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Sunray Engineering Group Limited

新威工程集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8616)

**FIRST QUARTERLY RESULTS ANNOUNCEMENT
FOR THE THREE MONTHS ENDED 30 JUNE 2023**

The board (the “**Board**”) of directors (the “**Directors**”) of Sunray Engineering Group Limited (the “**Company**”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries for the three months ended 30 June 2023. This announcement, containing the full text of the first quarterly report of the Company for the three months ended 30 June 2023 (the “**2023 First Quarterly Report**”), complies with the relevant requirements of the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “**GEM Listing Rules**”) in relation to information to accompany preliminary announcement of first quarterly results. The printed version of the 2023 First Quarterly Report will be despatched to the shareholders of the Company and available for viewing on the websites of the Stock Exchange at www.hkexnews.hk and of the Company at www.sunray.com.hk in due course in the manner as required by the GEM Listing Rules.

By Order of the Board

Sunray Engineering Group Limited

Lam Ka Wing

Chairman and Executive Director

Hong Kong, 11 August 2023

As at the date of this announcement, the Board comprises two executive Directors, namely Mr. Lam Ka Wing and Ms. Wong Pui Yee Edith; and three independent non-executive Directors, namely 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 website of the Stock Exchange at www.hkexnews.hk 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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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

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited

17/F, Far East Finance Centre
16 Harcourt Road
Hong Kong

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Ocorian Trust (Cayman) Limited

Windward 3, Regatta Office Park
P.O. Box 1350
Grand Cayman KY1-1108
Cayman Islands

CAYMAN ISLANDS REGISTERED OFFICE

Windward 3, Regatta Office Park
P.O. Box 1350
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Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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501-503 Castle Peak Road
Kowloon, Hong Kong

WEBSITE

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STOCK CODE

08616

FINANCIAL HIGHLIGHTS

HIGHLIGHTS

- The revenue of the Group amounted to approximately HK\$39.7 million for the three months ended 30 June 2023, representing a decrease of approximately 20.3% as compared to that of approximately HK\$49.8 million for the three months ended 30 June 2022.
- The gross profit amounted to approximately HK\$10.7 million for the three months ended 30 June 2023, representing a decrease of approximately 15.1% as compared to that of approximately HK\$12.6 million for the three months ended 30 June 2022.
- The net loss amounted to approximately HK\$2.3 million for the three months ended 30 June 2023 as compared to the net profit of approximately HK\$577,000 for the three months ended 30 June 2022.
- Basic and diluted loss per share was HK\$0.23 cents for the three months ended 30 June 2023 (three months ended 30 June 2022: earnings of HK\$0.06 cents).
- The Board does not recommend the payment of any dividend for the three months ended 30 June 2023 (three months ended 30 June 2022: Nil).

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

For the three months ended 30 June 2023

The board of Directors (the “**Board**”) of the Company is pleased to announce the unaudited condensed consolidated financial results of the Company and its subsidiaries (collectively the “**Group**”) for the three months ended 30 June 2023, together with the comparative figures for the corresponding period in 2022, as follows:

	Notes	Three months ended 30 June	
		2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
Revenue	3	39,739	49,813
Cost of sales and services		(29,015)	(37,261)
Gross profit		10,724	12,552
Other income	4	35	577
Other gains and losses	5	(145)	34
Selling and distribution costs		(1,640)	(1,940)
Administrative expenses		(10,622)	(9,709)
Finance costs	6	(494)	(139)
(Loss)/profit before taxation	7	(2,142)	1,375
Income tax expense	8	(146)	(798)
(Loss)/profit and total comprehensive (expense)/income for the period		(2,288)	577
(Loss)/profit and total comprehensive (expense)/income for the period attributable to:			
– Owners of the Company		(2,288)	577
(Loss)/earnings per share			
Basic and diluted (HK cents)	9	(0.23)	0.06

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three months ended 30 June 2023

	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 2022 (audited)	10,000	31,055	24	49	36,724	104,199	182,051
Profit and total comprehensive income for the period	—	—	—	—	—	577	577
At 30 June 2022 (unaudited)	<u>10,000</u>	<u>31,055</u>	<u>24</u>	<u>49</u>	<u>36,724</u>	<u>104,776</u>	<u>182,628</u>
At 31 March 2023 (audited)	10,000	31,055	24	49	36,724	109,711	187,563
Loss and total comprehensive expense for the period	—	—	—	—	—	(2,288)	(2,288)
At 30 June 2023 (unaudited)	<u>10,000</u>	<u>31,055</u>	<u>24</u>	<u>49</u>	<u>36,724</u>	<u>107,423</u>	<u>185,275</u>

Note: In accordance with Article 377 of the Commercial Code of Macau Special Administrative Region ("Macau"), the subsidiaries registered in Macau are required to transfer part of their profits of the accounting period of not less than 25% to legal reserve, until the amount reaches an amount equal to half of the respective share capital.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended 30 June 2023

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 Windward 3, Regatta Office Park, P.O. Box 1350, Grand Cayman KY1-1108, Cayman Islands and the Company's principal place of business is 5/F, International Industrial Building, 501-503 Castle Peak Road, Kowloon, Hong Kong.

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

The Company is an investment holding company. The Company and its subsidiaries are principally engaged in provision of building protection works and supply of building protection products. The Company's immediate and ultimate holding company is Ultra Success Industries Limited ("**Ultra Success**"), a limited liability company incorporated in the British Virgin Islands ("**BVI**"). The ultimate controlling shareholder of the Group is Mr. Lam Ka Wing ("**Mr. Lam**").

The unaudited condensed consolidated financial statements are presented in HK\$, which is also the functional currency of the Company.

The condensed consolidated financial statements for the three months ended 30 June 2023 (the "**First Quarterly Financial Statements**") are unaudited but were reviewed by the audit committee of the Company (the "**Audit Committee**") and approved for issue by the Board on 11 August 2023.

2. BASIS OF PREPARATION

The First Quarterly Financial Statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") which collective term includes all applicable individual HKFRSs, Hong Kong Accounting Standards and Interpretations issued by Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") and the accounting principles generally accepted in Hong Kong. The First Quarterly Financial Statements also comply with the applicable disclosure requirements of the GEM Listing Rules. The First Quarterly Financial Statements should be read in conjunction with the Company's consolidated financial statements for the year ended 31 March 2023 (the "**2023 Annual Report**"), which have been prepared in accordance with HKFRSs issued by the HKICPA.

The accounting policies and methods of computation applied in the preparation of the First Quarterly Financial Statements are consistent with those applied in preparing the 2023 Annual Report except for the adoption of new or revised standards, amendments and interpretations issued by the HKICPA mandatory for annual periods beginning 1 April 2023. The adoption of these new or revised standards, amendments and interpretations did not result in any substantial changes to the accounting policies of the Group. In addition, the Group has not early adopted any new standard, interpretation or amendment that has been issued but is not yet effective for the current accounting period.

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

Accounting estimates and assumptions are used in the preparation of financial statements. Although these estimates are based on management's best knowledge and judgment of current events and actions, actual results may ultimately differ from those estimates and assumptions. In preparing the First Quarterly Financial Statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the 2023 Annual Report.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended 30 June 2023

3. REVENUE

Revenue represents the fair value of amounts received and receivable from provision of building protection works and supply of building protection products.

An analysis of the Group's revenue is as follows:

	Three months ended 30 June	
	2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
Contract revenue from provision of building protection works, recognised over time:		
Residential buildings	7,435	11,073
Community facilities (Note)	9,897	10,137
Commercial buildings	11,777	11,110
	29,109	32,320
Contract revenue from supply of building protection products, recognised at a point in time	10,630	17,493
	39,739	49,813

Note: Community facilities include sports centres, theatre, hospitals, power stations 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 three months ended 30 June 2023

4. OTHER INCOME

	Three months ended 30 June	
	2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
Bank interest income	35	1
Short-term rental income	—	48
Government subsidies (Note)	—	404
Sundry income	—	124
	<u>35</u>	<u>577</u>

Note: The government subsidies recognised during the three months ended 30 June 2022 were mainly related to the Employment Support Scheme in respect of COVID-19-related subsidies from Hong Kong Government.

5. OTHER GAINS AND LOSSES

	Three months ended 30 June	
	2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
Net exchange gain/(loss)	28	(27)
(Loss)/gain on disposal of property and equipment	(173)	12
Gain arising from early termination of a lease contract	—	49
	<u>(145)</u>	<u>34</u>

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended 30 June 2023

6. FINANCE COSTS

	Three months ended 30 June	
	2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
Interests on:		
– bank borrowings	460	116
– lease liabilities	34	23
	<u>494</u>	<u>139</u>

7. (LOSS)/PROFIT BEFORE TAXATION

	Three months ended 30 June	
	2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
(Loss)/profit before taxation has been arrived at after charging:		
Directors' emoluments	3,551	3,597
Other staff costs	7,344	7,588
Retirement benefit schemes contributions for other staff	256	249
Total staff costs	<u>11,151</u>	<u>11,434</u>
Auditor's remuneration	100	150
Cost of inventories recognised as an expense	13,574	22,628
Depreciation of property and equipment	901	788
Depreciation of right-of-use assets	<u>493</u>	<u>641</u>

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended 30 June 2023

8. INCOME TAX EXPENSE

	Three months ended 30 June	
	2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
Hong Kong Profits Tax	146	798

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.

Under the two-tiered profits tax rates regime of Hong Kong Profits Tax, the first HK\$2 million of profits of qualifying group entity will be taxed at 8.25%, and profits above HK\$2 million 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.

9. (LOSS)/EARNINGS PER SHARE

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

	Three months ended 30 June	
	2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
Loss/profit for the period attributable to owners of the Company	(2,288)	577
	'000	'000
Weighted average number of ordinary shares for the purpose of calculating basic and diluted (loss)/earnings per share	1,000,000	1,000,000

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

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended 30 June 2023

10. DIVIDENDS

The Board does not recommend the payment of any dividend for the three months ended 30 June 2023 (three months ended 30 June 2022: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

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

The Group's building protection works generally refer to the selection and use of appropriate building protection products in a building for protection against water, thermal, acoustic and fire. The supply of building protection products refers to identifying, sourcing, promoting and distributing suitable building protection products to the Group's customers to meet their varying needs and requirements. The building protection products supplied by the Group are mainly waterproofing products, tiling products, flooring and other products.

FINANCIAL REVIEW

Revenue

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

	Three months ended 30 June			
	2023		2022	
	HK\$'000 (Unaudited)	%	HK\$'000 (Unaudited)	%
Provision of building protection works	29,109	73.3	32,320	64.9
Supply of building protection products	10,630	26.7	17,493	35.1
	<u>39,739</u>	<u>100.0</u>	<u>49,813</u>	<u>100.0</u>

The Group's revenue decreased from approximately HK\$49.8 million for the three months ended 30 June 2022 to approximately HK\$39.7 million for the three months ended 30 June 2023, representing a decrease of approximately HK\$10.1 million, or 20.3%. Such decrease in revenue was primarily due to the decrease in revenue generated from both the provision of building protection works and the supply of building protection products.

Provision of building protection works

Revenue recognised:

	Three months ended 30 June	
	2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
Public sector projects	8,507	11,919
Private sector projects	20,602	20,401
Total	<u>29,109</u>	<u>32,320</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Number of projects by the range of revenue recognised:

	Three months ended 30 June	
	2023	2022
HK\$1,000,000 or above	7	12
HK\$100,000 to below HK\$1,000,000	36	31
Below HK\$100,000	252	254
Total	295	297

The Group's revenue recognised from the provision of building protection works decreased from approximately HK\$32.3 million for the three months ended 30 June 2022 to approximately HK\$29.1 million for the three months ended 30 June 2023. Such decrease was mainly attributable to the decrease in number of projects taken up by the Group and the decrease in revenue derived from relatively large projects during the three months ended 30 June 2023.

Supply of building protection products

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

	Three months ended 30 June			
	2023		2022	
	HK\$'000 (Unaudited)	%	HK\$'000 (Unaudited)	%
Waterproofing products	8,167	76.8	8,158	46.6
Tiling products	2,425	22.8	8,707	49.8
Flooring and other products	38	0.4	628	3.6
Total	10,630	100.0	17,493	100.0

The Group's revenue recognised from the supply of building protection products decreased from approximately HK\$17.5 million for the three months ended 30 June 2022 to approximately HK\$10.6 million for the three months ended 30 June 2023. Such decrease was mainly attributable to the decrease in demand from customers in Hong Kong for tiling, flooring and other products.

Cost of Sales and Services

Cost of sales and services decreased from approximately HK\$37.3 million for the three months ended 30 June 2022 to approximately HK\$29.0 million for the three months ended 30 June 2023, representing a decrease of approximately HK\$8.3 million, or 22.3%. Such decrease in cost of sales and services was mainly due to the decrease in material costs and direct staff costs for the Group's projects.

MANAGEMENT DISCUSSION AND ANALYSIS

Gross Profit and Gross Profit Margin

Gross profit decreased from approximately HK\$12.6 million for the three months ended 30 June 2022 to approximately HK\$10.7 million for the three months ended 30 June 2023, representing a decrease of approximately HK\$1.9 million, or 15.1%. Gross profit margin increased from approximately 25.2% for the three months ended 30 June 2022 to approximately 27.0% for the three months ended 30 June 2023. Such increase in gross profit margin was mainly due to the increase in gross profit margin derived from the provision of building protection works as compared to the corresponding period in 2022.

Other Income, Gains and Losses

Other income decreased from approximately HK\$577,000 for the three months ended 30 June 2022 to approximately HK\$35,000 for the three months ended 30 June 2023, which was mainly due to the absence of subsidy received from the Hong Kong government under the Employment Support Scheme launched in April 2022. Other gains, on a net basis, decreased from approximately HK\$34,000 for the three months ended 30 June 2022 to a loss of approximately HK\$145,000 for the year ended 30 June 2023. Such change in other gains and losses was mainly attributable to the increase in loss on disposal of property and equipment for the three months ended 30 June 2023.

Selling and Distribution Costs

Selling and distribution costs decreased from approximately HK\$1.9 million for the three months ended 30 June 2022 to approximately HK\$1.6 million for the three months ended 30 June 2023, representing a decrease of approximately HK\$0.3 million, or 15.8%. Such decrease in selling and distribution costs was mainly attributable to the decrease in transportation cost.

Administrative Expenses

Administrative expenses increased from approximately HK\$9.7 million for the three months ended 30 June 2022 to approximately HK\$10.6 million for the three months ended 30 June 2023, representing an increase of approximately HK\$0.9 million, or 9.3%. Such increase in administrative expenses was mainly attributable to the increase in general staff costs.

Finance Costs

Finance costs increased from approximately HK\$139,000 for the three months ended 30 June 2022 to approximately HK\$494,000 for the three months ended 30 June 2023. Such increase in finance costs was mainly attributable to the general increase in interest rate on bank borrowings.

Income Tax Expenses

Income tax expenses decreased from approximately HK\$798,000 for the three months ended 30 June 2022 to approximately HK\$146,000 for the three months ended 30 June 2023, which was in line with the decrease in estimated assessable profits of a major operating subsidiary of the Company.

(Loss)/profit for the period attributable to owners of the Company

As a result of the foregoing, the Group's loss attributable to owners of the Company amounted to approximately HK\$2.3 million for the three months ended 30 June 2023, as compared to a profit of approximately HK\$577,000 for the three months ended 30 June 2022.

MANAGEMENT DISCUSSION AND ANALYSIS

DIVIDEND

The Board does not recommend the payment of any dividend for the three months ended 30 June 2023 (three months ended 30 June 2022: Nil).

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 (Note)
Acquire additional machinery and equipment for building protection works	2,110	9.8	2,110	—	—
Expand workforce	6,280	29.1	6,280	—	—
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	2,680	3,830	From Listing Date to 31 March 2024
	<u>21,600</u>	<u>100.0</u>	<u>17,770</u>	<u>3,830</u>	

Note: The delay in expected timeline of full utilisation of the unutilised Net Proceeds was mainly attributable to the struggling global economy and the constant spread of COVID-19 during the year ended 31 March 2023, resulting in adoption by the management of a more prudent approach on the utilisation of the Net Proceeds in anticipation of the challenges, which led to a slowdown of the Group's marketing campaign of its own-brand building protection products in Hong Kong and Macau.

As disclosed in the table above, approximately HK\$17.8 million of the Net Proceeds from the Listing had been utilised as at 30 June 2023. The unutilised Net Proceeds from the Listing have been placed with a licensed bank in Hong Kong.

As at the date of this report, save as the aforesaid delay in the planned use of unutilised Net Proceeds in relation to the expansion of the Group's building protection product mix, there was no change in the intended use of the Net Proceeds and in the expected timeline as previously disclosed in the annual report of the Company for the year ended 31 March 2023.

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.

MANAGEMENT DISCUSSION AND ANALYSIS

PROSPECTS

The impacts of COVID-19 epidemic (the “**Epidemic**”) have caused pressure worldwide and dampened the development of various industries, with no exception for the construction industry. Despite recent easing of the Epidemic, it is expected that fierce competition in tenders from competitors with aggressive pricing strategies, stringent budget from customers as well as interest rate hike, rising material costs, subcontracting charges and labour costs will continue to affect the Group’s operations and financial performance in the near term.

Since the outbreak of the Epidemic, the Group has implemented effective measures, including frequent workspace cleaning with disinfectant, ensuring the wearing of surgical masks of all staff at work, and conducting body temperature test to protect the health and safety of the employees. The Group estimates that the degree of COVID-19 impact would be dependent on the outcome of various preventive measures and the duration of the Epidemic, and the economic recovery can be uneven across different industries and the lingering effects of the Epidemic may continue to affect the general economy of Hong Kong and Macau. Given the unpredictability of future development of COVID-19, the impacts to the Group could not be reasonably and accurately estimated at this stage. However, for the time being, the Group’s building protection work projects on hand are in steady progress and the Group did not experience any material shortages or difficulties in the supply of building protection products.

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

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

ENVIRONMENT POLICIES AND PERFORMANCE

The Group is committed to enhancing environmental protection to minimise the impact of its activities on the environment. It is the policy of the Group to promote clean operation and strive to make the most efficient use of resources in its operations, and minimising wastes and emission.

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

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

OTHER INFORMATION

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the three months ended 30 June 2023 and up to the date of this report, none of the Directors, the controlling shareholders and the substantial shareholders of the Company or their respective close associates (as defined under the GEM Listing Rules) had any business or interests in a business that competes or may compete, either directly or indirectly, with the business of the Group and any other conflicts of interest which any such person has or may have with the Group.

INTERESTS AND SHORT POSITIONS OF DIRECTORS AND CHIEF EXECUTIVE IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATION

As at 30 June 2023, 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%
Ms. Wong Pui Yee Edith ("Mrs. Lam") ⁽²⁾	Interest of spouse	750,000,000	75%

Notes:

1. These Shares are registered in the name of Ultra Success, a company which is wholly-owned by Mr. Lam. Mr. Lam is deemed to be interested in all Shares registered in the name of Ultra Success under the SFO.
2. These Shares represent the Shares held indirectly by Mr. Lam, the spouse of Mrs. Lam, as ultimate beneficial owner. Mrs. Lam is therefore deemed to be interested in all Shares held by Mr. Lam under the SFO.

OTHER INFORMATION

Long positions in the shares of associated corporation

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

Save as disclosed above, as at 30 June 2023, 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 June 2023, 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 under the SFO. Mrs. Lam, the spouse of Mr. Lam, is therefore also deemed to be interested in all Shares held by Mr. Lam under the SFO.

Save as disclosed above, as at 30 June 2023, the Directors have not been notified by any person who had interests or short positions in the Shares or underlying Shares or debentures of the Company as recorded in the register required to be kept pursuant to Section 336 of the SFO, or which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO.

SHARE OPTION SCHEME

A share option scheme (the “**Share Option Scheme**”) has been conditionally adopted by the Company on 18 March 2020 and became effective on the Listing Date. The terms of the Share Option Scheme are in accordance with the provisions of Chapter 23 of the GEM Listing Rules.

There were no outstanding options as at 30 June 2023. 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 three months ended 30 June 2023.

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 Part 2 of 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 C.2.1 of the CG Code.

Chairman and Chief Executive Officer

Under code provision C.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 three months ended 30 June 2023, 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 C.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 (the “**Code**”) 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 three months ended 30 June 2023 and up to the date of this report.

OTHER INFORMATION

AUDIT COMMITTEE

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

This report and the First Quarterly Financial Statements have been reviewed by the Audit Committee. The Audit Committee is of the opinion that the unaudited condensed consolidated financial statements of the Group for the three months ended 30 June 2023 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, 11 August 2023