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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 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 six months ended 30 September 2023. This announcement, containing the full text of the interim report of the Company for the six months ended 30 September 2023 (the “**2023 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 2023 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, 10 November 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.

Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

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

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



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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

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STOCK CODE

08616

FINANCIAL HIGHLIGHTS

HIGHLIGHTS

- The revenue of the Group amounted to approximately HK\$87.1 million for the six months ended 30 September 2023, representing a decrease of approximately 16.8% as compared to that of approximately HK\$104.7 million for the six months ended 30 September 2022.
- The gross profit amounted to approximately HK\$24.5 million for the six months ended 30 September 2023, representing a decrease of approximately 5.8% as compared to that of approximately HK\$26.0 million for the six months ended 30 September 2022.
- The net loss amounted to approximately HK\$0.3 million for the six months ended 30 September 2023 as compared to the net profit of approximately HK\$2.3 million for the six months ended 30 September 2022.
- Basic and diluted loss per share was HK\$0.03 cents for the six months ended 30 September 2023 (six months ended 30 September 2022: earnings of HK\$0.23 cents).
- The Board does not recommend the payment of any dividend for the six months ended 30 September 2023 (six months ended 30 September 2022: Nil).

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

For the six months ended 30 September 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 and six months ended 30 September 2023, together with the comparative figures for the corresponding period in 2022, as follows:

	Notes	Three months ended 30 September		Six months ended 30 September	
		2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)	2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
Revenue	3	47,394	54,850	87,133	104,663
Cost of sales and services		(33,612)	(41,431)	(62,627)	(78,692)
Gross profit		13,782	13,419	24,506	25,971
Other income	5	123	692	158	1,269
Other gains and losses	6	34	124	(111)	158
Impairment losses, net of reversal		132	57	132	57
Selling and distribution costs		(2,106)	(2,174)	(3,746)	(4,114)
Administrative expenses		(9,484)	(8,980)	(20,106)	(18,689)
Finance costs	7	(292)	(182)	(786)	(321)
Profit before taxation	8	2,189	2,956	47	4,331
Income tax expense	9	(213)	(1,208)	(359)	(2,006)
(Loss) profit and total comprehensive (expense) income for the period		1,976	1,748	(312)	2,325
(Loss) profit and total comprehensive (expense) income for the period attributable to:					
– Owners of the Company		1,976	1,748	(312)	2,325
(Loss) earnings per share					
Basic and diluted (HK cents)	10	0.20	0.17	(0.03)	0.23

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2023

	Notes	As at 30 September 2023 HK\$'000 (Unaudited)	As at 31 March 2023 HK\$'000 (Audited)
Non-current assets			
Property and equipment	12	49,626	51,296
Right-of-use assets	12	3,591	4,953
Rental and other deposits		140	277
		53,357	56,526
Current assets			
Inventories		21,144	12,989
Trade and other receivables	13	20,309	23,196
Contract assets	14	125,449	135,358
Bank balances and cash		40,306	29,436
		207,208	200,979
Current liabilities			
Trade and other payables	15	27,187	26,508
Contract liabilities	14	17,544	12,302
Lease liabilities		1,662	1,805
Taxation payable		1,684	2,400
Bank borrowings	16	23,077	23,587
		71,154	66,602
Net current assets		136,054	134,377
Total assets less current liabilities		189,411	190,903
Non-current liabilities			
Lease liabilities		1,210	2,390
Deferred taxation		950	950
		2,160	3,340
Net assets		187,251	187,563
Capital and reserves			
Share capital	17	10,000	10,000
Reserves		177,251	177,563
Total equity		187,251	187,563

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 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	—	—	—	—	—	2,325	2,325
At 30 September 2022 (unaudited)	<u>10,000</u>	<u>31,055</u>	<u>24</u>	<u>49</u>	<u>36,724</u>	<u>106,524</u>	<u>184,376</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	—	—	—	—	—	(312)	(312)
At 30 September 2023 (unaudited)	<u>10,000</u>	<u>31,055</u>	<u>24</u>	<u>49</u>	<u>36,724</u>	<u>109,399</u>	<u>187,251</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.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 September 2023

	Six months ended 30 September	
	2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
Operating activities		
Profit before taxation	47	4,331
Adjustments for:		
Loss (gain) on disposal of property and equipment	173	(8)
Gain arising from early termination of lease contracts	(10)	(49)
Depreciation	2,806	3,028
Bank interest income	(55)	(6)
Impairment losses, net of reversal	132	(57)
Finance costs	786	321
Operating cash flows before movements in working capital	3,879	7,560
Decrease in trade and other receivables	2,641	7,932
Decrease (increase) in contract assets	9,790	(16,307)
Increase in inventories	(8,155)	(1,938)
Increase in trade and other payables	679	5,087
Increase in contract liabilities	5,242	94
Cash generated from operations	14,076	2,428
Hong Kong Profits Tax paid	(1,075)	(620)
Net cash generated from operating activities	13,001	1,808
Investing activities		
Proceeds from disposal of property and equipment	30	722
Interest received	55	6
Purchase of property and equipment	—	(6,644)
Proceeds from deposit refunded for property and equipment	—	860
Withdrawal of a pledged bank deposit	—	821
Net cash generated from (used in) investing activities	85	(4,235)

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 September 2023

	Six months ended 30 September	
	2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
Financing activities		
New bank borrowings raised	23,500	—
Payments of lease liabilities	(981)	(2,009)
Repayment of bank borrowings	(24,010)	(884)
Interest paid	(725)	(321)
Net cash used in financing activities	(2,216)	(3,214)
Net increase (decrease) in cash and cash equivalents	10,870	(5,641)
Cash and cash equivalents at beginning of the period	29,436	46,978
Cash and cash equivalents at end of the period, represented by bank balances and cash	40,306	41,337

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 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 six months ended 30 September 2023 (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 10 November 2023.

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 2023 (the "**2023 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 2023 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 2023. 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 2023

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 2023 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	
	2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)	2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
Contract revenue from provision of building protection works, recognised over time:				
Residential buildings	8,666	6,240	16,101	17,313
Community facilities (Note)	20,730	24,498	30,627	34,635
Commercial buildings	8,052	11,380	19,829	22,490
	37,448	42,118	66,557	74,438
Contract revenue from supply of building protection products, recognised at a point in time	9,946	12,732	20,576	30,225
	47,394	54,850	87,133	104,663

Note: Community facilities include sports centres, theatres, 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 six months ended 30 September 2023

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 2023 (unaudited)

	Provision of building protection works HK\$'000	Supply of building protection products HK\$'000	Total HK\$'000
Segment revenue — external	66,557	20,576	87,133
Segment results	16,530	7,976	24,506
Other income			158
Other gains and losses			(111)
Impairment losses, net of reversal			132
Selling and distribution costs			(3,746)
Administrative expenses			(20,106)
Finance costs			(786)
Profit before taxation			47

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2023

4. SEGMENT INFORMATION (CONTINUED)

Segment revenue and results (Continued)

For the six months ended 30 September 2022 (unaudited)

	Provision of building protection works HK\$'000	Supply of building protection products HK\$'000	Total HK\$'000
Segment revenue — external	74,438	30,225	104,663
Segment results	16,337	9,634	25,971
Other income			1,269
Other gains and losses			158
Impairment losses, net of reversal			57
Selling and distribution costs			(4,114)
Administrative expenses			(18,689)
Finance costs			(321)
Profit before taxation			4,331

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 and finance costs. 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	
	2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)	2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
Hong Kong	44,867	52,816	80,073	99,878
Macau	2,527	2,034	7,060	4,785
	47,394	54,850	87,133	104,663

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 2023

5. OTHER INCOME

	Three months ended 30 September		Six months ended 30 September	
	2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)	2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
Bank interest income	20	5	55	6
Short-term rental income	—	—	—	48
Government subsidies (Note)	—	687	—	1,091
Sundry income	103	—	103	124
	<u>123</u>	<u>692</u>	<u>158</u>	<u>1,269</u>

Note: The government subsidies recognised during the six months ended 30 September 2022 were 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	
	2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)	2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
Net exchange gain	24	128	52	101
(Loss) gain on disposal of property and equipment	—	(4)	(173)	8
Gain arising from early termination of lease contracts	10	—	10	49
	<u>34</u>	<u>124</u>	<u>(111)</u>	<u>158</u>

7. FINANCE COSTS

	Three months ended 30 September		Six months ended 30 September	
	2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)	2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
Interests on:				
– bank borrowings	265	151	725	267
– lease liabilities	27	31	61	54
	<u>292</u>	<u>182</u>	<u>786</u>	<u>321</u>

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2023

8. PROFIT BEFORE TAXATION

	Three months ended 30 September		Six months ended 30 September	
	2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)	2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
Profit before taxation has been arrived at after charging:				
Directors' emoluments	2,662	2,489	6,213	6,086
Other staff costs	6,638	6,893	13,982	14,481
Retirement benefit schemes contributions for other staff	245	243	501	492
Total staff costs	9,545	9,625	20,696	21,059
Auditor's remuneration	100	150	200	300
Cost of inventories recognised as an expense	20,827	25,999	34,401	48,627
Depreciation of property and equipment	970	981	1,871	1,769
Depreciation of right-of-use assets	442	618	935	1,259

9. INCOME TAX EXPENSE

	Three months ended 30 September		Six months ended 30 September	
	2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)	2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
Hong Kong Profits Tax	213	1,208	359	2,006

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.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2023

10. (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 September		Six months ended 30 September	
	2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)	2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
(Loss) profit for the period attributable to owners of the Company	<u>1,976</u>	<u>1,748</u>	<u>(312)</u>	<u>2,325</u>
	'000	'000	'000	'000
Weighted average number of ordinary shares for the purpose of calculating basic and diluted (loss) earnings per share	<u>1,000,000</u>	<u>1,000,000</u>	<u>1,000,000</u>	<u>1,000,000</u>

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.

11. DIVIDENDS

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

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2023

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

During the six months ended 30 September 2023, the Group did not acquire any property and equipment (six months ended 30 September 2022: addition of approximately HK\$6,644,000). In addition, the Group disposed of certain property and equipment with an aggregate carrying amount of approximately HK\$203,000 (six months ended 30 September 2022: HK\$714,000) for proceeds of approximately HK\$30,000 (six months ended 30 September 2022: HK\$722,000), resulting in a loss on disposal of approximately HK\$173,000 (six months ended 30 September 2022: gain on disposal of approximately HK\$8,000).

During the six months ended 30 September 2023, the Group did not enter into any lease contract. During the six months ended 30 September 2022, the Group entered into lease contracts and recognised right-of-use assets and lease liabilities of approximately HK\$2,909,000. The Group early terminated a lease contract resulting in a gain of approximately HK\$10,000 during the six months ended 30 September 2023 (six months ended 30 September 2022: loss of approximately HK\$49,000).

13. TRADE AND OTHER RECEIVABLES

	As at 30 September 2023 HK\$'000 (Unaudited)	As at 31 March 2023 HK\$'000 (Audited)
Trade receivables	19,561	22,371
Less: Allowance for impairment	(954)	(969)
	18,607	21,402
Other receivables	764	459
Prepayment and deposits	1,078	1,612
	20,449	23,473
Less: Rental and other deposits classified as non-current portion	(140)	(277)
Current portion	20,309	23,196

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2023

13. TRADE AND OTHER RECEIVABLES (CONTINUED)

Trade receivables

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

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

	As at 30 September 2023 HK\$'000 (Unaudited)	As at 31 March 2023 HK\$'000 (Audited)
0 to 30 days	11,624	14,904
31 to 90 days	3,281	3,210
91 to 180 days	1,799	1,469
181 to 365 days	1,448	1,244
Over 365 days	455	575
	18,607	21,402

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 2023 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 2023

14. CONTRACT ASSETS/LIABILITIES

	As at 30 September 2023 HK\$'000 (Unaudited)	As at 31 March 2023 HK\$'000 (Audited)
Analysed for reporting purposes, on a net basis for each respective contract:		
Contract assets	125,449	135,358
Contract liabilities	(17,544)	(12,302)

As at 30 September 2023, included in carrying amount of contract assets are retention receivables of HK\$35,599,000 (31 March 2023: HK\$33,763,000), net of loss allowance of HK\$387,000 (31 March 2023: HK\$520,000).

Retention receivables represent the money retained by the Group's customers to secure the due performance of the contracts. The customers normally withhold 10% of the certified amount payable to the Group as retention money (accumulated up to maximum 5% of contract sum), 50% of which is normally recoverable upon completion of respective project and the remaining 50% is recoverable after the completion of defect liability period of the relevant contracts or in accordance with the terms specified in the relevant contracts, ranging from 1 to 2 years from the date of completion of respective projects. The amount is unsecured and interest-free.

The retention receivables, net of loss allowance, included in contract assets are to be settled, based on the expiry of the defect liability period of the relevant contracts or in accordance with the terms specified in the relevant contracts, at the end of the reporting period as follows:

	As at 30 September 2023 HK\$'000 (Unaudited)	As at 31 March 2023 HK\$'000 (Audited)
Within one year	2,933	2,020
After one year	32,666	31,743
	35,599	33,763

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 2023 in assessing the loss allowances for the contract assets.

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.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2023

15. TRADE AND OTHER PAYABLES

	As at 30 September 2023 HK\$'000 (Unaudited)	As at 31 March 2023 HK\$'000 (Audited)
Trade payables	11,561	15,483
Retention payables	6,927	6,273
Accrued expenses	7,393	2,506
Accrued staff costs	1,306	2,246
	<u>27,187</u>	<u>26,508</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 2023 HK\$'000 (Unaudited)	As at 31 March 2023 HK\$'000 (Audited)
Within 30 days	2,848	9,373
31 to 90 days	8,391	1,862
Over 90 days	322	4,248
	<u>11,561</u>	<u>15,483</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 2023 HK\$'000 (Unaudited)	As at 31 March 2023 HK\$'000 (Audited)
Within one year	1,584	1,196
After one year	5,343	5,077
	<u>6,927</u>	<u>6,273</u>

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2023

16. BANK BORROWINGS

	As at 30 September 2023 HK\$'000 (Unaudited)	As at 31 March 2023 HK\$'000 (Audited)
Current:		
Bank borrowings subject to a repayment on demand clause, secured	<u>23,077</u>	<u>23,587</u>

17. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Ordinary shares of HK\$0.01 each		
Authorised:		
At 1 April 2022, 1 April 2023 and 30 September 2023	<u>1,560,000,000</u>	<u>15,600</u>
Issued and paid:		
At 1 April 2022, 1 April 2023 and 30 September 2023	<u>1,000,000,000</u>	<u>10,000</u>

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:

		Six months ended 30 September	
Name of related party	Nature of transaction	2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
Mr. Lam	Interest expenses on lease liabilities	25	—
	Lease liabilities (Note)	<u>954</u>	<u>—</u>

Note: During the year ended 31 March 2023, the Group entered into a lease agreement for the use of directors' quarter owned by Mr. Lam for two years, with a monthly rental payment of HK\$70,000. The Group recognised an addition of right-of-use assets and lease liabilities of approximately HK\$1,606,000 and HK\$1,606,000, respectively.

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:

	Six months ended 30 September			
	2023		2022	
	HK\$'000	%	HK\$'000	%
Provision of building protection works	66,557	76.4	74,438	71.1
Supply of building protection products	20,576	23.6	30,225	28.9
Total	<u>87,133</u>	<u>100.0</u>	<u>104,663</u>	<u>100.0</u>

The Group's revenue decreased from approximately HK\$104.7 million for the six months ended 30 September 2022 to approximately HK\$87.1 million for the six months ended 30 September 2023, representing a decrease of approximately HK\$17.6 million, or 16.8%. Such decrease in revenue was primarily due to the decrease in revenue generated from both the provision of building protection works and the supply of building protection products.

Provision of building protection works

Revenue recognised:

	Six months ended 30 September	
	2023	2022
	HK\$'000	HK\$'000
Public sector projects	32,164	34,542
Private sector projects	34,393	39,896
Total	<u>66,557</u>	<u>74,438</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Number of projects by the range of revenue recognised:

	Six months ended 30 September	
	2023	2022
HK\$1,000,000 or above	18	16
HK\$100,000 to below HK\$1,000,000	48	54
Below HK\$100,000	243	244
Total	309	314

The Group's revenue recognised from the provision of building protection works decreased from approximately HK\$74.4 million for the six months ended 30 September 2022 to approximately HK\$66.6 million for the six months ended 30 September 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 six months ended 30 September 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:

	Six months ended 30 September			
	2023		2022	
	HK\$'000	%	HK\$'000	%
Waterproofing products	16,295	79.2	17,604	58.3
Tiling products	4,144	20.1	11,798	39.0
Flooring and other products	137	0.7	823	2.7
Total	20,576	100.0	30,225	100.0

The Group's revenue recognised from the supply of building protection products decreased from approximately HK\$30.2 million for the six months ended 30 September 2022 to approximately HK\$20.6 million for the six months ended 30 September 2023. Such decrease was mainly attributable to the decrease in demand from customers in Hong Kong for tiling and flooring and other products.

Cost of Sales and Services

Cost of sales and services decreased from approximately HK\$78.7 million for the six months ended 30 September 2022 to approximately HK\$62.6 million for the six months ended 30 September 2023, representing a decrease of approximately HK\$16.1 million, or 20.5%. 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\$26.0 million for the six months ended 30 September 2022 to approximately HK\$24.5 million for the six months ended 30 September 2023, representing a decrease of approximately HK\$1.5 million, or 5.8%. Gross profit margin increased from approximately 24.8% for the six months ended 30 September 2022 to approximately 28.1% for the six months ended 30 September 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\$1.3 million for the six months ended 30 September 2022 to approximately HK\$158,000 for the six months ended 30 September 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\$158,000 for the six months ended 30 September 2022 to a loss of approximately HK\$111,000 for the six months ended 30 September 2023. Such change in other gains and losses was mainly attributable to the decrease in exchange gain and the increase in loss on disposal of property and equipment for the six months ended 30 September 2023.

Selling and Distribution Costs

Selling and distribution costs decreased from approximately HK\$4.1 million for the six months ended 30 September 2022 to approximately HK\$3.7 million for the six months ended 30 September 2023, representing a decrease of approximately HK\$0.4 million, or 9.8%. Such decrease in selling and distribution costs was mainly attributable to the decrease in transportation cost.

Administrative Expenses

Administrative expenses increased from approximately HK\$18.7 million for the six months ended 30 September 2022 to approximately HK\$20.1 million for the six months ended 30 September 2023, representing an increase of approximately HK\$1.4 million, or 7.5%. Such increase in administrative expenses was mainly attributable to the increase in general staff costs.

Finance Costs

Finance costs increased from HK\$321,000 for the six months ended 30 September 2022 to approximately HK\$786,000 for the six months ended 30 September 2023, representing an increase of approximately HK\$465,000, or 144.9%. Such increase in finance costs was mainly derived from the general increase in interest rate on bank borrowings.

Income Tax Expenses

Income tax expenses decreased from approximately HK\$2.0 million for the six months ended 30 September 2022 to approximately HK\$359,000 for the six months ended 30 September 2023. Such decrease was in line with the decrease in estimated assessable profits of a major operating subsidiary of the Company.

MANAGEMENT DISCUSSION AND ANALYSIS

(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\$312,000 for the six months ended 30 September 2023, as compared to a profit of approximately HK\$2.3 million for the six months ended 30 September 2022.

DIVIDEND

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

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 September 2023, the Group had total assets of approximately HK\$260.6 million (31 March 2023: approximately HK\$257.5 million), including pledged bank deposit and bank balances and cash of approximately HK\$40.3 million (31 March 2023: approximately HK\$29.4 million). As at 30 September 2023, the Group's current assets amounted to approximately HK\$207.2 million (31 March 2023: approximately HK\$201.0 million) and the Group's current liabilities amounted to approximately HK\$71.2 million (31 March 2023: approximately HK\$66.6 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 13.9% as at 30 September 2023 (31 March 2023: approximately 14.8%). Such decrease was mainly due to the decrease in lease liabilities and repayment of bank borrowings.

As at 30 September 2023, the Group had net current assets of approximately HK\$136.1 million (31 March 2023: approximately HK\$134.4 million). As at 30 September 2023, the Group's current ratio was approximately 2.9 times (31 March 2023: approximately 3.0 times) which was calculated based on the total current assets 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 2023 and 31 March 2023, 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, which comprises share capital and reserves. Since the shares of the Company were listed on GEM on 23 April 2020, there has been no change in the capital structure of the Group.

MATERIAL ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

During the six months ended 30 September 2023, the Company did not have any significant acquisition or disposal of subsidiaries, associates or joint ventures.

CAPITAL EXPENDITURE

During the six months ended 30 September 2023, the Group had no significant capital expenditure.

SIGNIFICANT INVESTMENT HELD

As at 30 September 2023, the Group did not have any significant investment held (31 March 2023: Nil).

CHARGES ON ASSETS

Save for the mortgaged property held as disclosed elsewhere in this report, as at 30 September 2023, the Group had no charges on assets (31 March 2023: Nil).

CONTINGENT LIABILITIES

As at 30 September 2023, the Group did not have any contingent liabilities (31 March 2023: Nil).

CAPITAL COMMITMENTS

As at 30 September 2023, the Group had no significant capital commitments (31 March 2023: Nil).

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

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

MANAGEMENT DISCUSSION AND ANALYSIS

EMPLOYEES AND REMUNERATION POLICIES

As at 30 September 2023, the Group had 85 employees excluding the Directors. Total staff costs incurred excluding Directors' remuneration during the six months ended 30 September 2023 were approximately HK\$14.5 million (six months ended 30 September 2022: approximately HK\$15.0 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 2023 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 2023:

Business strategies up to 30 September 2023 as set out in the Prospectus	Actual implementation progress up to 30 September 2023
Acquire additional machinery and equipment for building protection works	<p>The Group had acquired two plural-component proportioning units engineered for waterproofing work projects that require fast, accurate ratio control and excellent spraying quality.</p> <p>The Group had also acquired a total of six spraying machines, two concrete encounters and five pumps for the use in construction sites.</p>
Expand workforce	<p>The Group had recruited one quantity surveyor manager, one quantity surveyor, two project managers, three foremen and one project clerk 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> <p>The Group continued to offer comprehensive remuneration packages to retain the best available talents in order to cope with the business expansion and achieve the positive growth of the Company.</p>
Strengthen the Group's financial position for payment of upfront cost	<p>The Group had secured several sizeable pipeline projects as disclosed in the Prospectus and had 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 had recruited two sales representatives and a business development manager to promote our own-brand "DP ChemTech" and "DP" products.</p> <p>The Group had engaged testing centres 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 (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	3,189	3,321	From Listing Date to 31 March 2024
	21,600	100.0	18,279	3,321	

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\$18.3 million of the Net Proceeds from the Listing had been utilised as at 30 September 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, there was no change in the intended use of the Net Proceeds and the expected timetable 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.

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.

MANAGEMENT DISCUSSION AND ANALYSIS

PRINCIPAL RISKS AND UNCERTAINTIES

There are certain risks that could adversely affect the Group's operations and financial results. The major uncertainties may include:

- (i) the Group derives revenue from projects and purchase orders of a non-recurrent nature, where there is no guarantee that customers will provide the Group with new business or that the Group will secure new contracts;
- (ii) the Group determines the contract price based on estimated time and costs involved in the project. An under-estimation or ineffective cost management may adversely affect the Group's financial results;
- (iii) the sustained global outbreak of COVID-19 may significantly and adversely impact the Group's business operation and financial performance;
- (iv) the timing of the Group's payment to suppliers may not match the receipt of payment from customers;
- (v) the Group relies on its major subcontractors to help complete the building protection works projects. Any material surges of their charges or any substandard work by subcontractors will affect the Group to a large extent;
- (vi) the Group relies on independent third party suppliers for production of all its own-brand building protection products; and
- (vii) the Group relies on brand owners and manufacturers for the supply of building protection products to satisfy its business operation needs. Failure to secure a steady supply of these products to the Group may adversely affect its results of business operations.

Save as disclosed above, principal risks and uncertainties affecting the Group as disclosed in the Prospectus remain substantially unchanged since the Listing 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 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 September 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.

Long positions in the shares of associated corporation

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

Save as disclosed above, as at 30 September 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 September 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 September 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 and the GEM Listing Rules.

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 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 six months ended 30 September 2023.

OTHER INFORMATION

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 six months ended 30 September 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 six months ended 30 September 2023 and up to the date of this report.

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 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, 10 November 2023