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SEM Holdings Limited
澳達控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 9929)

ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2023

The board (the “**Board**”) of directors (the “**Directors**”) of SEM Holdings Limited (the “**Company**”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively the “**Group**”) for the year ended 31 December 2023 (the “**Year 2023**”) together with comparative figures for the year ended 31 December 2022 (the “**Year 2022**”) as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2023

	<i>Notes</i>	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i> (Restated)
Revenue	3	258,894	281,333
Cost of sales		<u>(239,382)</u>	<u>(258,183)</u>
Gross profit		19,512	23,150
Other income	5a	1,178	1,674
Other gains and losses	5b	(2,803)	(95)
Impairment losses under expected credit loss (“ECL”) model, net of reversal	6	(3,748)	(12,499)
Administrative expenses		(22,053)	(17,555)
Finance costs		<u>(274)</u>	<u>(251)</u>
Loss before tax	7	(8,188)	(5,576)
Income tax credit/(expense)	8	<u>218</u>	<u>(1,157)</u>
Loss and total comprehensive expense for the year attributable to owners of the Company		<u>(7,970)</u>	<u>(6,733)</u>
Loss per share (HK\$ cents)			
Basic	10	<u>(0.40)</u>	<u>(0.34)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2023

		2023	2022	At 1 January 2022
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i> (Restated)	<i>HK\$'000</i> (Restated)
Non-current assets				
Property, plant and equipment		31,358	36,040	38,065
Rental deposit		47	123	116
Deferred tax asset		–	–	247
		<u>31,405</u>	<u>36,163</u>	<u>38,428</u>
Current assets				
Trade and other receivables	<i>11</i>	22,265	58,213	53,187
Contract assets	<i>12</i>	132,060	113,707	105,621
Pledged bank deposits		18,128	19,575	1,447
Time deposit		20,167	21,052	27,333
Cash and cash equivalents		35,887	19,746	39,045
		<u>228,507</u>	<u>232,293</u>	<u>226,633</u>
Current liabilities				
Trade and other payables	<i>13</i>	40,558	40,472	28,551
Contract liabilities		532	138	749
Lease liabilities		603	371	868
Tax payable		2,699	2,882	3,289
Bank borrowing	<i>14</i>	740	712	719
		<u>45,132</u>	<u>44,575</u>	<u>34,176</u>
Net current assets		<u>183,375</u>	<u>187,718</u>	<u>192,457</u>
Total assets less current liabilities		<u>214,780</u>	<u>223,881</u>	<u>230,885</u>
Non-current liabilities				
Deferred tax liability		67	102	–
Lease liabilities		211	566	228
Other payables		5	–	–
Bank borrowing	<i>14</i>	5,355	6,101	6,812
		<u>5,638</u>	<u>6,769</u>	<u>7,040</u>
		<u>209,142</u>	<u>217,112</u>	<u>223,845</u>
Capital and reserves				
Share capital	<i>15</i>	20,000	20,000	20,000
Reserves		189,142	197,112	203,845
		<u>209,142</u>	<u>217,112</u>	<u>223,845</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

1. GENERAL INFORMATION

SEM Holdings Limited (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 6 November 2015 and its shares were listed on The Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 14 February 2020 (the “**Listing**”). The addresses of the registered office and the principal place of business of the Company are disclosed in the corporate information section to the annual report. The immediate holding company of the Company is SEM Enterprises Limited, which is a private company incorporated in the British Virgin Islands (the “**BVI**”) and controlled by Mr. Wan Man Keung, an executive director of the Company.

The Company acts as an investment holding company and its subsidiaries are principally engaged in provision of electrical and mechanical engineering services in Macau and Hong Kong.

Prior to 1 January 2023, the consolidated financial statements are presented in Macau Pataca (“**MOP**”).

During the current year, the directors of the Company consider that Hong Kong Dollars (“**HK\$**”) better reflects the economic substance of the Company and its business activity as an investment holding company primarily holding subsidiaries with primary economic environment in Hong Kong. Accordingly, the presentation currency of the Company was changed from MOP to HK\$. Comparative figures have been restated to reflect the change in the Group’s presentation currency. All values are rounded to the nearest thousand except when otherwise indicated.

Hence, the consolidated financial statements are presented in Hong Kong Dollars (“**HK\$**”), whereas the functional currency of the Company is MOP.

For the purpose of re-presentation of the consolidated financial statements of the Group from MOP to HK\$, the assets and liabilities are translated into HK\$ at the closing rates as of the respective reporting dates. Income and expenses are translated at the average exchange rates for the respective periods. Share capital, share premium and reserves are translated at the exchange rates at the date when the amount were determined (i.e. historical exchange rate).

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) AND CHANGES IN OTHER ACCOUNTING POLICIES

New and amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) for the first time, which are mandatorily effective for the Group’s annual period beginning on or after 1 January 2023 for the preparation of the consolidated financial statements:

HKFRS 17 (including the October 2020 and February 2022 Amendments to HKFRS 17)	Insurance Contracts
Amendments to HKAS 8	Definition of Accounting Estimates
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction
Amendments to HKAS 12	International Tax Reform-Pillar Two model Rules
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies

Except as described below, the application of the new and amendments to HKFRSs in the current year has had no material impact on the Group’s financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

2.1 Impacts on application of Amendments to HKAS 12 Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The Group has applied the amendments for the first time in the current year. The amendments narrow the scope of the recognition exemption of deferred tax liabilities and deferred tax assets in paragraphs 15 and 24 of HKAS 12 “Income Taxes” so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences.

In accordance with the transition provision:

- (i) the Group has applied the new accounting policy retrospectively to leasing transactions that occurred on or after 1 January 2022;

- (ii) the Group also, as at 1 January 2022, recognised a deferred tax asset (to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised) and a deferred tax liability for all deductible and taxable temporary difference associated with right-of-use-assets and lease liabilities.

The application of the amendments has had no material impact on the Group's financial position and performance, except that the Group disclose the related deferred tax assets of HK\$149,000 and deferred tax liabilities of HK\$149,000 on a gross basis but it has no impact on the retained earnings at the earliest period presented.

2.2 Impacts on application of Amendments to HKAS 1 and HKFRS Practice Statement 2 Disclosure of Accounting Policies

The Group has applied the amendments for the first time in the current year. HKAS 1 Presentation of Financial Statements is amended to replace all instances of the term "significant accounting policies" with "material accounting policy information". Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

The amendments also clarify that accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material. If an entity chooses to disclose immaterial accounting policy information, such information must not obscure material accounting policy information.

HKFRS Practice Statement 2 Making Materiality Judgements (the "**Practice Statement**") is also amended to illustrate how an entity applies the "four-step materiality process" to accounting policy disclosures and to judge whether information about an accounting policy is material to its financial statements. Guidance and examples are added to the Practice Statement.

The application of the amendments has had no material impact on the Group's financial positions and performance but has affected the disclosure of the Group's accounting policies to the consolidated financial statements.

Amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ¹
Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback ²
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020) ²
Amendments to HKAS 1	Non-current Liabilities with Covenants ²
Amendments to HKAS 7 and HKFRS 7	Supplier Finance Arrangements ²
Amendments to HKAS 21	Lack of Exchangeability ³

¹ Effective for annual periods beginning on or after a date to be determined.

² Effective for annual periods beginning on or after 1 January 2024.

³ Effective for annual periods beginning on or 1 January 2025.

The directors of the Company anticipate that the application of the amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

3. REVENUE

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i> (Restated)
Provision of electrical and mechanical engineering services recognised over time	<u>258,894</u>	<u>281,333</u>

The customers of the Group are mainly main contractors and subcontractors in Macau and Hong Kong. Contracts with the Group's customers are mainly fixed-price contracts, except for the variation orders.

Disaggregation of revenue

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i> (Restated)
By property type		
Hotels and casinos	14,539	27,325
Residential properties	1,975	1,542
Commercial properties	4,091	11,257
Public properties	238,289	239,875
Others	—	1,334
	<u>258,894</u>	<u>281,333</u>

4. SEGMENT INFORMATION

The Group is engaged in a single operating segment focusing on the provision of electrical and mechanical engineering services. This operating segment has been identified on the basis of internal management reports that are regularly reviewed by the directors of the Company, being the chief operating decision makers, for the purpose of result allocation and performance assessment. Therefore, no further analysis of segment information is presented.

Geographical information

The Group's operations are located in Macau and Hong Kong.

The Group's revenue from external customers and information about its non-current assets by geographical location of the customers and the assets, respectively, are detailed below:

	Revenue from external customers		Non-current assets	
	Year ended 31 December		At 31 December	
	2023	2022	2023	2022
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(Restated)		(Restated)
Macau	22,144	111,644	29,796	33,908
Hong Kong	236,750	169,689	1,609	2,255
	<u>258,894</u>	<u>281,333</u>	<u>31,405</u>	<u>36,163</u>

Note: Non-current assets excluded deferred tax asset.

Information about major customers

Revenue from customers contributing over 10% of the total revenue of the Group during the year are as follows:

	2023	2022
	HK\$'000	HK\$'000
		(Restated)
Customer A	232,509	158,714
Customer B	—*	70,913

* The revenue from customer did not contribute over 10% of the total revenue of the Group during the year.

5a. OTHER INCOME

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i> (Restated)
Interest income	1,014	75
Government grants (<i>Note i</i>)	–	1,288
Others (<i>Note ii</i>)	164	311
	<u>1,178</u>	<u>1,674</u>

Notes:

- (i) During the year ended 31 December 2022, the Group recognised government grants of HK\$1,288,000 (2023: nil) in respect of COVID-19-related subsidies related to Employment Support Scheme provided by the Hong Kong government. In the opinion of the directors of the Company, the Group has fulfilled all conditions attached to the grants.
- (ii) During the year ended 31 December 2022, the Group has made sales of materials amounting to HK\$35,000 (2023: nil) to Shun Tat M&E Equipment Limited, of which Mr. Wan Man Keung, an executive director of the Company, has significant influence over this company.

5b. OTHER GAINS AND LOSSES

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i> (Restated)
Impairment losses on property, plant and equipment	2,803	–
Loss on disposal of property, plant and equipment	–	95
	<u>2,803</u>	<u>95</u>

6. IMPAIRMENT LOSSES UNDER ECL MODEL, NET OF REVERSAL

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i> (Restated)
Impairment losses, net of reversal, recognised on:		
– trade receivables	(1,932)	4,135
– contract assets	5,680	8,364
	<u>3,748</u>	<u>12,499</u>

7. LOSS BEFORE TAX

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i> (Restated)
Loss before tax has been arrived at after charging:		
Directors' remuneration	2,864	2,803
Other staff costs		
– salaries and other allowance	27,628	21,805
– retirement benefit scheme contributions	825	564
	<hr/>	<hr/>
Total staff costs	31,317	25,172
Less: staff costs included in cost of sales	(18,075)	(15,728)
	<hr/>	<hr/>
	13,242	9,444
	<hr/>	<hr/>
Auditors' remuneration	1,039	989
Depreciation of property, plant and equipment	2,819	3,083
Provision for long service payment	5	–
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8. INCOME TAX (CREDIT)/EXPENSE

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i> (Restated)
Macau Complementary Tax		
Overprovision in prior years	(1,392)	(84)
Hong Kong Profits Tax		
Current Tax	1,209	892
Deferred tax	(35)	349
	<hr/>	<hr/>
	(218)	1,157
	<hr/> <hr/>	<hr/> <hr/>

Macau Complementary Tax is calculated at 12% (2022: 12%) of the estimated assessable profits exceeding MOP600,000 for the year.

Under the two-tiered profits tax rates regime of Hong Kong Profits Tax, the first HK\$2 million of assessable profits of the qualifying group entity will be taxed at 8.25%, and assessable profits above HK\$2 million will be taxed at 16.5%. The assessable profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%. Accordingly, the Hong Kong Profits Tax of the qualifying group entity is calculated at 8.25% on the first HK\$2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK\$2 million.

No provision for taxation in Macau had been made as the subsidiary in Macau did not have any assessable profits for the years ended 31 December 2023 and 2022.

9. DIVIDENDS

No dividend was paid or proposed for ordinary shareholders of the Company during the year ended 31 December 2023, nor has any dividend been proposed since the end of the reporting period (2022: nil).

10. LOSS PER SHARE

The calculation of the basic loss per share is based on the following data:

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i> (Restated)
Loss		
Loss for the year	<u>(7,970)</u>	<u>(6,733)</u>
	2023 Number of shares <i>'000</i>	2022 Number of shares <i>'000</i>
Weighted average number of shares		
Weighted average number of ordinary shares	<u>2,000,000</u>	<u>2,000,000</u>

No diluted loss per share for both years are presented as there are no potential ordinary shares in issue during both years.

11. TRADE RECEIVABLES

At 31 December 2023, trade receivables amounted to HK\$21,034,000 (2022: HK\$57,170,000) (net of loss allowance of HK\$5,123,000 (2022: HK\$7,055,000)). The Group usually allows a credit period of 30 to 60 days to its customers. The following is an aging analysis of trade receivables net of allowance for credit losses based on the invoice dates at the end of the reporting period are as follows:

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i> (Restated)
Within 30 days	3,153	15,786
31 to 60 days	1,957	1,495
61 to 90 days	1,099	692
Over 90 days	<u>14,825</u>	<u>39,197</u>
	<u>21,034</u>	<u>57,170</u>

12. CONTRACT ASSETS

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i> (Restated)
Contract assets from provision of electrical and mechanical engineering services		
– Unbilled revenue	109,276	89,301
– Retention money	46,299	42,241
	<u>155,575</u>	<u>131,542</u>
Less: Allowance for credit losses	(23,515)	(17,835)
	<u><u>132,060</u></u>	<u><u>113,707</u></u>

The Group's construction contracts include payment schedules which require stage payments over the construction period with reference to surveys of work performed to date. The Group typically transfers the contract assets to trade receivables when the rights become unconditional.

The Group also typically agrees to a defect liability period of 1 to 2 years from the date of the practical completion of the construction for 5% to 10% of the contract sum. This amount of retention money is included in contract assets until the end of the defect liability period as the Group's entitlement to this final payment is conditional on completion of defect liability period. The defect liability period serves as an assurance that the construction services performed comply with agreed-upon specifications and such assurance cannot be purchased separately. The Group classifies these contract assets as current because the Group expects to realise them in its normal operating cycle.

Retention money is unsecured, interest-free and recoverable at the end of the defect liability period of 1 to 2 years from the date of the completion of respective projects.

13. TRADE PAYABLES

The credit period of trade payables is ranging from 30 to 90 days. The following is an aging analysis of the trade payables based on the invoice date at the end of the reporting period:

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i> (Restated)
Within 30 days	1,453	4,367
31 to 60 days	1,744	900
61 to 90 days	540	1,706
Over 90 days	4,504	6,550
	<u><u>8,241</u></u>	<u><u>13,523</u></u>

14. BANK BORROWING

During the year ended 31 December 2021, the Group obtained a bank loan amounting to HK\$8,000,000. No new loan was obtained during the year ended 31 December 2023. The loan carried interest at variable market rate of Prime Rate less 2.55% per annum and was repayable in instalments over 10 years from the date of drawdown in 2021. The proceed was used to finance the acquisition of owned property with carrying amount of HK\$15,211,000 (2022: HK\$16,524,000) at 31 December 2023 included in the property, plant and equipment, which was also pledged to the bank to secure the bank loan.

15. SHARE CAPITAL

	Number of shares	Share capital HK\$'000 (Restated)
Ordinary shares of HK\$0.01 each		
Authorised:		
At 1 January 2022, 31 December 2022 and 31 December 2023	<u>5,000,000,000</u>	<u>50,000</u>
Issued and fully paid:		
At 1 January 2022, 31 December 2022 and 31 December 2023	<u>2,000,000,000</u>	<u>20,000</u>

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND MARKET PROSPECT

Ready System Engineering Limited was founded in 2006. We are a renowned and well-established E&M engineering works contractor in Macau with our focus on providing electrical-related E&M engineering works. The scope of our E&M engineering works mainly consisted of supply, installation and maintenance of electrical system, for new and existing buildings in the projects of commercial and residential property development, public property development, hotel and casino development and renovation in Macau. The Group has diversified its market risks and uncertainties by continuing to engage projects with scope of our E&M engineering works in Hong Kong segment through its wholly owned subsidiary, SEM Resources Limited.

During the Year 2023, 10 E&M engineering services projects with an aggregate contract sum of approximately HK\$39.1 million were awarded. The Group had completed 9 E&M engineering services projects in the Year 2023. As at 31 December 2023, the Group's backlog included 14 E&M engineering services projects with an aggregate outstanding contract sum of approximately HK\$267.2 million.

During the Year 2023, the Group recorded total revenue of approximately HK\$258.9 million, which decreased by approximately HK\$22.4 million or 8.0% from approximately HK\$281.3 million for the Year 2022. The decrease was mainly attributable to the decrease in revenue from Macau segment as the existing projects are at their completion stage and the new projects are only commencing in late 2023. Also, the Group faced operational challenges, including workforce shortages and project delays, which contributed to the revenue decline.

The economy of Macau in terms of gross domestic product increased in the third and fourth quarters of 2023, by 137.1% and 99.8% respectively, period-on-period in real terms. The economic improvement is mainly due to the rise in tourism and gaming services in the post-pandemic era. The tourist arrivals rose by 104.7% year on year in January 2024 in Macau. It is predicted that Macau's GDP is poised to expand between 8.3% to 21% in 2024.

The Group continues its strategy of undertaking new projects of E&M engineering services in Macau and Hong Kong to diversify the market risks. Benefit from undertaking project in Hong Kong, the Group generated project revenue of HK\$236.7 million in the geographical segment in Hong Kong in the Year 2023 when compared with HK\$169.7 million in the Year 2022. Many existing buildings in Hong Kong require upgrades to meet modern standards. For example, the Group was awarded a project to install the electrical system to convert an industrial building to a commercial building. The Group was therefore able to explore more business opportunities in different business environments. Considering the latest state of economy of Macau and Hong Kong, the Directors expect an improved business environment in the coming years. The Group recognized the need to strengthen its workforce in order to take on more complex projects in the future. As a result, in the Year 2023, the Group was restructuring its project management team and digitised the workflow. This development will allow the Group to be better equipped to handle bigger and more complex projects in the future. With a professional and sophisticated team, the Group will be able to provide better project management and supervision, ensuring that projects are delivered on time, within budget, and to the satisfaction of its clients.

Hence, the management is cautiously optimistic about the E&M markets in Macau and Hong Kong after the recovery from the epidemic and will continue to strive for capturing the new market in the changing industry dynamics for E&M engineering services.

FINANCIAL REVIEW

Revenue

The Group's revenue decreased by 8.0% from approximately HK\$281.3 million for the Year 2022 to approximately HK\$258.9 million for the Year 2023. Such decrease was mainly due to a combination of factors as disclosed in section headed "BUSINESS REVIEW AND MARKET PROSPECT".

	2023		2022	
	<i>HK\$ million</i>	<i>%</i>	<i>HK\$ million</i>	<i>%</i>
Hotels and Casinos	14.5	5.6%	27.3	9.7%
Residential properties	2.0	0.8%	1.6	0.5%
Commercial properties	4.1	1.6%	11.2	4.0%
Public properties	238.3	92.0%	239.8	85.3%
Others	–	–	1.4	0.5%
	<u>258.9</u>		<u>281.3</u>	

Cost of sales

The Group's cost of sales amounted to approximately HK\$239.4 million for the Year 2023, representing a decrease of 7.3% from approximately HK\$258.2 million for the Year 2022. Cost of sales mainly comprised of labour costs and subcontracting costs, which accounted for approximately 49.6% and 40.7% respectively of the Group's total cost of sales for the Year 2023 (2022: 24.0% and 51.2% respectively). The decrease in cost of sales for the Year 2023 was mainly due to decrease in revenue for the Year 2023.

Gross Profit/Gross Profit Margin

The Group's overall gross profit for the provision of E&M engineering works decreased to approximately HK\$19.5 million for the Year 2023 from approximately HK\$23.2 million for the Year 2022. The gross profit margin decreased from 8.2% for the Year 2022 to approximately 7.5% for the Year 2023.

The decrease in gross profit margin was mainly attributable to (i) higher labour costs and material costs in Macau and Hong Kong market and fierce competition in the construction market; (ii) increasing subcontracting cost.

Despite the decrease in gross profit margin of the Group in the Year 2023, the Directors consider that the gross profit margin has been maintained at a healthy position as such gross profit margin in the Year 2023 is expected to rebound in the coming years. The Group is striving for bidding potential projects with higher margin and implementing costs saving strategy to maintain higher gross profit margin of the Group.

Other income

Other income mainly included interest income from banks, disposal of scrap materials and sundry income. For the Year 2023, the Group's other income amounted to approximately HK\$1.2 million (Year 2022: approximately HK\$1.7 million). Such decrease was mainly attributable to the one-off government grant for securing the employments of the Group in the Year 2022.

Other gains and losses

The Group's other losses amounted to approximately HK\$2.8 million (Year 2022: approximately HK\$95,000). The losses were attributable to the impairment of property, plant and equipment.

Impairment losses under ECL model, net of reversal

The prolonged COVID-19 epidemic adversely affected business operations of a group of project employer (the “**Project Employer Group**”) of the Group’s sizable E&M engineering project of a hotel development (the “**Project**”) in 2020, of which the outstanding contract assets and trade receivables with gross balances amounted to HK\$27.4 million and HK\$7.6 million, respectively were outstanding as at 31 December 2023. The Project Employer Group suspended the development of the Project in the third quarter of 2020. The ultimate holding company of the Project Employer Group is a listed company in the Stock Exchange, who announced the disposal of interest in the Project Employer Group to a third party for generating more cash to finance its operation under the COVID-19 pandemic environment.

Despite the Group’s direct customers of the Project (the “**Direct Customers**”) are not the Project Employer Group itself as mentioned above, this increases the credit risks of the trade receivables and contract assets of the Project. At 31 December 2023, the Group has recognised cumulative credit loss allowance on contract assets and trade receivables of approximately HK\$23.5 million and HK\$5.1 million (31 December 2022: approximately HK\$17.8 million and HK\$7.1 million), respectively, of which credit loss allowance of approximately HK\$6.6 million and HK\$2.2 million (31 December 2022: approximately HK\$5.3 million and HK\$1.8 million) are related to contract assets and trade receivables of the Project, respectively.

Management of the Group has actively communicated with the Direct Customers and understand that the Direct Customers took legal actions via arbitration against the main-contractor of the Project. During the Year 2023, the arbitration related to the Project reached an advanced stage and it was substantially completed, and we received a positive outcome in the award. It is expected the remaining portion of the arbitration process will be finished by the end of 2024. We believe that we can recover the amount due from the Direct Customers because (i) no matter what happens, our rights to demand outstanding payments from the Direct Customers are not affected by any other arrangements of other parties involved in the Project; (ii) good and long-term on-going business relationships between the Group and the Direct Customers for more than ten years with no default in history. Furthermore, there were continuing settlements after the suspension of the Project during the Year 2023; and (iii) the Group obtained a repayment commitment from the Direct Customer to fully repay the outstanding contract assets and trade receivables by the completion of arbitration.

Impairment losses under ECL model derived from trade receivables and contract assets of the Group. The change in impairment loss under ECL model from impairment loss of HK\$12.5 million in the Year 2022 to impairment loss of approximately HK\$3.7 million in the Year 2023 was mainly due to decrease in credit risks on certain project customers and taken into accounts for the following factors including (i) continuing settlements of completed works for billing to the Project in the Year 2023; and (ii) decrease in gross balances of the Group's trade receivables at 31 December 2023.

Management of the Group have taken actions to recover the outstanding balances of the Project and consider that those balances will be recovered eventually. ECL has been provided on these balances in accordance with the requirements set out in Hong Kong Financial Reporting Standard 9.

Administrative expenses

The Group's administrative expenses increased from approximately HK\$17.6 million for the Year 2022 to approximately HK\$22.1 million for the Year 2023. Such increase was mainly due to increase of staff costs and professional fees.

Income tax

The change in the Group's income tax expense from tax expense of approximately HK\$1.2 million for the Year 2022 to tax credit of approximately HK\$0.2 million for the Year 2023, which was attributed by the reversal of overprovision of Macau Complementary Tax in prior years.

Net Loss

The Group reported net loss for the Year 2023 of approximately HK\$8.0 million, as compared with net loss of approximately HK\$6.7 million suffered for the Year 2022.

Final Dividend

The Board did not recommend the payment of a final dividend for the Year 2023 (Year 2022: nil).

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group has financed its operations primarily through cash inflows from operating activities, as well as proceeds received from the Listing. As at 31 December 2023, the Group had cash and cash equivalents of approximately HK\$35.9 million (31 December 2022: approximately HK\$19.7 million) and remains steady in its financial position in meeting its future financial obligations.

As at 31 December 2023, the working capital (current assets less current liabilities) and total equity attributable to owners of the Group were approximately HK\$183.4 million (31 December 2022: approximately HK\$187.7 million) and approximately HK\$209.1 million (31 December 2022: approximately HK\$217.1 million), respectively.

Gearing ratio (total debt including amounts due to Directors/total equity) as at 31 December 2023 was approximately 24.3% (31 December 2022: approximately 23.6%). The gearing ratio was stable comparing to the year ended 31 December 2022.

TREASURY POLICY

The Group has adopted a prudent financial management approach towards its treasury policy. The Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities, and other commitments can meet its funding requirements all the time.

CURRENCY RISK

The Group has minimal exposure to foreign currency risk as most of its business transactions and assets and liabilities are principally denominated in Macau Pataca ("MOP") or Hong Kong dollars of the relevant group entities and the exchange rate between the functional currency and Hong Kong dollars is relatively stable. As such, the Group currently does not have any foreign currency hedging policy in respect of foreign currency transactions and assets and liabilities as the Group's risk in foreign exchange is insignificant. However, the Group will continue to monitor closely its exposure to currency movement and take proactive measures.

INTEREST RATE RISK

The Group is exposed to interest rate risk through the impact of rate changes on interest bearing financial assets and liabilities, mainly interest-bearing bank balances and a bank borrowing. The interest rates of these bank deposits are determined by reference to the respective bank offer rate and interest rate on the bank borrowing is based on the contracted interest rate at prime rate less 2.55% per annum. The Group currently does not have any interest rate hedging policy. However, the management of the Group will consider hedging significant interest rate risk should the need arise.

PRINCIPAL RISK AND UNCERTAINTY

The Group's business operations are conducted in Macau and Hong Kong providing the electrical-related E&M engineering works and our engagements with customers were on a project basis and non-recurring in nature that we did not enter into any long-term agreement or master service agreement with them. We have to undergo the competitive bidding process for every new project. In the event that we are unable to attract new customers or secure new projects from our existing customers, there may be a significant decrease in our revenue. Our operations and financial results would hence be adversely affected.

The Group's liquidity position may be adversely affected if the progress payment or the retention money is not paid or released to the Group on time or in full; or the construction project cash flows are fluctuated. To monitor the pressure of financial liquidity, the Group reviews aging analysis on regular basis and closely communicates with management of the customers so as to get a better understanding of their solvency status.

Other principal risks include fluctuations in estimated project costs versus the actual project cost incurred due to unexpected circumstances and imported labour quota allocated to our projects, both of which would adversely affect the Group's operations and financial performance.

The Group is also exposed to certain market risks such as currency risk, interest rate risk, credit risk, liquidity risk, etc.

The Group believes that risk management is the responsibility of everyone within the Group and has implemented a risk management system to mitigate the risks in daily operations. Risk management is led by the Directors at the top, who take both macro and micro economic conditions into account before making business decisions, and also aims to develop risk awareness and control responsibility as the Group's culture and the foundation of the Group's internal controls system.

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS OR DISPOSALS

Save as disclosed in this announcement, the Group did not have any significant investments, nor material acquisitions or disposals of subsidiaries, associated companies for the Year 2023.

PLEDGE OF ASSETS

As at 31 December 2023, a property in Macau with carrying amount of approximately HK\$15.2 million (31 December 2022: approximately HK\$16.5 million) was pledged to a bank located in Macau for obtaining a mortgage loan to finance the relevant acquisition.

Pledged bank deposits as at 31 December 2022 and 31 December 2023 are pledged to secure the performance bonds granted to the Group. The Group had no other material pledge of assets as at 31 December 2022 and 31 December 2023.

FUTURE PLAN FOR MATERIAL INVESTMENT AND CAPITAL ASSETS

Save as disclosed above and in the Prospectus, the Group does not have other plans for material investments and capital assets as at 31 December 2023 and up to the date of this announcement.

CAPITAL COMMITMENTS

The Group had no material capital commitments as at 31 December 2023 (2022: Nil).

CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 31 December 2023 (2022: Nil).

PROSPECTS AND STRATEGIES

The Group's principal business objective is to further strengthen its position as an integrated construction contractor.

For development of E&M engineering services, the Group continues to achieve its business objective by expanding its scale of operation through its intended effort in actively seeking opportunities in undertaking additional E&M engineering services related projects in Macau and Hong Kong markets, from both existing and potential new customers, on top of its present scale of operation and its current projects on hand.

The business outlook for the year ahead is expected to be positive, as evidenced by high market demand and opportunities for growth. With low debt levels and robust liquidity, the Group has the strength and flexibility to take on new projects and invest in the future of the business. In Hong Kong, the SAR Government has announced various major infrastructure projects, which will drive demand for E&M construction services.

In order to further diversify the risks and uncertainty in the Group's operation, the Group has expanded its scale of operation through its intended effort in actively seeking opportunities in potential investment in various industries in the greater China area in the coming future, which would continue to expand the revenue streams of the Group in long-term.

Consistently, the Group prioritizes fundamental principles to overcome challenges and build resilience. We implement best practices, proactively manage risks, and address logistical and material price fluctuations. In preparation for future growth, the Group reorganized operating units, appointed new leaders, and established procedures to enhance governance and business development in emerging technology and market segments. Our unwavering commitment is to meet our customers' expectations through the delivery of high-quality, timely, and cost-efficient services.

EVENTS AFTER THE REPORTING PERIOD

Save as disclosed in elsewhere of this announcement, there have been no other material events occurring after the Year 2023 and up to the date of this announcement.

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

During the Year 2023, as far as the Board and management are aware there was no material breach of or non-compliance with the applicable laws and regulations by the Group that has material impact on the business and operation of the Group.

EMPLOYEES AND REMUNERATION POLICY

The Group had 72 full-time employees including non-executive directors and executive directors as at 31 December 2023 (31 December 2022: 79), among which 16 and 56 (31 December 2022: 23 and 56) were stationed in Macau and Hong Kong, respectively. The total staff costs (including fees, salaries and other allowance, and retirement benefit scheme contributions) for the Year 2023 were approximately HK\$31.3 million (Year 2022: approximately HK\$25.2 million). The remuneration policy and package of the Group's employees were periodically reviewed by management of the Company. Apart from retirement benefit scheme contributions, salaries increment and discretionary bonuses may be awarded to employees according to the assessment of individual and the Group's performance. The remuneration policy in place as at 31 December 2023 was in line with the current legislation in the relevant jurisdictions, market conditions and performance of the staff and the Group.

USE OF PROCEEDS FROM THE LISTING

The shares of the Company (the “**Shares**”) have been listed on the Stock Exchange on 14 February 2020. Net proceeds from the Listing were approximately HK\$71.0 million (after deducting the underwriting commission and other listing expenses in connection to the Listing).

According to the announcement of the Company on 23 June 2023, the Board of the Company has resolved to reallocate the unutilized net proceeds up to 23 June 2023 (the “**Reallocation**”) as marked for establishing E&M Maintenance Department by reallocating them to strengthening manpower. The Board considers that further purchase of machines and equipment for the E&M Maintenance Department may not be able to make a breakthrough in the Group’s business and generate better financial results and return for the Group given the competition in Macau engineering industry has become more intense. In view of the present business circumstances, management determined to reallocate the unutilised net proceeds to strengthening manpower of the Group in the Hong Kong market, which has recorded a significant growth in segment revenue. The Board is of the view that the Reallocation would solidify our competitiveness in the market and serves the purpose of achieving effective deployment of the Group’s financial resources. As at 31 December 2023, the net proceeds had been utilised as follows:

	Net proceeds from the Listing HK\$ Million	Actual usage up to 31 December 2022 HK\$ Million	Unutilised amounts as at 31 December 2022 HK\$ Million	Revised allocation of unutilised net proceeds as at 23 June 2023 HK\$ Million	2023 Actual usage HK\$ Million	Revised allocation of unutilised net proceeds as at 31 December 2023 HK\$ Million
Payment of the upfront cost for our future projects	22.2	(22.2)	-	-	-	-
Payment of the performance bonds for our future projects	22.2	(22.2)	-	-	-	-
Establishing E&M Maintenance Department	14.8	(13.6)	1.2	-	-	-
Strengthening manpower	7.0	(7.0)	-	1.2	(1.2)	-
Strengthening manpower for (E&M Maintenance Department)	4.3	(4.3)	-	-	-	-
General working capital	0.5	(0.5)	-	-	-	-
	<u>71.0</u>	<u>(69.8)</u>	<u>1.2</u>	<u>1.2</u>	<u>(1.2)</u>	<u>-</u>

SHARE OPTION SCHEME

On 22 January 2020, the Company conditionally adopted the share option scheme (the “**Share Option Scheme**”) as incentive or reward for contributions that the eligible participants have made or may make to the Group. The principal terms of the Share Option Scheme are summarised in the paragraph headed “Statutory and General Information – D. Share Option Scheme” in Appendix V to the Prospectus.

There were no share options outstanding under the Share Option Scheme nor were any share options granted, agreed to be granted, exercised, cancelled or lapsed under the Share Option Scheme since its adoption date and up to the date of this announcement.

PURCHASE, REDEMPTION OR SALE OF THE LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company’s listed securities during the Year 2023 and up to the date of this announcement.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix C3 to the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”) as a code of conduct of the Company regarding Directors’ securities transactions. Having made specific enquiries of the Directors, all the Directors have confirmed that they have complied with the requirements of the Model Code for the Year 2023 and up to date of this announcement.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company is committed in achieving a high standard of corporate governance standard. The Board believes that good corporate governance standards are essential in providing a framework for the Company to safeguard the interests of shareholders of the Company (the “**Shareholders**”), enhance corporate value, formulate its business strategies and policies, and enhance its transparency and accountability.

The Company has adopted the principles and complied with all the mandatory disclosure requirements and the applicable code provisions as set out in the section headed “Part 2 – Principles of good corporate governance, code provisions and recommended best practices” of the Corporate Governance Code (the “**CG code**”) contained in Appendix C1 to the Listing Rules. To the best of the knowledge of the Board, the Company has complied with the CG code during the Year 2023 and up to the date of this announcement. The Directors will periodically review on the Company’s corporate governance policies and will propose any amendment, if necessary, to ensure compliance with the code provisions from time to time.

REVIEW BY AUDIT COMMITTEE

The audit committee of the Company has reviewed with the management the accounting principles and practices adopted by the Group and has discussed auditing, internal control and financial reporting matters, which include the review of the audited consolidated financial statements of the Group for the Year 2023.

SCOPE OF WORK OF MOORE CPA LIMITED

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the Year 2023 as set out in the preliminary announcement have been agreed by the Group's auditor, Moore CPA Limited, to the amounts set out in the Group's audited consolidated financial statements for the Year 2023. The work performed by Moore CPA Limited in this respect did not constitute an assurance engagement and consequently no opinion or assurance conclusion has been expressed by Moore CPA Limited on the preliminary announcement.

PUBLICATION OF RESULTS ANNOUNCEMENT AND DESPATCH OF ANNUAL REPORT

The annual results announcement is published on the website of the Stock Exchange (www.hkexnews.hk) and the Company's website (semhld.com). The annual report will also be available at the above websites and will be despatched to the Shareholders in due course.

By order of the Board
SEM Holdings Limited
Wan Man Keung

Executive Director and chief executive officer

Hong Kong, 26 March 2024

As of the date of this announcement, the Board of Directors of the Company comprises Mr. Wan Man Keung, Mr. Wun Chi Wai and Mr. Yu Chi Kwan as executive Directors; Mrs. Kan Wan Wai Yee Mavis as non-executive Director; and Mr. Lau Ping Cheung Kaizer, Ir Dr. Wong Wai Man Raymond and Ms. Chen Tak Yee Dickdy as independent non-executive Directors.