<u>971</u>

8. FINANCE COSTS

	2023	2022
	HK\$'000	HK\$'000
Interests on:		
– bank borrowings	912	116
– lease liabilities	123	247
	<u>1,035</u>	<u>363</u>

9. PROFIT BEFORE TAXATION

	2023	2022
	HK\$'000	HK\$'000
Profit before taxation has been arrived at after charging:		
Directors' emoluments	11,512	10,691
Other staff costs	32,640	29,189
Retirement benefit schemes contributions for other staff	970	927
Total staff costs	<u>45,122</u>	<u>40,807</u>
Auditor's remuneration	850	1,280
Variable lease payments in respect of land and buildings which are not included in the measurement of lease liabilities (Note)	4,550	5,469
Cost of inventories recognised as an expense	101,743	86,248
Depreciation of property and equipment	3,959	2,677
Depreciation of right-of-use assets	<u>2,088</u>	<u>2,475</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

	2023	2022
	HK\$'000	HK\$'000
The tax charge comprises:		
Hong Kong Profits Tax		
Current tax	3,100	4,326
Overprovision in prior years	(46)	(45)
	<u>3,054</u>	<u>4,281</u>
Deferred tax charge	145	107
	<u><u>3,199</u></u>	<u><u>4,388</u></u>

Under the two-tiered profits tax rates regime of Hong Kong Profits Tax, the first HK\$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%. Accordingly, the Hong Kong Profits Tax of the qualifying group entity is calculated at 8.25% on the first HK\$2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK\$2 million.

No provision for Macau Complementary Tax (“CT”) is made as the Group has no 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:

	2023	2022
	HK\$'000	HK\$'000
Profit before taxation	<u>8,711</u>	<u>15,241</u>
Tax at Hong Kong Profits Tax rate of 16.5%	1,437	2,515
Tax effect of expenses not deductible for tax purpose	914	544
Tax effect of income not taxable for tax purpose	(283)	(296)
Tax effect of deductible temporary difference not recognised	301	216
Tax effect of tax losses not recognised	1,054	1,729
Tax concession	(6)	(20)
Tax effect on two-tiered profits tax rates	(165)	(165)
Tax effect of tax exemption under CT	—	(70)
Overprovision in prior years	(46)	(45)
Others	(7)	(20)
Income tax expense	<u>3,199</u>	<u>4,388</u>

11. EARNINGS PER SHARE

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

	2023	2022
	HK\$'000	HK\$'000
Earnings:		
Earnings for the purpose of calculating basic earnings per share (profit for the year attributable to owners of the Company)	<u>5,512</u>	<u>10,853</u>
	'000	'000
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	<u>1,000,000</u>	<u>1,000,000</u>

No diluted earnings per share was presented for both years ended 31 March 2023 and 2022 as the Group had no potential ordinary shares in issue during both years.

12. DIVIDENDS

No dividend was proposed by the directors of the Company in respect of year ended 31 March 2023 or subsequent to 31 March 2023 (2022: nil).

13. TRADE AND OTHER RECEIVABLES

	2023	2022
	HK\$'000	HK\$'000
Trade receivables	22,371	16,541
Less: Allowance for impairment	(969)	(728)
	21,402	15,813
Other receivables	459	435
Prepayment and deposits	1,612	5,832
	23,473	22,080
Less: Rental and other deposits classified as non-current portion	(277)	(170)
Current portion	23,196	21,910

As at 1 April 2021, the carrying amount of trade receivables is HK\$25,466,000, net of allowance for impairment of HK\$117,000.

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.

	2023	2022
	HK\$'000	HK\$'000
0 to 30 days	14,904	10,007
31 to 90 days	3,210	4,199
91 to 180 days	1,469	474
181 to 365 days	1,244	303
Over 365 days	575	830
	<u>21,402</u>	<u>15,813</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.

As at 31 March 2023, included in the Group's trade receivables balance are debtors with aggregate carrying amount of HK\$6,498,000 (2022: HK\$5,806,000) which are past due. The Group does not hold any collateral over these balances.

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

	2023	2022
	HK\$'000	HK\$'000
Analysed on a gross basis of:		
Contract assets — provision of building protection works	135,999	119,402
Less: Allowance for impairment	<u>(641)</u>	<u>(804)</u>
	<u>135,358</u>	<u>118,598</u>
Contract liabilities		
– provision of building protection works	(10,698)	(11,436)
– supply of building protection products	<u>(1,604)</u>	<u>(2,919)</u>
	<u>(12,302)</u>	<u>(14,355)</u>

As at 1 April 2021, the carrying amount of contract assets is HK\$117,084,000, net of allowance for impairment of HK\$444,000.

As at 31 March 2023, included in carrying amounts of contract assets are retention receivables of HK\$33,763,000 (2022: HK\$23,813,000), net of loss allowance of HK\$520,000 (2022: HK\$435,000).

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:

	2023	2022
	HK\$'000	HK\$'000
Within one year	2,020	2,148
After one year	31,743	21,665
	<u>33,763</u>	<u>23,813</u>

As at 1 April 2021, the carrying amount of contract liabilities was HK\$11,608,000.

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 Group applies the simplified approach to provide for ECL prescribed by HKFRS 9.

15. TRADE AND OTHER PAYABLES

	2023	2022
	HK\$'000	HK\$'000
Trade payables	15,483	13,842
Retention payables	6,273	5,039
Accrued expenses	2,506	2,921
Accrued staff costs	2,246	5,679
	<u>26,508</u>	<u>27,481</u>

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

	2023	2022
	HK\$'000	HK\$'000
Within 30 days	9,373	7,875
31 to 90 days	1,862	2,381
Over 90 days	4,248	3,586
	<u>15,483</u>	<u>13,842</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:

	2023	2022
	HK\$'000	HK\$'000
Within one year	1,196	1,421
After one year	5,077	3,618
	<u>6,273</u>	<u>5,039</u>

16. BANK BORROWINGS

	2023	2022
	HK\$'000	HK\$'000
Variable-rate, secured bank borrowings	<u>23,587</u>	<u>25,203</u>
The carrying amounts of the above bank borrowings are repayable*:		
– Within one year	1,589	1,778
– More than one year, but not exceeding two years	1,656	1,813
– More than two years, but not exceeding five years	4,422	5,657
– More than five years	<u>15,920</u>	<u>15,955</u>
Carrying amounts of bank borrowings that contain a repayment on demand clause shown under current liabilities	<u>23,587</u>	<u>25,203</u>

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

At 31 March 2023, the range of effective interest rates on the bank borrowings are 3.98% to 4.37% per annum (2022: 1.48% to 2.5%).

At 31 March 2023, the Group has pledged its leasehold land and building with a carrying value of HK\$42,617,000 (2022: HK\$44,126,000) to secure general banking facilities granted to the Group. The bank borrowings are also secured by corporate guarantees provided by the Company.

The bank borrowings at 31 March 2023 carry variable interest rate ranging from 1.30% to 2.0% over 3-month Hong Kong Interbank Offered Rate (“**HIBOR**”) (2022: 1.30% to 2.0% over 3-month HIBOR).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is a Hong Kong-based building protection solution provider principally engaged in provision of building protection works and supply of building protection products.

The Group's 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 supply of building protection products refers to identifying, sourcing, promoting and distributing suitable building protection products to the Group's customers to meet their varying needs and requirements. The building protection products supplied by the Group are mainly waterproofing products, tiling products, flooring and other products.

During the year ended 31 March 2023, the Group had taken up 347 projects with an original contract sum of approximately HK\$881.1 million in which the Group had completed 87 projects with an original contract sum of approximately HK\$78.2 million. As at 31 March 2023, the Group had 260 contracts in progress with an original contract sum of approximately HK\$802.9 million.

FINANCIAL REVIEW

The Group recorded a total revenue of approximately HK\$222.8 million for the year ended 31 March 2023, representing an increase of approximately HK\$22.9 million or 11.5% as compared to that of approximately HK\$199.9 million for the year ended 31 March 2022. Profit and total comprehensive income for the year ended 31 March 2023 was approximately HK\$5.5 million, representing a decrease of approximately HK\$5.4 million or 49.5% as compared to that of approximately HK\$10.9 million for the year ended 31 March 2022. Such decrease was mainly attributable to the combined effect of the increase in total revenue, offset by the overall increase in construction costs as well as the increase in administrative expenses.

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. Despite recent easing of the Epidemic, it is expected that fierce competition in tenders from competitors with aggressive pricing strategies, stringent budget from customers as well as interest rate hike, rising material costs, subcontracting charges and labour costs will continue to affect the Group’s operations and financial performance in the near term.

Since the outbreak of the Epidemic, the Group has implemented effective 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 estimates that the degree of COVID-19 impact would be dependent on the outcome of various preventive measures and the duration of the Epidemic, and the economic recovery can be uneven across different industries and the lingering effects of the Epidemic may continue to affect the general economy of Hong Kong and Macau. 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 material shortages or difficulties in the supply of building protection products.

In view of present economic uncertainties and difficulties, the Group will regularly review its existing asset structure and business strategies and may make necessary adjustment so as to be flexibly prepared for encountering any challenges in the future. With the aim of optimising resource utilisation, the Group will strictly adhere to its cost control policy and will take necessary actions to control costs and drive efficiency to maintain profitability and competitiveness in the market. On the other hand, the Group will also proactively pursue all suitable investment opportunities to diversify the Group’s business horizons which will strengthen its overall business development.

Going forward, the Group will stay vigilant and 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 sustained global outbreak of COVID-19 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 on 23 April 2020 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 2023.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 March 2023, the Group had total assets of approximately HK\$257.5 million (31 March 2022: HK\$258.2 million), including pledged bank deposit and bank balances and cash of approximately HK\$29.4 million (31 March 2022: HK\$47.8 million). Such decrease in total assets was mainly attributable to the decrease in bank balances and cash mainly for acquisition of property and equipment and repayment of bank borrowings.

Equity attributable to equity holders of the Company as at 31 March 2023 was approximately HK\$187.6 million, representing an increase of approximately HK\$5.5 million as compared to that of approximately HK\$182.1 million as at 31 March 2022.

The total interest-bearing borrowings (including bank borrowings and lease liabilities) of the Group as at 31 March 2023 were approximately HK\$27.8 million (31 March 2022: HK\$28.6 million). The borrowings were secured by the Group's building with carrying value of approximately HK\$42.6 million as at 31 March 2023 (31 March 2022: HK\$44.1 million).

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 the total interest bearing borrowings and lease liabilities by equity attributable to equity holders of the Company at the year-end date) decreased from 15.7% as at 31 March 2022 to 14.8% as at 31 March 2023. Such decrease was mainly attributable to the repayment of bank borrowings during the year ended 31 March 2023.

Current ratio

As at 31 March 2023, the Group had net current assets of approximately HK\$134.4 million, representing an increase of approximately HK\$2.4 million as compared to that of approximately HK\$132.0 million as at 31 March 2022. 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 from approximately 2.8 times as at 31 March 2022 to 3.0 times as at 31 March 2023.

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 2023, the Group did not hold any significant investment (31 March 2022: 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 2023.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 March 2023, the Group had 112 employees excluding the Directors. Total staff costs incurred excluding Directors' remuneration for the year ended 31 March 2023 were approximately HK\$33.6 million (31 March 2022: HK\$30.1 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 2023, 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 2023, the Group did not have any significant contingent liabilities (31 March 2022: Nil).

EVENT AFTER THE REPORTING PERIOD

Save as disclosed in this announcement, there is no other important event affecting the Group since 31 March 2023 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 2023 and up to the date of this announcement.

COMPETING INTERESTS

The Directors are not aware of any business or interest of the Directors, the controlling shareholder and their respective associates (as defined under the GEM Listing Rules) that compete or may compete with the business of the Group and any other conflict of interest which any such person has or may have with the Group during the year ended 31 March 2023.

AUDIT COMMITTEE

The Group's financial statements for the year ended 31 March 2023 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 contained in Appendix 15 of the GEM Listing Rules throughout the year ended 31 March 2023, save for the deviations discussed below.

Under the code provision C.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.

DIVIDENDS

The Board does not recommend any payment of final dividend for the year ended 31 March 2023 (31 March 2022: Nil).

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 2023. 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 2023.

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 2023 as set out in the preliminary announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the audited consolidated financial statements of the Group for the year as approved by the Board of Directors on 27 June 2023. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement and consequently no opinion or assurance conclusion has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held on Friday, 18 August 2023, 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, 15 August 2023 to Friday, 18 August 2023 (both dates inclusive) during which period no transfer of shares of the Company 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 17/F, Far East Financial Centre 16 Harcourt Road, Hong Kong, for registration no later than 4:30 p.m. on Monday, 14 August 2023.

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 Stock Exchange's website (www.hkexnews.hk) 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, 27 June 2023

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 Stock Exchange's website at www.hkexnews.hk for at least 7 days from its date of publication and on the Company's website at www.sunray.com.hk.