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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)

**INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 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 six months ended 30 September 2020. This announcement, containing the full text of the interim report of the Company for the six months ended 30 September 2020 (the “**2020 Interim 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 interim results. The printed version of the 2020 Interim 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 November 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”)

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This report, for which the directors (collectively the “**Directors**” and individually a “**Director**”) of Sunray Engineering Group Limited (the “**Company**”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “**GEM Listing Rules**”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Independent non-executive Directors

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

COMPANY SECRETARY

Mr. 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**
CCB Tower
3 Connaught Road Central
Central
Hong Kong

AUDITOR

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

LEGAL ADVISERS AS TO HONG KONG LAW

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

COMPLIANCE ADVISER

Alpha Financial Group Limited
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61 Connaught Road Central
Central
Hong Kong

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

CAYMAN ISLANDS REGISTERED OFFICE

P.O. Box 1350
Clifton House
75 Fort Street
Grand Cayman KY1-1108
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PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Laford Centre
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STOCK CODE

08616

FINANCIAL HIGHLIGHTS

HIGHLIGHTS

- The revenue of the Group amounted to approximately HK\$68.0 million for the six months ended 30 September 2020, representing a decrease of approximately 33.7% as compared to that of approximately HK\$102.4 million for the six months ended 30 September 2019.
- The gross profit amounted to approximately HK\$26.8 million for the six months ended 30 September 2020, representing a decrease of approximately 37.6% as compared to that of approximately HK\$43.0 million for the six months ended 30 September 2019.
- The net profit decreased from approximately HK\$14.1 million for the six months ended 30 September 2019 to approximately HK\$3.8 million for the six months ended 30 September 2020.
- Basic and diluted earnings per share was HK\$0.39 cents for the six months ended 30 September 2020 (six months ended 30 September 2019: HK\$1.88 cents).
- The Board does not recommend the payment of any dividend for the six months ended 30 September 2020 (six months ended 30 September 2019: Nil).

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

For the six months ended 30 September 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 and six months ended 30 September 2020, together with the comparative figures for the corresponding period in 2019, as follows:

	Notes	Three months ended 30 September		Six months ended 30 September	
		2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Audited)
Revenue	3	34,819	54,792	67,962	102,449
Cost of sales and services		(21,151)	(30,957)	(41,163)	(59,498)
Gross profit		13,668	23,835	26,799	42,951
Other income	5	769	93	1,151	110
Other gains and losses	6	238	(475)	(16)	(540)
Impairment losses, net of reversal		15	(1,554)	15	(1,554)
Selling and distribution costs		(1,549)	(1,608)	(2,926)	(2,857)
Administrative expenses		(8,785)	(7,033)	(18,257)	(13,523)
Finance costs	7	(34)	(14)	(56)	(31)
Listing expenses		—	(44)	(926)	(6,283)
Profit before taxation	8	4,322	13,200	5,784	18,273
Income tax expense	9	(1,466)	(2,087)	(2,026)	(4,199)
Profit and total comprehensive income for the period		2,856	11,113	3,758	14,074
Profit and total comprehensive income for the period attributable to:					
– Owners of the Company		2,856	11,113	3,758	14,074
Earnings per share					
Basic and diluted (HK cents)	10	0.29	1.48	0.39	1.88

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 September 2020

	Notes	As at 30 September 2020 HK\$'000 (Unaudited)	As at 31 March 2020 HK\$'000 (Audited)
Non-current assets			
Property and equipment	12	3,783	4,362
Right-of-use assets	12	3,608	1,612
Rental deposits		612	256
		<u>8,003</u>	<u>6,230</u>
Current assets			
Inventories		7,714	6,482
Trade and other receivables	13	16,119	29,529
Contract assets	14	112,041	102,488
Pledged bank deposit		818	806
Bank balances and cash		63,915	39,920
		<u>200,607</u>	<u>179,225</u>
Current liabilities			
Trade and other payables	15	20,739	42,025
Contract liabilities	14	10,112	8,784
Lease liabilities		2,142	953
Taxation payables		10,941	8,915
		<u>43,934</u>	<u>60,677</u>
Net current assets		<u>156,673</u>	<u>118,548</u>
Total assets less current liabilities		<u>164,676</u>	<u>124,778</u>
Non-current liabilities			
Lease liabilities		1,584	699
Deferred tax liabilities		578	578
		<u>2,162</u>	<u>1,277</u>
Net assets		<u>162,514</u>	<u>123,501</u>
Capital and reserves			
Share capital	16	10,000	— #
Reserves		152,514	123,501
Total equity		<u>162,514</u>	<u>123,501</u>

Less than HK\$1,000

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2020

	Share capital HK\$'000	Share premium HK\$'000	Legal reserve HK\$'000 (Note)	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	—	—	—	—	—	14,074	14,074
At 30 September 2019 (audited)	—	—	24	49	36,724	81,398	118,195
At 31 March 2020 (audited)	—	—	24	49	36,724	86,704	123,501
Capitalisation issue (note 16)	7,500	(7,500)	—	—	—	—	—
Issue of shares upon share offer (note 16)	2,500	38,555	—	—	—	—	41,055
Dividend recognised as distribution (note 11)	—	—	—	—	—	(5,800)	(5,800)
Profit and total comprehensive income for the period	—	—	—	—	—	3,758	3,758
At 30 September 2020 (unaudited)	10,000	31,055	24	49	36,724	84,662	162,514

Note: 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.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 September 2020

	Six months ended	
	30 September	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Operating activities		
Profit before taxation	5,784	18,273
Adjustments for:		
Loss on disposal of property and equipment	309	—
Depreciation	1,788	1,934
Bank interest income	(55)	(29)
Impairment losses, net of reversal	(15)	1,554
Finance costs	56	31
Operating cash flows before movements in working capital	7,867	21,763
Decrease (increase) in trade and other receivables	10,245	(1,564)
Increase in contract assets	(9,582)	(22,648)
(Increase) decrease in inventories	(1,232)	3,837
(Decrease) increase in trade and other payables	(21,286)	10,876
Increase in contract liabilities	1,328	690
Cash (used in) generated from operations	(12,660)	12,954
Income tax paid	—	(37)
Net cash (used in) generated from operating activities	(12,660)	12,917
Investing activities		
Proceeds from disposal of property and equipment	660	—
Interest received	55	29
Purchase of property and equipment	(1,119)	(315)
Payments for rental deposits	(356)	—
Placement of a pledged bank deposit	(12)	(6)
Net cash used in investing activities	(772)	(292)

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 September 2020

	Six months ended 30 September	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Audited)
Financing activities		
Proceeds from issuance of share capital	60,000	—
Issue costs paid	(15,736)	(1,823)
Payments of lease liabilities	(981)	(1,031)
Interest paid	(56)	(31)
Dividend paid	(5,800)	—
Net cash from (used in) financing activities	<u>37,427</u>	<u>(2,885)</u>
Net increase in cash and cash equivalents	23,995	9,740
Cash and cash equivalents at beginning of the period	<u>39,920</u>	<u>31,271</u>
Cash and cash equivalents at end of the period, represented by bank balances and cash	<u><u>63,915</u></u>	<u><u>41,011</u></u>

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 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 Company's 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 six months ended 30 September 2020 (the "**Interim 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 November 2020.

2. BASIS OF PREPARATION

The Interim Financial Statements have been prepared in accordance with Hong Kong Accounting Standard ("**HKAS**") 34 – *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") as well as with the applicable disclosure requirements of the GEM Listing Rules. The Interim Financial Statements do not include all of the information required for full set of financial statements prepared in accordance with the Hong Kong Financial Reporting Standards ("**HKFRSs**") and should be read in conjunction with the Company's consolidated financial statements for the year ended 31 March 2020 (the "**2020 Annual Report**").

The accounting policies and methods of computation applied in the preparation of the Interim Financial Statements are consistent with those applied in the preparation of the 2020 Annual Report except for the adoption of new or revised standards, amendments and interpretations issued by the HKICPA mandatory for annual accounting periods beginning on or after 1 April 2020. The adoption of these new or revised standards, amendments and interpretations in the current accounting period had no significant change in accounting policies and no significant effect on the financial results 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.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2020

2. BASIS OF PREPARATION (CONTINUED)

The Interim 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 be different from those estimates and assumptions. In preparing the Interim 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 in the 2020 Annual Report.

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 September		Six months ended 30 September	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Audited)
Contract revenue from provision of building protection works, recognised over time:				
Residential buildings	9,530	13,841	19,318	26,243
Community facilities (Note)	6,616	5,805	10,198	10,362
Commercial buildings	4,972	13,461	12,029	26,411
	21,118	33,107	41,545	63,016
Contract revenue from supply of building protection products, recognised at a point in time	13,701	21,685	26,417	39,433
	34,819	54,792	67,962	102,449

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

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

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2020

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, 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 six months ended 30 September 2020 (unaudited)

	Provision of building protection works HK\$'000	Supply of building protection products HK\$'000	Total HK\$'000
Segment revenue - external	41,545	26,417	67,962
Segment results	15,385	11,414	26,799
Other income			1,151
Other gains and losses			(16)
Impairment losses, net of reversal			15
Selling and distribution costs			(2,926)
Administrative expenses			(18,257)
Finance costs			(56)
Listing expenses			(926)
Profit before taxation			5,784

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2020

4. SEGMENT INFORMATION (CONTINUED)

Segment revenue and results (Continued)

For the six months ended 30 September 2019

	Provision of building protection works HK\$'000	Supply of building protection products HK\$'000	Total HK\$'000
Segment revenue - external	63,016	39,433	102,449
Segment results	25,228	17,723	42,951
Other income			110
Other gains and losses			(540)
Impairment losses, net of reversal			(1,554)
Selling and distribution costs			(2,857)
Administrative expenses			(13,523)
Finance costs			(31)
Listing expenses			(6,283)
Profit before taxation			18,273

Segment results represent the profit before tax earned by each segment without allocation of other income, other gains and losses, impairment losses, 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:

	Three months ended 30 September		Six months ended 30 September	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Audited)
Hong Kong	33,128	46,539	61,994	87,821
Macau	1,691	8,253	5,968	14,628
	34,819	54,792	67,962	102,449

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

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2020

5. OTHER INCOME

	Three months ended 30 September		Six months ended 30 September	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Audited)
Bank interest income	16	12	21	29
Sundry income	55	81	147	81
Government subsidies	698	—	983	—
	<u>769</u>	<u>93</u>	<u>1,151</u>	<u>110</u>

6. OTHER GAINS AND LOSSES

	Three months ended 30 September		Six months ended 30 September	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Audited)
Net exchange gain (loss)	271	(475)	293	(540)
Loss on disposal of property and equipment	(33)	—	(309)	—
	<u>238</u>	<u>(475)</u>	<u>(16)</u>	<u>(540)</u>

7. FINANCE COSTS

	Three months ended 30 September		Six months ended 30 September	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Audited)
Interest expenses on lease liabilities	<u>34</u>	<u>14</u>	<u>56</u>	<u>31</u>

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2020

8. PROFIT BEFORE TAXATION

	Three months ended 30 September		Six months ended 30 September	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Audited)
Profit before taxation has been arrived at after charging:				
Directors' emoluments	2,823	1,237	4,731	2,204
Other staff costs	4,684	4,900	10,975	9,953
Retirement benefit schemes contributions for other staff	185	112	373	255
Total staff costs	7,692	6,249	16,079	12,412
Auditor's remuneration	150	150	300	300
Cost of inventories recognised as an expense	12,643	21,744	24,279	39,721
Depreciation of property and equipment	322	370	738	860
Depreciation of right-of-use assets	562	588	1,050	1,074

9. INCOME TAX EXPENSE

	Three months ended 30 September		Six months ended 30 September	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Audited)
Tax charge comprises:				
Current tax				
Hong Kong Profits Tax	1,466	2,101	2,026	4,213
Macau Complementary Tax	—	28	—	28
	1,466	2,129	2,026	4,241
Deferred tax	—	(42)	—	(42)
	1,466	2,087	2,026	4,199

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 six months ended 30 September 2020

10. 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 September		Six months ended 30 September	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Audited)
Earnings:				
Earnings for the purpose of calculating basic earnings per share (profit for the period attributable to owners of the Company)	<u>2,856</u>	<u>11,113</u>	<u>3,758</u>	<u>14,074</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>750,000</u>	<u>969,945</u>	<u>750,000</u>
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The weighted average number of ordinary shares for the purpose of calculating basic earnings per share during the six months ended 30 September 2020 includes (i) 1 ordinary share in issue upon incorporation; (ii) 749,999,999 new ordinary shares issued pursuant to the capitalisation issue as set out in note 16 to the unaudited condensed consolidated financial statements, as if all these shares had been in issue throughout the six months ended 30 September 2020, and (iii) 219,945,355 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 six months ended 30 September 2019 has been determined on the assumption that the capitalisation issue as set out in note 16 to the unaudited condensed consolidated financial statements 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.

11. DIVIDENDS

A final dividend in respect of the year ended 31 March 2020 of 0.58 HK cents per share, in an aggregate amount of HK\$5,800,000, has been declared and approved by the shareholders of the Company and was paid in September 2020.

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

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2020

12. PROPERTY AND EQUIPMENT AND RIGHT-OF-USE ASSETS

During the six months ended 30 September 2020, the Group acquired items of property and equipment with a cost of approximately HK\$1,119,000 (six months ended 30 September 2019: HK\$315,000).

In addition, the Group disposed of certain property and equipment with an aggregate carrying amount of approximately HK\$969,000 (six months ended 30 September 2019: Nil) for proceeds of approximately HK\$660,000 (six months ended 30 September 2019: Nil), resulting in a loss of disposal of approximately HK\$309,000 (six months ended 30 September 2019: Nil).

During the six months ended 30 September 2020, the Group entered into two new lease agreements and recognised right-of-use assets and lease liabilities of approximately HK\$2,524,000.

13. TRADE AND OTHER RECEIVABLES

	As at 30 September 2020 HK\$'000 (Unaudited)	As at 31 March 2020 HK\$'000 (Audited)
Trade receivables	15,122	23,524
Less: Allowance for impairment	(163)	(207)
	<u>14,959</u>	<u>23,317</u>
Deferred issue costs	—	5,157
Other receivables	450	413
Prepayment and deposits	1,322	868
Prepaid listing expenses	—	30
	<u>16,731</u>	<u>29,785</u>
Less: Rental deposits classified as non-current portion	(612)	(256)
Current portion	<u>16,119</u>	<u>29,529</u>

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2020

13. TRADE AND OTHER RECEIVABLES (CONTINUED)

Trade receivables

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

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

	As at 30 September 2020 HK\$'000 (Unaudited)	As at 31 March 2020 HK\$'000 (Audited)
0 to 30 days	5,067	7,222
31 to 90 days	4,337	12,824
91 to 180 days	2,566	454
181 to 365 days	314	189
Over 365 days	2,675	2,628
	14,959	23,317

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 expected credit loss ("ECL") prescribed by HKFRS 9. There has been no change in the estimation techniques or significant assumptions made during the six months ended 30 September 2020 in assessing the loss allowances for the trade receivables.

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

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2020

14. CONTRACT ASSETS/LIABILITIES

	As at 30 September 2020 HK\$'000 (Unaudited)	As at 31 March 2020 HK\$'000 (Audited)
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Analysed for reporting purposes, on a net basis for each respective contract:

Contract assets	112,041	102,488
Contract liabilities	<u>(10,112)</u>	<u>(8,784)</u>

Included in carrying amount of contract assets are retention receivables of HK\$18,035,000 (31 March 2020: HK\$17,168,000) as at 30 September 2020, net of loss allowance of HK\$975,000 (31 March 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 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:

	As at 30 September 2020 HK\$'000 (Unaudited)	As at 31 March 2020 HK\$'000 (Audited)
Within one year	2,210	2,125
After one year	<u>15,825</u>	<u>15,043</u>
	<u>18,035</u>	<u>17,168</u>

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

The Group applies the simplified approach to provide for ECL prescribed by HKFRS 9. There has been no change in the estimation techniques or significant assumptions made during the six months ended 30 September 2020 in assessing the loss allowances for the contract assets.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2020

15. TRADE AND OTHER PAYABLES

	As at 30 September 2020 HK\$'000 (Unaudited)	As at 31 March 2020 HK\$'000 (Audited)
Trade payables	11,431	20,477
Retention payables	4,809	4,332
Accrued expenses	2,446	2,896
Accrued staff costs	2,053	6,707
Accrued listing expenses and issue costs	—	7,613
	<u>20,739</u>	<u>42,025</u>

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

	As at 30 September 2020 HK\$'000 (Unaudited)	As at 31 March 2020 HK\$'000 (Audited)
Within 30 days	6,114	7,647
31 to 90 days	2,381	9,014
Over 90 days	2,936	3,816
	<u>11,431</u>	<u>20,477</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 expiry 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:

	As at 30 September 2020 HK\$'000 (Unaudited)	As at 31 March 2020 HK\$'000 (Audited)
Within one year	1,623	1,454
After one year	3,186	2,878
	<u>4,809</u>	<u>4,332</u>

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2020

16. SHARE CAPITAL

Movements of the authorised and issued share capital of the Company for the period from 12 February 2019 (date of incorporation of the Company) to 30 September 2020 are as follows:

	Number of shares	Amount HK\$'000
Ordinary shares of HK\$0.01 each		
Authorised:		
At 12 February 2019 (date of incorporation) (Note i)	39,000,000	390
Increase in authorised share capital (Note ii)	1,521,000,000	15,210
At 31 March 2020 (audited) and 30 September 2020 (unaudited)	<u>1,560,000,000</u>	<u>15,600</u>
Issued and fully paid:		
Upon incorporation	1	—*
Capitalisation issue (Note iii)	749,999,999	7,500
Issue of shares upon share offer (Note iv)	250,000,000	2,500
At 31 March 2020 (audited) and 30 September 2020 (unaudited)	<u>1,000,000,000</u>	<u>10,000</u>

* Less than HK\$1,000

Notes:

- (i) On 12 February 2019, the Company was incorporated in the Cayman Islands as an exempted company with limited liability with an initial authorised share capital of HK\$390,000 divided into 39,000,000 shares of HK\$0.01 each, of which one share of HK\$0.01 was allotted, issued and credited as fully paid to an independent initial subscriber. On the same date, such subscriber's share was transferred to Ultra Success for cash at par.
- (ii) On 18 March 2020, the authorised share capital of the Company was increased from HK\$390,000 divided into 39,000,000 shares to HK\$15,600,000 divided into 1,560,000,000 shares by the creation of 1,521,000,000 additional shares.
- (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 then existing issued shares of the Company.
- (iv) 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 six months ended 30 September 2020

17. RELATED PARTY TRANSACTIONS

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

Name of related party	Nature of transactions	Six months ended 30 September	
		2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Audited)
Red Fame Limited	Interest expenses on lease liabilities	17	8
("Red Fame") (Note i)	Lease liabilities (Note ii)	787	267

Notes:

- (i) The related company is controlled by the directors of the Company, Mr. Lam and Ms. Wong Pui Yee Edith ("Mrs. Lam").
- (ii) On 23 March 2020, the Group entered into a new lease agreement for the use of directors' quarter with Red Fame for 2 years commencing 1 April 2020. The Group recognised an addition of right-of-use assets and lease liabilities of approximately HK\$1,040,000 for the six months ended 30 September 2020.

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:

	Six months ended 30 September			
	2020		2019	
	HK\$'000	%	HK\$'000	%
Provision of building protection works	41,545	61.1	63,016	61.5
Supply of building protection products	26,417	38.9	39,433	38.5
	<u>67,962</u>	<u>100.0</u>	<u>102,449</u>	<u>100.0</u>

The Group's revenue decreased from approximately HK\$102.4 million for the six months ended 30 September 2019 to approximately HK\$68.0 million for the six months ended 30 September 2020, representing a decrease of approximately HK\$34.6 million, or 33.7%. 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:

	Six months ended 30 September	
	2020	2019
	HK\$'000	HK\$'000
Public sector projects	21,521	22,357
Private sector projects	20,024	40,659
Total	<u>41,545</u>	<u>63,016</u>

MANAGEMENT DISCUSSION AND ANALYSIS

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

	Six months ended 30 September	
	2020	2019
HK\$1,000,000 or above	11	18
HK\$100,000 to below HK\$1,000,000	53	36
Below HK\$100,000	171	119
Total	235	173

The revenue recognised from the provision of building protection works decreased from approximately HK\$63.0 million for the six months ended 30 September 2019 to approximately HK\$41.5 million for the six months ended 30 September 2020. Such decrease was mainly attributable to the delay in commencement and work progress of some private sector projects caused by the ongoing COVID-19 outbreak during the six months ended 30 September 2020.

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:

	Six months ended 30 September			
	2020		2019	
	HK\$'000	%	HK\$'000	%
Waterproofing products	18,368	69.5	27,804	70.5
Tiling products	7,003	26.5	11,495	29.2
Flooring and other products	1,046	4.0	134	0.3
Total revenue from supply of building protection products	26,417	100.0	39,433	100.0

The revenue recognised from the supply of building protection products decreased from approximately HK\$39.4 million for the six months ended 30 September 2019 to approximately HK\$26.4 million for the six months ended 30 September 2020. Such decrease was mainly attributable to the decrease in demand from customers in Macau for waterproofing products.

Cost of Sales and Services

Cost of sales and services decreased from approximately HK\$59.5 million for the six months ended 30 September 2019 to approximately HK\$41.2 million for the six months ended 30 September 2020, representing a decrease of approximately HK\$18.3 million, or 30.8%. Such decrease in cost of sales and services was generally in line with the decrease in revenue.

MANAGEMENT DISCUSSION AND ANALYSIS

Gross Profit and Gross Profit Margin

Gross profit decreased from approximately HK\$43.0 million for the six months ended 30 September 2019 to approximately HK\$26.8 million for the six months ended 30 September 2020, representing a decrease of approximately HK\$16.2 million, or 37.6%. Gross profit margin decreased from approximately 41.9% for the six months ended 30 September 2019 to approximately 39.4% for the six months ended 30 September 2020. Such decrease was due to the increase in number of workers hired by the Group as well as the overall increase in material costs.

Other Income, Gains and Losses

Other income increased from approximately HK\$110,000 for the six months ended 30 September 2019 to approximately HK\$1.2 million for the six months ended 30 September 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, decreased from approximately HK\$540,000 for the six months ended 30 September 2019 to approximately HK\$16,000 for the six months ended 30 September 2020. Such decrease in other losses was mainly attributable to the net effect of (i) the increase in exchange gain; and (ii) the losses on disposal of motor vehicles for the six months 30 September 2020, which was one-off in nature.

Selling and Distribution Costs

Selling and distribution costs amounted to approximately HK\$2.9 million for the six months ended 30 September 2019 and 2020, with a slight increase of approximately HK\$69,000, or 2.4%. Such increase in selling and distribution costs was mainly attributable to the increase in warehouse and storage cost.

Administrative Expenses

Administrative expenses increased from approximately HK\$13.5 million for the six months ended 30 September 2019 to approximately HK\$18.3 million for the six months ended 30 September 2020, representing an increase of approximately HK\$4.7 million, or 35.0%. Such increase in administrative expenses was mainly attributable to the increase in staff costs and professional fees after the Listing.

Listing Expenses

Listing expenses significantly decreased by approximately HK\$5.3 million from approximately HK\$6.3 million for the six months ended 30 September 2019 to approximately HK\$926,000 for the six months ended 30 September 2020.

Finance Costs

Finance costs increased from approximately HK\$31,000 for the six months ended 30 September 2019 to approximately HK\$56,000 for the six months ended 30 September 2020 which was derived from the lease liabilities.

MANAGEMENT DISCUSSION AND ANALYSIS

Income Tax Expenses

Income tax expenses decreased from approximately HK\$4.2 million for the six months ended 30 September 2019 to approximately HK\$2.0 million for the six months ended 30 September 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\$14.1 million for the six months ended 30 September 2019 to approximately HK\$3.8 million for the six months ended 30 September 2020.

DIVIDEND

A final dividend in respect of the year ended 31 March 2020 of 0.58 HK cents per share, in an aggregate amount of HK\$5,800,000, has been declared and approved by the shareholders of the Company and was paid in September 2020.

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

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 September 2020, the Group had total assets of approximately HK\$208.6 million (31 March 2020: approximately HK\$185.5 million), including net cash and cash equivalents of approximately HK\$64.7 million (31 March 2020: approximately HK\$40.7 million). As at 30 September 2020, the Group's current assets amounted to approximately HK\$200.6 million (31 March 2020: approximately HK\$179.2 million) and the Group's current liabilities amounted to approximately HK\$43.9 million (31 March 2020: approximately HK\$60.7 million).

The Group's gearing ratio (dividing the lease liabilities by equity attributable to equity holders of the Company at the end of the reporting period) was approximately 2.3% as at 30 September 2020 (31 March 2020: approximately 1.3%).

As at 30 September 2020, the Group had net current assets of approximately HK\$156.7 million (31 March 2020: approximately HK\$118.5 million). As at 30 September 2020, the Group's current ratio was approximately 4.6 times (31 March 2020: approximately 3.0 times) which was calculated based on the total current assets at the end of the reporting period divided by total current liabilities at the end of the reporting period.

TREASURY POLICY

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

MANAGEMENT DISCUSSION AND ANALYSIS

FOREIGN CURRENCY FLUCTUATION

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

CAPITAL STRUCTURE

As at 30 September 2020 and 31 March 2020, the share capital of the Group comprised only ordinary shares. The capital structure of the Group is solely equity attributable to equity holders of the Group, in which comprises share capital and reserves.

MATERIAL ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

During the six months ended 30 September 2020, the Company did not have any significant acquisition or disposal of subsidiaries, associates or joint ventures.

CAPITAL EXPENDITURE

During the six months ended 30 September 2020, the Group had no significant capital expenditure.

SIGNIFICANT INVESTMENT HELD

As at 30 September 2020, the Group did not have any significant investment held (31 March 2020: Nil).

CONTINGENT LIABILITIES

As at 30 September 2020, the Group did not have any contingent liabilities (31 March 2020: Nil).

CAPITAL COMMITMENTS

As at 30 September 2020, the Group had no significant capital commitments (31 March 2020: Nil).

PERFORMANCE GUARANTEE

As at 30 September 2020 and 31 March 2020, a performance bond of HK\$755,000 was given by a bank in favour of a Group's customer as security for the due performance and observance of the Group's obligations under the contract for building protection works entered into between the Group and such customer.

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

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

Save as disclosed in the Prospectus and in this report, the Group did not have any other plan for material investments and capital assets as at 30 September 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

EMPLOYEES AND REMUNERATION POLICIES

As at 30 September 2020, the Group had 84 employees excluding the Directors. Total staff costs incurred excluding Directors' remuneration during the six months ended 30 September 2020 were approximately HK\$11.3 million (six months ended 30 September 2019: approximately HK\$10.2 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.

SIGNIFICANT EVENT AFTER THE REPORTING PERIOD

Save as disclosed elsewhere in this report, after 30 September 2020 and up to the date of this report, there was no significant event relevant to the business or financial performance of the Group that comes to the attention of the Directors.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL IMPLEMENTATION PROGRESS

The following is a comparison of the Group's business strategies as set out in the section headed "Business Objectives, Future Plans and Use of Proceeds" in the Prospectus with the Group's actual implementation progress up to 30 September 2020:

Business strategies up to 30 September 2020 as set out in the Prospectus	Actual implementation progress up to 30 September 2020
Acquire additional machinery and equipment for building protection works	The Group has acquired one spraying unit for the use in construction sites. Owing to the longer-than-expected bidding process of pipeline projects, the Group is still in negotiation with the potential suppliers on the new spraying machines which would be better suited to replace its aged machinery for carrying the waterproof works projects recently secured by the Group.
Expand workforce	The Group has recruited one quantity surveyor manager, one quantity surveyor, one project manager and one foreman to support our increasing number of building protection projects, particularly the provision of waterproofing works for a sports park in Kai Tak and a logistics centre at the airport in Hong Kong.
Strengthen the Group's financial position for payment of upfront cost	The Group has secured several sizeable pipeline projects as disclosed in the Prospectus and has fully utilised such proceeds mainly for the procurement of building protection materials.
Expand the Group's building protection product mix and continue to develop its own-brand "DP ChemTech" and "DP" products	The Group has recruited one sales representative to promote our own-brand "DP ChemTech" and "DP" products. The Group has engaged testing centre to conduct laboratory tests and certifications on its new waterproofing products.

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	66	2,044	From Listing Date to 31 March 2021
Expand workforce	6,280	29.1	702	5,578	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	179	6,331	From Listing Date to 31 March 2023
	<u>21,600</u>	<u>100.0</u>	<u>7,647</u>	<u>13,953</u>	

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.

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.

MANAGEMENT DISCUSSION AND ANALYSIS

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.

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.

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.

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 Date and up to the date of this report. 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.

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 September 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 recorded 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%
Mrs. Lam ⁽²⁾	Interest of spouse	750,000,000	75%

Notes:

- 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.
- These Shares represent the Shares held indirectly by Mr. Lam, the spouse of Mrs. Lam, as ultimate beneficial owner.

Long positions in the shares of associated corporation

Name of Director	Name of associated corporation	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 September 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 recorded 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 September 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 were deemed to be, directly or indirectly, 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 September 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 September 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 September 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.

OTHER INFORMATION

Chairman and Chief Executive Officer

Under code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Since the Listing Date and up to 30 September 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 September 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.

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 Interim 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 six months ended 30 September 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 November 2020