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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 2021**

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 2021. This announcement, containing the full text of the interim report of the Company for the six months ended 30 September 2021 (the “**2021 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 2021 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, 12 November 2021

As at the date of this announcement, the Board comprises two executive Directors, namely Mr. Lam Ka Wing and Ms. Wong Pui Yee Edith; and three independent non-executive Directors, namely 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 make the decision to invest only after due and careful consideration.

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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.

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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
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LEGAL ADVISERS AS TO HONG KONG LAW

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5/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

COMPLIANCE ADVISER

Alpha Financial Group Limited
Room A, 17/F
Fortune House
61 Connaught Road Central
Central
Hong Kong

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

CAYMAN ISLANDS REGISTERED OFFICE

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

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838 Lai Chi Kok Road
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WEBSITE

www.sunray.com.hk

STOCK CODE

08616

FINANCIAL HIGHLIGHTS

HIGHLIGHTS

- The revenue of the Group amounted to approximately HK\$90.2 million for the six months ended 30 September 2021, representing an increase of approximately 32.6% as compared to that of approximately HK\$68.0 million for the six months ended 30 September 2020.
- The gross profit amounted to approximately HK\$30.0 million for the six months ended 30 September 2021, representing an increase of approximately 11.9% as compared to that of approximately HK\$26.8 million for the six months ended 30 September 2020.
- The net profit increased from approximately HK\$3.8 million for the six months ended 30 September 2020 to approximately HK\$7.6 million for the six months ended 30 September 2021.
- Basic and diluted earnings per share was HK\$0.76 cents for the six months ended 30 September 2021 (six months ended 30 September 2020: HK\$0.39 cents).
- The Board does not recommend the payment of any dividend for the six months ended 30 September 2021 (six months ended 30 September 2020: Nil).

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

For the six months ended 30 September 2021

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 2021, together with the comparative figures for the corresponding period in 2020, as follows:

	Notes	Three months ended 30 September		Six months ended 30 September	
		2021	2020	2021	2020
		HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)
Revenue	3	41,370	34,819	90,168	67,962
Cost of sales and services		(26,334)	(21,151)	(60,167)	(41,163)
Gross profit		15,036	13,668	30,001	26,799
Other income	5	309	769	351	1,151
Other gains and losses	6	(103)	238	99	(16)
Impairment losses, net of reversal		16	15	16	15
Selling and distribution costs		(1,983)	(1,549)	(4,782)	(2,926)
Administrative expenses		(7,915)	(8,785)	(16,130)	(18,257)
Finance costs	7	(112)	(34)	(149)	(56)
Listing expenses		—	—	—	(926)
Profit before taxation	8	5,248	4,322	9,406	5,784
Income tax expense	9	(832)	(1,466)	(1,802)	(2,026)
Profit and total comprehensive income for the period		4,416	2,856	7,604	3,758
Profit and total comprehensive income for the period attributable to:					
— Owners of the Company		4,416	2,856	7,604	3,758
Earnings per share					
Basic and diluted (HK cents)	10	0.44	0.29	0.76	0.39

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2021

		As at	As at
	Notes	30 September 2021 HK\$'000 (Unaudited)	31 March 2021 HK\$'000 (Audited)
Non-current assets			
Property and equipment	12	48,552	4,096
Right-of-use assets	12	3,200	4,079
Rental deposits		414	414
		<u>52,166</u>	<u>8,589</u>
Current assets			
Inventories		26,263	9,457
Trade and other receivables	13	17,585	26,606
Contract assets	14	112,196	116,640
Tax recoverable		272	1,064
Pledged bank deposit		821	818
Bank balances and cash		35,903	57,777
		<u>193,040</u>	<u>212,362</u>
Current liabilities			
Trade and other payables	15	23,764	31,515
Contract liabilities	14	14,680	11,608
Bank borrowings	16	21,269	—
Lease liabilities		1,836	2,263
Taxation payables		2,680	1,739
		<u>64,229</u>	<u>47,125</u>
Net current assets		<u>128,811</u>	<u>165,237</u>
Total assets less current liabilities		<u>180,977</u>	<u>173,826</u>
Non-current liabilities			
Lease liabilities		1,477	1,930
Deferred tax liabilities		698	698
		<u>2,175</u>	<u>2,628</u>
Net assets		<u>178,802</u>	<u>171,198</u>
Capital and reserves			
Share capital	17	10,000	10,000
Reserves		168,802	161,198
Total equity		<u>178,802</u>	<u>171,198</u>

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2021

	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 2020 (audited)	—	—	24	49	36,724	86,704	123,501
Capitalisation issue (note 17)	7,500	(7,500)	—	—	—	—	—
Issue of shares upon share offer (note 17)	2,500	38,555	—	—	—	—	41,055
Dividend recognised as distribution	—	—	—	—	—	(5,800)	(5,800)
Profit and total comprehensive income for the period	—	—	—	—	—	3,758	3,758
At 30 September 2020 (unaudited)	<u>10,000</u>	<u>31,055</u>	<u>24</u>	<u>49</u>	<u>36,724</u>	<u>84,662</u>	<u>162,514</u>
At 31 March 2021 (audited)	10,000	31,055	24	49	36,724	93,346	171,198
Profit and total comprehensive income for the period	—	—	—	—	—	7,604	7,604
At 30 September 2021 (unaudited)	<u>10,000</u>	<u>31,055</u>	<u>24</u>	<u>49</u>	<u>36,724</u>	<u>100,950</u>	<u>178,802</u>

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 2021

	Six months ended 30 September	
	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Operating activities		
Profit before taxation	9,406	5,784
Adjustments for:		
(Gain) loss on disposal of property and equipment	(45)	309
Loss arising from early termination of a lease contract	11	—
Depreciation	2,406	1,788
Bank interest income	(5)	(55)
Impairment losses, net of reversal	(16)	(15)
Finance costs	149	56
Operating cash flows before movements in working capital	11,906	7,867
Decrease in trade and other receivables	9,075	10,245
Decrease (increase) in contract assets	4,406	(9,582)
Increase in inventories	(16,806)	(1,232)
Decrease in trade and other payables	(7,751)	(21,286)
Increase in contract liabilities	3,072	1,328
Cash generated from (used in) operations	3,902	(12,660)
Income tax paid	(69)	—
Net cash generated from (used in) operating activities	3,833	(12,660)
Investing activities		
Proceeds from disposal of property and equipment	1,100	660
Interest received	5	55
Purchase of property and equipment	(46,617)	(1,119)
Payments for rental deposits	—	(356)
Placement of a pledged bank deposit	(3)	(12)
Net cash used in investing activities	(45,515)	(772)

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 September 2021

	Six months ended 30 September	
	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Financing activities		
Proceeds from issuance of share capital	—	60,000
Proceeds from bank borrowings	21,500	—
Issue costs paid	—	(15,736)
Repayment of bank borrowings	(231)	—
Payments of lease liabilities	(1,312)	(981)
Interest paid	(149)	(56)
Dividend paid	—	(5,800)
	<u>19,808</u>	<u>37,427</u>
Net cash generated from financing activities		
	<u>19,808</u>	<u>37,427</u>
Net (decrease) increase in cash and cash equivalents	(21,874)	23,995
Cash and cash equivalents at beginning of the period	57,777	39,920
	<u>57,777</u>	<u>39,920</u>
Cash and cash equivalents at end of the period, represented by bank balances and cash	<u>35,903</u>	<u>63,915</u>

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2021

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 2021 (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 12 November 2021.

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 2021 (the "**2021 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 2021 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 2021. 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 2021

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 2021 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	
	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Contract revenue from provision of building protection works, recognised over time:				
Residential buildings	2,903	9,530	9,488	19,318
Community facilities (Note)	14,130	6,616	23,667	10,198
Commercial buildings	5,600	4,972	21,175	12,029
	<u>22,633</u>	<u>21,118</u>	<u>54,330</u>	<u>41,545</u>
Contract revenue from supply of building protection products, recognised at a point in time	<u>18,737</u>	<u>13,701</u>	<u>35,838</u>	<u>26,417</u>
	<u>41,370</u>	<u>34,819</u>	<u>90,168</u>	<u>67,962</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 duration of building protection works normally varies from 1 to 4 years. The Group's customers 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 2021

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 2021 (unaudited)

	Provision of building protection works HK\$'000	Supply of building protection products HK\$'000	Total HK\$'000
Segment revenue — external	<u>54,330</u>	<u>35,838</u>	<u>90,168</u>
Segment results	<u>12,945</u>	<u>17,056</u>	30,001
Other income			351
Other gains and losses			99
Impairment losses, net of reversal			16
Selling and distribution costs			(4,782)
Administrative expenses			(16,130)
Finance costs			(149)
Listing expenses			—
Profit before taxation			<u>9,406</u>

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2021

4. SEGMENT INFORMATION (CONTINUED)

Segment revenue and results (Continued)

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

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	
	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Hong Kong	37,896	33,128	80,853	61,994
Macau	3,474	1,691	9,315	5,968
	<u>41,370</u>	<u>34,819</u>	<u>90,168</u>	<u>67,962</u>

The Group's non-current assets, excluding financial assets, are substantially situated in Hong Kong.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2021

5. OTHER INCOME

	Three months ended 30 September		Six months ended 30 September	
	2021	2020	2021	2020
	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)
Rental income	300	—	300	—
Bank interest income	3	16	5	21
Government subsidies (Note)	—	698	—	983
Sundry income	6	55	46	147
	<u>309</u>	<u>769</u>	<u>351</u>	<u>1,151</u>

Note: The government subsidies recognised during the six months ended 30 September 2020 are mainly related to the Employment Support Scheme in respect of COVID-19-related subsidies from Hong Kong Government.

6. OTHER GAINS AND LOSSES

	Three months ended 30 September		Six months ended 30 September	
	2021	2020	2021	2020
	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)
Net exchange gain (loss)	(64)	271	65	293
Gain (loss) on disposal of property and equipment	(28)	(33)	45	(309)
Loss arising from early termination of a lease contract	(11)	—	(11)	—
	<u>(103)</u>	<u>238</u>	<u>99</u>	<u>(16)</u>

7. FINANCE COSTS

	Three months ended 30 September		Six months ended 30 September	
	2021	2020	2021	2020
	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)
Bank borrowings	79	—	79	—
Interest expenses on lease liabilities	33	34	70	56
	<u>112</u>	<u>34</u>	<u>149</u>	<u>56</u>

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2021

8. PROFIT BEFORE TAXATION

	Three months ended 30 September		Six months ended 30 September	
	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Profit before taxation has been arrived at after charging:				
Directors' emoluments	2,147	2,823	4,796	4,731
Other staff costs	6,392	4,684	13,234	10,975
Retirement benefit schemes contributions for other staff	232	185	468	373
Total staff costs	8,771	7,692	18,498	16,079
Auditor's remuneration	150	150	300	300
Cost of inventories recognised as an expense	13,784	12,643	33,840	24,279
Depreciation of property and equipment	756	322	1,106	738
Depreciation of right-of-use assets	635	562	1,300	1,050

9. INCOME TAX EXPENSE

	Three months ended 30 September		Six months ended 30 September	
	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Hong Kong Profits Tax	832	1,466	1,802	2,026

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%.

No provision for Macau Complementary Tax is made as the Group has no 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 2021

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	
	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Earnings:				
Earnings for the purpose of calculating basic earnings per share (profit for the period attributable to owners of the Company)	<u>4,416</u>	<u>2,856</u>	<u>7,604</u>	<u>3,758</u>
			'000	'000

Number of shares:

Weighted average number of ordinary shares for the purpose of calculating basic earnings per share (Note)

<u>1,000,000</u>	<u>1,000,000</u>	<u>1,000,000</u>	<u>969,945</u>
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Note: 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.

There were no potential ordinary shares in issue during both periods and, therefore, diluted earnings per share are same as the basic earnings per share.

11. DIVIDENDS

The Board does not recommend the payment of any dividend for the six months ended 30 September 2021 (six months ended 30 September 2020: Nil).

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2021

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

During the six months ended 30 September 2021, the Group acquired items of property and equipment with a cost of approximately HK\$46,617,000, including a property at approximately HK\$45,258,000 as its self-owned premises (six months ended 30 September 2020: HK\$1,119,000).

In addition, the Group disposed of certain property and equipment with an aggregate carrying amount of approximately HK\$1,055,000 (six months ended 30 September 2020: HK\$969,000) for proceeds of approximately HK\$1,100,000 (six months ended 30 September 2020: HK\$660,000), resulting in a gain on disposal of approximately HK\$45,000 (six months ended 30 September 2020: loss on disposal of approximately HK\$309,000).

During the six months ended 30 September 2021, the Group entered into two lease contracts and recognised right-of-use assets and lease liabilities of approximately HK\$1,196,000 (six months ended 30 September 2020: HK\$2,524,000). The Group early terminated a lease contract resulting in a loss of approximately HK\$11,000 during the six months ended 30 September 2021.

13. TRADE AND OTHER RECEIVABLES

	As at 30 September 2021 HK\$'000 (Unaudited)	As at 31 March 2021 HK\$'000 (Audited)
Trade receivables	15,461	25,466
Less: Allowance for impairment	<u>(63)</u>	<u>(117)</u>
	15,398	25,349
Other receivables	419	404
Prepayment and deposits	<u>2,182</u>	<u>1,267</u>
	17,999	27,020
Less: Rental and other deposits classified as non-current portion	<u>(414)</u>	<u>(414)</u>
Current portion	<u><u>17,585</u></u>	<u><u>26,606</u></u>

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.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2021

13. TRADE AND OTHER RECEIVABLES (CONTINUED)

Trade receivables (Continued)

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	As at
	30 September	31 March
	2021	2021
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
0 to 30 days	6,793	15,240
31 to 90 days	4,994	6,736
91 to 180 days	824	560
181 to 365 days	262	681
Over 365 days	<u>2,525</u>	<u>2,132</u>
	<u>15,398</u>	<u>25,349</u>

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

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

The Group applies the simplified approach to provide for 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 2021 in assessing the loss allowances for the trade receivables.

For the other receivables including rental and other 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 2021

14. CONTRACT ASSETS/LIABILITIES

	As at	As at
	30 September	31 March
	2021	2021
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)

Analysed for reporting purposes, on a net basis for each respective contract:

Contract assets	112,196	116,640
Contract liabilities	<u>(14,680)</u>	<u>(11,608)</u>

As at 30 September 2021, included in carrying amount of contract assets are retention receivables of HK\$21,816,000 (31 March 2021: HK\$19,788,000), net of loss allowance of HK\$97,000 (31 March 2021: HK\$89,000).

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	As at
	30 September	31 March
	2021	2021
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)

Within one year	2,005	1,915
After one year	<u>19,811</u>	<u>17,873</u>
	<u>21,816</u>	<u>19,788</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 2021 in assessing the loss allowances for the contract assets.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2021

15. TRADE AND OTHER PAYABLES

	As at 30 September 2021 HK\$'000 (Unaudited)	As at 31 March 2021 HK\$'000 (Audited)
Trade payables	11,007	19,479
Retention payables	4,744	4,339
Accrued expenses	2,647	2,484
Accrued staff costs	5,165	5,213
Other payables	201	—
	<u>23,764</u>	<u>31,515</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 2021 HK\$'000 (Unaudited)	As at 31 March 2021 HK\$'000 (Audited)
Within 30 days	5,568	14,194
31 to 90 days	2,471	2,241
Over 90 days	2,968	3,044
	<u>11,007</u>	<u>19,479</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 2021 HK\$'000 (Unaudited)	As at 31 March 2021 HK\$'000 (Audited)
Within one year	1,595	1,570
After one year	3,149	2,769
	<u>4,744</u>	<u>4,339</u>

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2021

16. BANK BORROWINGS

	As at	As at
	30 September	31 March
	2021	2021
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)

Current:

Bank borrowings subject to a repayment on demand clause, secured

<u>21,269</u>	<u>—</u>
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17. SHARE CAPITAL

	Number of shares	Amount HK\$'000
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Ordinary shares of HK\$0.01 each

Authorised:

At 31 March 2021 (audited) and 30 September 2021 (unaudited)	<u>1,560,000,000</u>	<u>15,600</u>
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Issued and fully paid:

At 1 April 2020	1	—*
Capitalisation issue (Note i)	749,999,999	7,500
Issue of shares upon share offer (Note ii)	<u>250,000,000</u>	<u>2,500</u>
At 31 March 2021 (audited) and 30 September 2021 (unaudited)	<u>1,000,000,000</u>	<u>10,000</u>

* Less than HK\$1,000

Notes:

- (i) The Company capitalised an amount of HK\$7,499,999.99 standing to the credit of the share premium account of the Company towards paying in full at par a total of 749,999,999 shares for allotment and issue to the shareholders of the Company on 23 April 2020 (the "**Capitalisation Issue**"). Such shares rank pari passu in all respects with then existing issued shares of the Company.
- (ii) On 23 April 2020, the Company issued a total of 250,000,000 new shares of par value of HK\$0.01 each at offer price of HK\$0.24 per share, by way of the public offer and placing. Of the gross total proceeds of HK\$60,000,000, HK\$2,500,000 representing the par value was credited to the Company's share capital, and HK\$57,500,000 before reduction of issue costs of HK\$18,945,000, was credited to the share premium account.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2021

18. 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	
		2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Red Fame Limited (Note i)	Interest expenses on lease liabilities	—	17
	Lease liabilities (Note ii)	—	787

Notes:

- (i) The related company is controlled by the directors of the Company, Mr. Lam and Ms. Wong Pui Yee Edith (“**Mrs. Lam**”).
- (ii) A new lease contract for the use of directors’ quarter with the related company was entered into and also early terminated during the year ended 31 March 2021.

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			
	2021		2020	
	HK\$'000	%	HK\$'000	%
Provision of building protection works	54,330	60.3	41,545	61.1
Supply of building protection products	35,838	39.7	26,417	38.9
	<u>90,168</u>	<u>100.0</u>	<u>67,962</u>	<u>100.0</u>

The Group's revenue increased from approximately HK\$68.0 million for the six months ended 30 September 2020 to approximately HK\$90.2 million for the six months ended 30 September 2021, representing an increase of approximately HK\$22.2 million, or 32.6%. Such increase in revenue was primarily due to the increase 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	
	2021	2020
	HK\$'000	HK\$'000
Public sector projects	25,376	21,521
Private sector projects	<u>28,954</u>	<u>20,024</u>
Total	<u>54,330</u>	<u>41,545</u>

MANAGEMENT DISCUSSION AND ANALYSIS

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

	Six months ended 30 September	
	2021	2020
HK\$1,000,000 or above	15	11
HK\$100,000 to below HK\$1,000,000	36	53
Below HK\$100,000	<u>216</u>	<u>171</u>
Total	<u><u>267</u></u>	<u><u>235</u></u>

The revenue recognised from the provision of building protection works increased from approximately HK\$41.5 million for the six months ended 30 September 2020 to approximately HK\$54.3 million for the six months ended 30 September 2021. Such increase was mainly attributable to the increase in number of projects awarded to the Group and the increase in revenue derived from relatively large projects during the six months ended 30 September 2021.

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			
	2021		2020	
	HK\$'000	%	HK\$'000	%
Waterproofing products	20,212	56.4	18,368	69.5
Tiling products	12,785	35.7	7,003	26.5
Flooring and other products	<u>2,841</u>	<u>7.9</u>	<u>1,046</u>	<u>4.0</u>
Total revenue from supply of building protection products	<u><u>35,838</u></u>	<u><u>100.0</u></u>	<u><u>26,417</u></u>	<u><u>100.0</u></u>

The revenue recognised from the supply of building protection products increased from approximately HK\$26.4 million for the six months ended 30 September 2020 to approximately HK\$35.8 million for the six months ended 30 September 2021. Such increase was mainly attributable to the increase in demand from customers in Hong Kong for waterproofing and tiling products.

Cost of Sales and Services

Cost of sales and services increased from approximately HK\$41.2 million for the six months ended 30 September 2020 to approximately HK\$60.2 million for the six months ended 30 September 2021, representing an increase of approximately HK\$19.0 million, or 46.1%. Such increase in cost of sales and services was mainly due to the increase in material costs and direct staff costs.

MANAGEMENT DISCUSSION AND ANALYSIS

Gross Profit and Gross Profit Margin

Gross profit increased from approximately HK\$26.8 million for the six months ended 30 September 2020 to approximately HK\$30.0 million for the six months ended 30 September 2021, representing an increase of approximately HK\$3.2 million, or 11.9%. Gross profit margin decreased from approximately 39.4% for the six months ended 30 September 2020 to approximately 33.3% for the six months ended 30 September 2021. Such decrease in gross profit margin was mainly due to (i) the increase in number of workers hired by the Group for relatively large projects; (ii) the increase in overall construction costs; and (iii) some of the Group's building protection work projects on hand with higher gross profit margin were at their ending phase, with revenue already recognised in prior years.

Other Income, Gains and Losses

Other income decreased from approximately HK\$1.2 million for the six months ended 30 September 2020 to approximately HK\$351,000 for the six months ended 30 September 2021, which was mainly attributable to the decrease in subsidy received from the Hong Kong government under the Employment Support Scheme launched in May 2020. Other losses, on a net basis, amounted to approximately HK\$16,000 for the six months ended 30 September 2020, and other gains, on a net basis, amounted to approximately HK\$99,000 for the six months ended 30 September 2021. Such change in other gains and losses was mainly attributable to the combined effect of the decrease in exchange gain and the gain on disposal of property and equipment for the six months ended 30 September 2021.

Selling and Distribution Costs

Selling and distribution costs increased from approximately HK\$2.9 million for the six months ended 30 September 2020 to approximately HK\$4.8 million for the six months ended 30 September 2021, representing an increase of approximately HK\$1.9 million, or 65.5%. Such increase in selling and distribution costs was mainly attributable to the increase in transportation and storage cost.

Administrative Expenses

Administrative expenses decreased from approximately HK\$18.3 million for the six months ended 30 September 2020 to approximately HK\$16.1 million for the six months ended 30 September 2021, representing a decrease of approximately HK\$2.2 million, or 12.0%. Such decrease in administrative expenses was mainly attributable to the decrease in professional fee for the six months ended 30 September 2021.

Listing Expenses

Listing expenses decreased from approximately HK\$926,000 for the six months ended 30 September 2020 to nil for the six months ended 30 September 2021.

Finance Costs

Finance costs for the six months ended 30 September 2021 amounted to approximately HK\$149,000 which was derived from the lease liabilities and bank borrowings.

Income Tax Expenses

Income tax expenses decreased from approximately HK\$2.0 million for the six months ended 30 September 2020 to approximately HK\$1.8 million for the six months ended 30 September 2021. Such decrease was attributable to the decrease in administrative expenses which are of non-deductible in nature.

MANAGEMENT DISCUSSION AND ANALYSIS

Profit and Total Comprehensive Income for the Period

As a result of the foregoing, profit and total comprehensive income increased from approximately HK\$3.8 million for the six months ended 30 September 2020 to approximately HK\$7.6 million for the six months ended 30 September 2021.

DIVIDEND

The Board does not recommend the payment of any dividend for the six months ended 30 September 2021 (six months ended 30 September 2020: Nil).

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 September 2021, the Group had total assets of approximately HK\$245.2 million (31 March 2021: approximately HK\$221.0 million), including net cash and cash equivalents of approximately HK\$36.7 million (31 March 2021: approximately HK\$58.6 million). As at 30 September 2021, the Group's current assets amounted to approximately HK\$193.0 million (31 March 2021: approximately HK\$212.4 million) and the Group's current liabilities amounted to approximately HK\$64.2 million (31 March 2021: approximately HK\$47.1 million).

The Group's gearing ratio (dividing the total interest-bearing borrowings and lease liabilities by equity attributable to equity holders of the Company at the end of the reporting period) was approximately 13.7% as at 30 September 2021 (31 March 2021: approximately 2.4%). Such increase was mainly due to the increase in bank borrowings for the acquisition of property during the six months ended 30 September 2021.

As at 30 September 2021, the Group had net current assets of approximately HK\$128.8 million (31 March 2021: approximately HK\$165.2 million). As at 30 September 2021, the Group's current ratio was approximately 3.0 times (31 March 2021: approximately 4.5 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.

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.

MANAGEMENT DISCUSSION AND ANALYSIS

CAPITAL STRUCTURE

As at 30 September 2021 and 31 March 2021, 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 2021, the Company did not have any significant acquisition or disposal of subsidiaries, associates or joint ventures.

CAPITAL EXPENDITURE

Save for the acquisition of property as disclosed elsewhere in this report, during the six months ended 30 September 2021, the Group had no significant capital expenditure.

SIGNIFICANT INVESTMENT HELD

As at 30 September 2021, the Group did not have any significant investment held (31 March 2021: Nil).

CHARGES ON ASSETS

Save for the mortgaged property acquired as disclosed elsewhere in this report, as at 30 September 2021, the Group had no charges on assets (31 March 2021: Nil).

CONTINGENT LIABILITIES

As at 30 September 2021, the Group did not have any contingent liabilities (31 March 2021: Nil).

CAPITAL COMMITMENTS

As at 30 September 2021, the Group had no significant capital commitments (31 March 2021: Nil).

PERFORMANCE GUARANTEE

As at 30 September 2021 and 31 March 2021, 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 2021.

MANAGEMENT DISCUSSION AND ANALYSIS

EMPLOYEES AND REMUNERATION POLICIES

As at 30 September 2021, the Group had 82 employees excluding the Directors. Total staff costs incurred excluding Directors' remuneration during the six months ended 30 September 2021 were approximately HK\$13.7 million (six months ended 30 September 2020: approximately HK\$11.3 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 2021 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 2021:

Business strategies up to 30 September 2021 as set out in the Prospectus	Actual implementation progress up to 30 September 2021
Acquire additional machinery and equipment for building protection works	<p>The Group has acquired twelve spraying units and two spraying machines for the use in construction sites.</p> <p>The Group is in negotiation with the potential suppliers on the purchase of more spraying machines which would be better suited for carrying out the waterproof works projects recently secured by the Group.</p>
Expand workforce	<p>The Group has recruited one quantity surveyor manager, one quantity surveyor, one project manager and two foremen 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.</p>
Strengthen the Group's financial position for payment of upfront cost	<p>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.</p>
Expand the Group's building protection product mix and continue to develop its own-brand "DP ChemTech" and "DP" products	<p>The Group has recruited one sales representative to promote our own-brand "DP ChemTech" and "DP" products.</p> <p>The Group has engaged testing centre to conduct laboratory tests and certifications on its new waterproofing products.</p>

MANAGEMENT DISCUSSION AND ANALYSIS

USE OF PROCEEDS

The Company's shares were successfully listed on GEM of the Stock Exchange on 23 April 2020. 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.

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	1,384	726	From Listing Date to 31 March 2022
Expand workforce	6,280	29.1	5,284	996	From Listing Date to 31 March 2023
Strengthen the Group's financial position for payment of upfront cost	6,700	31.0	6,700	—	—
Expand the Group's building protection product mix and continue to develop its own-brand "DP ChemTech" and "DP" products	6,510	30.1	928	5,582	From Listing Date to 31 March 2023
	<u>21,600</u>	<u>100.0</u>	<u>14,296</u>	<u>7,304</u>	

As disclosed in the 2021 Annual Report, there was a delay in the planned use of the unutilised Net Proceeds in relation to the purchase of additional machinery and equipment for 12 months, and such unutilised Net Proceeds are expected to be fully utilised by 31 March 2022. Save as the above-mentioned adjustments, there was no change in the intended use of the Net Proceeds and the expected timetable as previously disclosed 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.

PROSPECTS

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

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

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

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;

MANAGEMENT DISCUSSION AND ANALYSIS

- (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

During the six months ended 30 September 2021 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 2021, 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%

OTHER INFORMATION

Save as disclosed above, as at 30 September 2021, 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 2021, 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 2021, 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 2021. 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 six months ended 30 September 2021.

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 officer should be separate and should not be performed by the same individual. During the six months ended 30 September 2021, 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 during the six months ended 30 September 2021 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 2021, 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 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 2021 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, 12 November 2021