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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)

**FIRST QUARTERLY RESULTS ANNOUNCEMENT
FOR THE THREE MONTHS ENDED 30 JUNE 2020**

The board (the “**Board**”) of directors (the “**Directors**”) of Sunray Engineering Group Limited (the “**Company**”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries for the three months ended 30 June 2020. This announcement, containing the full text of the first quarterly report of the Company for the three months ended 30 June 2020 (the “**2020 First Quarterly Report**”), complies with the relevant requirements of the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “**GEM Listing Rules**”) in relation to information to accompany preliminary announcement of first quarterly results. The printed version of the 2020 First Quarterly Report will be despatched to the shareholders of the Company and available for viewing on the websites of the Stock Exchange at www.hkexnews.hk and of the Company at www.sunray.com.hk in due course in the manner as required by the GEM Listing Rules.

By Order of the Board

Sunray Engineering Group Limited

Lam Ka Wing

Chairman and Executive Director

Hong Kong, 13 August 2020

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

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with 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: (1) the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive; and (2) there are no other matters the omission of which would make any statement herein or this announcement misleading.

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 the date of its posting and on the Company’s website at www.sunray.com.hk.

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

GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should mark 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.

Hong Kong Exchanges and Clearing Limited and the Stock Exchange take no responsibility for the contents of this report, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

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.

CONTENTS

Corporate Information	2
Financial Highlights	3
Unaudited Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income	4
Unaudited Condensed Consolidated Statement of Changes in Equity	5
Notes to the Unaudited Condensed Consolidated Financial Statements	6
Management Discussion and Analysis	11
Other Information	17

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. Lo Kai Yeung Kenneth
(*Member of the HKICPA*)

COMPLIANCE OFFICER

Ms. Wong Pui Yee Edith

AUTHORISED REPRESENTATIVES

Mr. Lam Ka Wing
Mr. Lo Kai Yeung Kenneth

PRINCIPAL BANKER

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

**China Construction Bank (Asia)
Corporation Limited**
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Central
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AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants
Registered Public Interest Entity Auditor
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COMPLIANCE ADVISER

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HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Ocorian Trust (Cayman) Limited
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Cayman Islands

CAYMAN ISLANDS REGISTERED OFFICE

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

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WEBSITE

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STOCK CODE

08616

FINANCIAL HIGHLIGHTS

HIGHLIGHTS

- The revenue of the Group amounted to approximately HK\$33.1 million for the three months ended 30 June 2020, representing a decrease of approximately 30.5% as compared to that of approximately HK\$47.7 million for the three months ended 30 June 2019.
- The gross profit amounted to approximately HK\$13.1 million for the three months ended 30 June 2020, representing a decrease of approximately 31.3% as compared to that of approximately HK\$19.1 million for the three months ended 30 June 2019.
- The net profit decreased from approximately HK\$3.0 million for the three months ended 30 June 2019 to approximately HK\$902,000 for the three months ended 30 June 2020.
- Basic and diluted earnings per share was HK\$0.10 cents for the three months ended 30 June 2020 (three months ended 30 June 2019: HK\$0.39 cents).
- The Board does not recommend the payment of any dividend for the three months ended 30 June 2020 (three months ended 30 June 2019: Nil).

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three months ended 30 June 2020

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

	Notes	Three months ended 30 June	
		2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Revenue	3	33,143	47,657
Cost of sales and services		(20,012)	(28,541)
Gross profit		13,131	19,116
Other income	4	382	17
Other gains and losses	5	(254)	(65)
Selling and distribution costs		(1,377)	(1,249)
Administrative expenses		(9,472)	(6,490)
Finance costs	6	(22)	(17)
Listing expenses		(926)	(6,239)
Profit before taxation	7	1,462	5,073
Income tax expense	8	(560)	(2,112)
Profit and total comprehensive income for the period		902	2,961
Profit and total comprehensive income for the period attributable to:			
– Owners of the Company		902	2,961
Earnings per share			
Basic and diluted (HK cents)	9	0.10	0.39

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three months ended 30 June 2020

	Share capital HK\$'000	Share premium HK\$'000	Legal reserve HK\$'000 (Note i)	Other reserve HK\$'000	Capital contribution HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 31 March 2019 (audited)	—	—	24	49	36,724	67,324	104,121
Profit and total comprehensive income for the period	—	—	—	—	—	2,961	2,961
At 30 June 2019 (unaudited)	—	—	24	49	36,724	70,285	107,082
At 31 March 2020 (audited)	—	—	24	49	36,724	86,704	123,501
Capitalisation issue (Note ii)	7,500	(7,500)	—	—	—	—	—
Issue of shares upon share offer (Note iii)	2,500	38,555	—	—	—	—	41,055
Profit and total comprehensive income for the period	—	—	—	—	—	902	902
At 30 June 2020 (unaudited)	<u>10,000</u>	<u>31,055</u>	<u>24</u>	<u>49</u>	<u>36,724</u>	<u>87,606</u>	<u>165,458</u>

Notes:

- (i) In accordance with 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) 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 then existing issued shares of the Company.
- (iii) 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.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended 30 June 2020

1. GENERAL

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.

Upon completion of a group reorganisation (the "**Group Reorganisation**") on 29 March 2019, the Company has become the holding company now comprising the Group. Details of the Group Reorganisation are set out in the Company's prospectus dated 31 March 2020 (the "**Prospectus**") in connection with the initial listing of shares of the Company on GEM of the Stock Exchange (the "**Listing**"). Since 23 April 2020 (the "**Listing Date**"), the Company has been listed on GEM of the Stock Exchange.

The Company is an investment holding company. The Company and its subsidiaries are principally engaged in provision of building protection works and supply of building protection products. The Company's 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 unaudited condensed consolidated financial statements are presented in HK\$, which is also the functional currency of the Company.

The condensed consolidated financial statements for the three months ended 30 June 2020 (the "**First Quarterly Financial Statements**") are unaudited but were reviewed by the audit committee of the Company (the "**Audit Committee**") and approved for issue by the Board on 13 August 2020.

2. BASIS OF PREPARATION

The First Quarterly Financial Statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") which collective term includes all applicable individual HKFRSs, Hong Kong Accounting Standards and Interpretations issued by Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") and the accounting principles generally accepted in Hong Kong. The First Quarterly Financial Statements also comply with the applicable disclosure requirements of the GEM Listing Rules. The First Quarterly Financial Statements should be read in conjunction with the Company's consolidated financial statements for the year ended 31 March 2020 (the "**2020 Annual Report**"), which have been prepared in accordance with HKFRSs issued by the HKICPA.

The accounting policies and methods of computation applied in the preparation of the First Quarterly Financial Statements are consistent with those applied in preparing the 2020 Annual Report except for the adoption of new or revised standards, amendments and interpretations issued by the HKICPA mandatory for annual periods beginning 1 April 2020. The adoption of these new or revised standards, amendments and interpretations did not result in any substantial changes to the accounting policies of the Group. In addition, the Group has not early adopted any new standard, interpretation or amendment that has been issued but is not yet effective for the current accounting period.

The First Quarterly Financial Statements have been prepared on the historical cost basis.

Accounting estimates and assumptions are used in the preparation of financial statements. Although these estimates are based on management's best knowledge and judgment of current events and actions, actual results may ultimately differ from those estimates and assumptions. In preparing the First Quarterly Financial Statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the 2020 Annual Report.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended 30 June 2020

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:

	Three months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Contract revenue from provision of building protection works, recognised over time:		
Residential buildings	9,788	12,402
Community facilities (Note)	3,582	4,557
Commercial buildings	7,057	12,950
	<u>20,427</u>	<u>29,909</u>
Contract revenue from supply of building protection products, recognised at a point in time	12,716	17,748
	<u>33,143</u>	<u>47,657</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.

4. OTHER INCOME

	Three months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Bank interest income	5	17
Sundry income	92	—
Government subsidies	285	—
	<u>382</u>	<u>17</u>

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended 30 June 2020

5. OTHER GAINS AND LOSSES

	Three months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Net exchange gain (loss)	22	(65)
Loss on disposal of property and equipment	(276)	—
	<u>(254)</u>	<u>(65)</u>

6. FINANCE COSTS

	Three months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interest expenses on lease liabilities	<u>22</u>	<u>17</u>

7. PROFIT BEFORE TAXATION

	Three months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Profit before taxation has been arrived at after charging:		
Directors' emoluments	1,908	967
Other staff costs	6,291	5,053
Retirement benefit schemes contributions for other staff	<u>188</u>	<u>143</u>
Total staff costs	<u>8,387</u>	<u>6,163</u>
Auditor's remuneration	150	150
Cost of inventories recognised as an expense	11,636	17,977
Depreciation of property and equipment	416	490
Depreciation of right-of-use assets	<u>488</u>	<u>486</u>

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended 30 June 2020

8. INCOME TAX EXPENSE

	Three months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Hong Kong Profits Tax	<u>560</u>	<u>2,112</u>

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

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%. Accordingly, 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 is calculated at the rate of 12% on the estimated assessable profits exceeding Macau Pataca 600,000 for both periods.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended 30 June 2020

9. EARNINGS PER SHARE

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

	Three months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Earnings:		
Earnings for the purpose of calculating basic earnings per share (profit for the period attributable to owners of the Company)	<u>902</u>	<u>2,961</u>
	<u>'000</u>	<u>'000</u>
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	<u>939,560</u>	<u>750,000</u>

The weighted average number of ordinary shares for the purpose of calculating basic earnings per share during the three months ended 30 June 2020 includes (i) 1 ordinary share in issue upon incorporation; (ii) 749,999,999 new ordinary shares issued pursuant to the Capitalisation Issue, as if all these shares had been in issue throughout the three months ended 30 June 2020, and (iii) 189,560,440 shares, representing the weighted average of 250,000,000 new ordinary shares issued upon completion of the Listing.

The weighted average number of ordinary shares for the purpose of calculating basic earnings per share during the three months ended 30 June 2019 has been determined on the assumption that the Capitalisation Issue in connection with the Listing has been effective on 1 April 2019.

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

10. DIVIDENDS

The Board does not recommend the payment of any dividend for the three months ended 30 June 2020 (three months ended 30 June 2019: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is a Hong Kong-based building protection solution provider and its 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 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 us include waterproofing products, tiling products, flooring and other products.

FINANCIAL REVIEW

Revenue

The table below sets forth a breakdown of the Group's revenue by the type of services for the period indicated:

	Three months ended 30 June			
	2020		2019	
	HK\$'000 (Unaudited)	%	HK\$'000 (Unaudited)	%
Provision of building protection works	20,427	61.6	29,909	62.8
Supply of building protection products	12,716	38.4	17,748	37.2
	<u>33,143</u>	<u>100.0</u>	<u>47,657</u>	<u>100.0</u>

MANAGEMENT DISCUSSION AND ANALYSIS

The Group's revenue decreased from approximately HK\$47.7 million for the three months ended 30 June 2019 to approximately HK\$33.1 million for the three months ended 30 June 2020, representing a decrease of approximately HK\$14.6 million, or 30.5%. Such decrease in revenue was primarily due to the decrease in revenue generated from both the provision of building protection works and the supply of building protection products:

Provision of building protection works

Revenue recognised:

	Three months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Public sector projects	9,602	10,890
Private sector projects	10,825	19,019
Total	<u>20,427</u>	<u>29,909</u>

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

	Three months ended 30 June	
	2020	2019
HK\$1,000,000 or above	9	11
HK\$100,000 to below HK\$1,000,000	29	29
Below HK\$100,000	197	117
Total	<u>235</u>	<u>157</u>

The revenue recognised from the provision of building protection works decreased from approximately HK\$29.9 million for the three months ended 30 June 2019 to approximately HK\$20.4 million for the three months ended 30 June 2020. Such decrease was mainly driven by the delay in commencement and work progress of some private sector projects caused by the ongoing COVID-19 outbreak during the three months ended 30 June 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

Supply of building protection products

Revenue by types of building protection products

The following table sets forth the breakdown of the Group's revenue by types of building protection products for the period indicated:

	Three months ended 30 June			
	2020		2019	
	HK\$'000 (Unaudited)	%	HK\$'000 (Unaudited)	%
Waterproofing products	9,176	72.2	13,743	77.4
Tiling products	3,436	27.0	3,949	22.3
Flooring and other products	104	0.8	56	0.3
Total revenue from supply of building protection products	<u>12,716</u>	<u>100.0</u>	<u>17,748</u>	<u>100.0</u>

The revenue recognised from the supply of building protection products decreased from approximately HK\$17.7 million for the three months ended 30 June 2019 to approximately HK\$12.7 million for the three months ended 30 June 2020. Such decrease was mainly attributable to the decrease in demand from customers in Hong Kong for waterproofing products.

Cost of Sales and Services

Cost of sales and services decreased from approximately HK\$28.5 million for the three months ended 30 June 2019 to approximately HK\$20.0 million for the three months ended 30 June 2020, representing a decrease of approximately HK\$8.5 million, or 29.9%. Such decrease in cost of sales and services was generally in line with the decrease in revenue.

Gross Profit and Gross Profit Margin

Gross profit decreased from approximately HK\$19.1 million for the three months ended 30 June 2019 to approximately HK\$13.1 million for the three months ended 30 June 2020, representing a decrease of approximately HK\$6.0 million, or 31.3%. Gross profit margin decreased from approximately 40.1% for the three months ended 30 June 2019 to approximately 39.6% for the three months ended 30 June 2020 which remained stable in both periods.

Other Income, Gains and Losses

Other income increased from approximately HK\$17,000 for the three months ended 30 June 2019 to approximately HK\$382,000 for the three months ended 30 June 2020. Such increase was mainly attributable to the subsidy received from the Hong Kong government under the Employment Support Scheme, an anti-epidemic fund launched in May 2020. Other losses, on a net basis, increased from approximately HK\$65,000 for the three months ended 30 June 2019 to approximately HK\$254,000 for the three months ended 30 June 2020. Such increase in other losses was mainly due to the losses on disposal of motor vehicles for the three months 30 June 2020, which was one-off in nature.

MANAGEMENT DISCUSSION AND ANALYSIS

Administrative Expenses

Administrative expenses increased from approximately HK\$6.5 million for the three months ended 30 June 2019 to approximately HK\$9.5 million for the three months ended 30 June 2020, representing an increase of approximately HK\$3.0 million, or 45.9%. Such increase in administrative expenses was mainly attributable to the increase in staff costs and professional fee after the Listing.

Listing Expenses

Listing expenses significantly decreased by approximately HK\$5.3 million from approximately HK\$6.2 million for the three months ended 30 June 2019 to approximately HK\$926,000 for the three months ended 30 June 2020.

Finance Costs

Finance costs for the three months ended 30 June 2020 amounted to approximately HK\$22,000 which was derived from the lease liabilities.

Income Tax Expenses

Income tax expenses decreased from approximately HK\$2.1 million for the three months ended 30 June 2019 to approximately HK\$560,000 for the three months ended 30 June 2020. Such decrease was in line with the decrease in profit before income tax (excluding listing expenses) as a result of the combined effect of the decrease in revenue and the increase in administrative expenses.

Profit and Total Comprehensive Income for the Period

As a result of the foregoing, profit and total comprehensive income decreased from approximately HK\$3.0 million for the three months ended 30 June 2019 to approximately HK\$902,000 for the three months ended 30 June 2020.

DIVIDEND

The Board does not recommend the payment of any dividend for the three months ended 30 June 2020 (three months ended 30 June 2019: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

USE OF PROCEEDS

The net proceeds after deducting the underwriting commission and related listing expenses payable by the Company (the “**Net Proceeds**”), were approximately HK\$21.6 million. As the listing of shares of the Company took place on 23 April 2020, no material changes have been occurred in respect of the business objectives as set out in the Prospectus, for the period from the Latest Practicable Date (as defined in the Prospectus), and up to the date of this report.

The table below sets forth the breakdown of the intended use and the timeline for utilisation of the Net Proceeds as at the date of this report:

	Intended use of Net Proceeds HK\$'000	Approximate percentage of Net Proceeds %	Amount utilised as at the date of this report HK\$'000	Remaining balance as at the date of this report HK\$'000	Expected timetable
Acquire additional machinery and equipment for building protection works	2,110	9.8	—	2,110	From Listing Date to 31 March 2021
Expand workforce	6,280	29.1	—	6,280	From Listing Date to 31 March 2023
Strengthen the Group's financial position for payment of upfront cost	6,700	31.0	6,700	—	From Listing Date to 30 September 2020
Expand the Group's building protection product mix and continue to develop its own-brand “DP Chemtech” and “DP” products	6,510	30.1	—	6,510	From Listing Date to 31 March 2023
	21,600	100.0	6,700	14,900	

Save as disclosed above, the Group will apply the Net Proceeds in the same proportion and in the manners consistent with the proposed applications as set out in the section headed “Business Objective, Future Plans and Use of Proceeds” in the Prospectus. The implementation plans for business strategies and the use of net proceeds as stated in the Prospectus were based on the best estimation and assumption of future market conditions made by the Group at the time of preparing the Prospectus. The Group implemented its business strategies and applied the Net Proceeds based on the actual developments of the Group's business and industry, as well as market conditions.

FUTURE 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 site have been held up or delayed, such influences might continue until the Epidemic was contained and this would affect the operational and financial performance of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

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 the early 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 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.

Looking forward, the Directors are staying positive to the business of the Company and strive to create long term sustainable value for the Company and its shareholders.

ENVIRONMENT 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 strive to make the most efficient use of resources in its operations, and minimising wastes and emission.

As a building protection solution provider, the Group will continue to monitor its business operations in order to ensure that it does not have any significant adverse effect on the environment and that the Group's environment protection measures are adequate to ensure compliance with all applicable laws or regulations in Hong Kong.

As at the date of this report, no prosecution, penalty or punishment has been imposed upon the Group for the violation of any applicable environmental laws or regulations.

OTHER INFORMATION

DIRECTORS' INTERESTS IN COMPETING BUSINESS

From the Listing Date and up 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.

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 30 June 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 Securities and Futures Ordinance (Chapter 571 of Laws of Hong Kong) (“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 executive 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 held	Percentage of shareholding
Mr. Lam ⁽¹⁾	Interest in a controlled corporation	750,000,000	75%
Ms. Wong Pui Yee Edith (“Mrs. Lam”) ⁽²⁾	Interest of spouse	750,000,000	75%

Notes:

1. These Shares are registered in the name of 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.
2. These Shares represent the Shares held indirectly by Mr. Lam, the spouse of Mrs. Lam, as ultimate beneficial owner.

OTHER INFORMATION

Long positions in the shares of associated corporation

Name of Director	Name of associated corporation	Nature of interest/ holding capacity	Number of ordinary share held	Percentage of shareholding
Mr. Lam	Ultra Success	Beneficial owner	1	100%

Save as disclosed above, as at 30 June 2020, 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 CORPORATION

As at 30 June 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 5% 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 the Group.

Long position in the Shares

Name of shareholder	Nature of interest/ holding capacity	Number of Shares held	Percentage of shareholding
Ultra Success	Beneficial owner	750,000,000 ^(Note)	75%

Note: 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 30 June 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.

SHARE OPTION SCHEME

A share option scheme (the “**Share Option Scheme**”) has been conditionally adopted by the Company on 18 March 2020 and 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.

There were no outstanding options as at 30 June 2020. No options had been granted, agreed to be granted, exercised or cancelled or lapsed under the Share Option Scheme since the Listing Date and up to the date of this 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 listed securities during the period from the Listing Date to 30 June 2020.

CORPORATE GOVERNANCE

The Directors recognise the importance of good corporate governance in management and internal procedures to promote and ensure accountability. The Company’s corporate governance practices are based on principles and code provisions of the Corporate Governance Code as set out in Appendix 15 to the GEM Listing Rules (the “**CG Code**”). Since the Listing Date and up to the date of this report, the Company’s corporate governance practices have been complied, except for the following code provision A.2.1 of the CG Code.

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. Since the Listing Date and up to 30 June 2020, 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.

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 this report.

INTERESTS OF THE COMPLIANCE ADVISER

As notified by compliance adviser of the Company, Alpha Financial Group Limited (the “**Compliance Adviser**”), as at 30 June 2020, 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.

OTHER INFORMATION

AUDIT COMMITTEE

The Company established the Audit Committee on 18 March 2020 with written terms of reference in compliance with the GEM Listing Rules. The Audit Committee is responsible for reviewing and providing supervision over the Group's financial reporting process, risk management and internal control system, and providing advice to the Board.

This report and the First Quarterly Financial Statements have been reviewed by the Audit Committee. The Audit Committee is of the opinion that the unaudited condensed consolidated financial statements of the Group for the three months ended 30 June 2020 have been prepared in compliance with the applicable accounting standards and the GEM Listing Rules and that adequate disclosure have been made.

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

Hong Kong, 13 August 2020