

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, 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 announcement.



Sheung Moon Holdings Limited
常滿控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 8523)

SUPPLEMENTAL ANNOUNCEMENT
IN RELATION TO THE ANNUAL REPORT
FOR THE YEAR ENDED 31 MARCH 2022

Reference is made to the annual report of Sheung Moon Holdings Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) for the year ended 31 March 2022 (the “**2022 Annual Report**”). Capitalised terms used in this announcement shall have the same meaning as defined in the 2022 Annual Report unless the context requires otherwise.

In addition to the information provided in the 2022 Annual Report, the Board would like to provide further information in relation to the disclaimer of opinion issued by the auditors of the Company (the “**Auditors**”) in relation to the consolidated financial statements of the Group for the year ended 31 March 2022.

DETAILS OF THE AUDIT QUALIFICATION AND VIEWS OF THE MANAGEMENT AND THE AUDIT COMMITTEE ON THE AUDIT QUALIFICATION

As disclosed in the Independent Auditor’s Report of the 2022 Annual Report (the “**Independent Auditor’s Report**”), the Auditor expressed a disclaimer of opinion on the consolidated financial statements of the Company for the year ended 31 March 2022 due to the significance of the matters described in the section headed “Basis for Disclaimer of Opinion” in the Independent Auditor’s Report regarding (i) material uncertainty related to going concern basis; (ii) revenue and contract assets; (iii) direct costs and trade payables; (iv) property, plant and equipment and right-of-use assets; and (v) taxation.

1. Material uncertainty related to going concern basis

As detailed in Note 3 to the consolidated financial statements of the Company for the year ended 31 March 2022 as set out in the 2022 Annual Report, the Directors have been undertaking a number of measures to improve the Group's liquidity and financial position, including the substantial shareholder's agreement to provide adequate financial support to enable the Group and the Company to meet in full their financial obligations as they fall due for the next twelve months. The consolidated financial statements have been prepared on a going concern basis, the validity of which depends on continuous financial support from the substantial shareholder and the outcome of the measures undertaken by the Directors.

With regards to the above, the Group had provided cash flow forecast for 18 months after the year ended date to the auditor. However, the Group was not able to provide supporting documents in relation to (a) the Group's delayed settlement arrangements with its creditors; and (b) possible investment in the Group by potential investors, for the reasons as set out below.

As the Group has good and long-term business relationship with its creditors, the Group has been negotiating with its creditors in relation to revising repayment schedule with them. Most of such creditors verbally agreed with the Group on such arrangement. However, they were reluctant in providing any written confirmation in respect of such allowance of delayed settlement arrangements. As such, the Group was not able to provide sufficient supporting documents to the Auditors in this respect.

Moreover, the Group is in the course of negotiating possible investment in the Group with various potential investors. Despite the Group is confident that agreements could be reached, as this is still in preliminary stage, no written supporting documents could be provided to the Auditors.

Since the Auditors were unable to obtain sufficient evidence from the management of the Group for the above underlying assumptions on going concern, the Auditors express modified opinion in relation to the adoption of going concern basis in preparing the consolidated financial statements for the year ended 31 March 2022.

For the reasons as set out above, the management is of the view that the Group has sufficient working capital for the next twelve months after the 31 March 2022, on the assumption that (i) the Group would successfully implement measures to tighten cost controls over various operating costs and expenses with the aim to attain profitable and positive cash flow operation; (ii) the substantial shareholder would provide adequate financial support to enable the Group to meet in full its financial obligations as they fall due for the next twelve months; and (iii) the Group would continue to closely monitor the progress of the realisation of contract assets. Therefore, the management of the Company considered that it is appropriate to prepare the consolidated financial statements on a going concern basis.

To address the above, the Group would perform the following (the “**Going Concern Action Plan**”):

- (a) to implement measures to tighten cost controls over various operating cost and expenses with the aim to attain profitable and positive cash flow operation. For instance, the Group is re-assessing on its operation in different construction projects, whether by way of employing its own staff or engaging sub-contractors, in order to improve profit margin and reduce business risk;
- (b) to obtain financial support from substantial shareholder to enable the Group to meet in full its financial obligations as they fall due for the next twelve months;
- (c) to continue to actively communicate with main contractor in order to speed up the realisation of contract assets by the Group;
- (d) to actively place tenders of construction projects to generate more income and positive cashflow; and
- (e) to approach various potential investors, with a view of obtaining investment into the Group for approximately HK\$30 million by the first half of 2023.

As at the date of this announcement, the Company has performed the following:

- (a) certain new constructions projects have been engaged by the Group on a sub-contracting basis to secure the gross profit and cost incurred for effectively managing the operating risk, the expected gross profit and cashflow of the Group;
- (b) in August 2022, Mr. Tang Sze Wo, a substantial shareholder and Director of the Company, has provided a personal guarantee to secure the Group’s all loan balances in respect of Hang Seng Bank with a liability exposure of HK\$20 million;
- (c) contract asset in the amount of approximately HK\$41 million has been realised by the Group up to the date of this announcement from the Group’s main contractors. The Group shall continue to discuss with its main contractor as to the remaining sum of the contract assets for the year ended 31 March 2022, which is expected to be completed in the upcoming three to six months;
- (d) new construction projects with a total contract sum of approximately HK\$53.1 million have been commenced during May to July 2022, and a gross profit of a range of 3% to 10% is expected; and

- (e) the Group is in negotiation with various potential investors regarding investment to be made in the Group. As at the date of this announcement, negotiation is still ongoing and no commitment nor formal agreement have been reached. It is currently expected that such investment would be materialised by the first half of 2023.

2. Revenue and contract assets

As set out in the 2022 Annual Report, the Group recorded approximately HK\$243 million and HK\$175 million of contract assets as at 31 March 2022 and 31 March 2021 respectively and recognised approximately HK\$314 million of revenue for the year ended 31 March 2022. The revenue and contract assets related to contract work were recognised by the management of the Group based on the management's estimation of the progress and outcome of the construction projects.

With regards to the above, the Auditors had requested the Group to provide the recoverability assessment on those contract assets and accuracy of revenue and provide supporting documents for those contract assets that could be realised. As (a) the certification process of revenue from main contractor has been slowed down due to various reasons including the impact which was brought by COVID-19 and completion of construction project according to the contract terms, and (b) the main contractor of the Group intended to renegotiate to lower the consideration of variable orders, the management of the Group was not able to provide sufficient documents in fulfilling such requests from Auditors.

The Group is currently actively negotiating with main contractor, and is confident that main contractor will certify the submitted amounts.

Since the Auditors were unable to obtain sufficient evidence from the management of the Group for the above, the Auditors expressed modified opinion in relation to the accuracy of the revenue for the year ended 31 March 2022 and balances of the contract assets as at 31 March 2022 and 31 March 2021.

The management of the Company is of the opinion that the amount of revenue for the year ended 31 March 2022 as recorded by the Group and the amounts of contract assets as at 31 March 2022 and 31 March 2021 respectively as recorded by the Group are accurate with reference to the recoverability of revenue from its customers in accordance with historical record. According to the track record, main contractors would approve and certify the applied amount from the Group based on the level of work performed, main contractor would communicate with the Group if the proposed certified amount is not the same with their expectation and eventually come up with an agreed amount.

As at the date of this announcement, the Group has recovered contract asset in the amount of HK\$41 million from its main contractor. The Group shall continue to discuss with its main contractor as to the remaining sum of the contract assets for the year ended 31 March 2022, which is expected to be completed in the upcoming three to six months. In addition, the Board intends to improve the Group's internal control procedures for recording revenue and contract assets by actively negotiating with its main contractors, including but not limited to obtaining written confirmation from them in a timely manner, commencing from the upcoming financial years (the "**Revenue and Contract Asset Action Plan**").

3. Direct costs and trade payables

As set out in the 2022 Annual Report, the Group recorded approximately HK\$56,671,000 trade payables as at 31 March 2022 and recognised approximately HK\$295,486,000 of direct costs for the year then ended.

With regards to the above, the Auditors had requested for (i) evidence of part of sub-contracting costs in the amount of approximately HK\$15,000,000 paid to one sub-contractor; (ii) confirmation from such sub-contractor in relation to the amount owing by the Group to the relevant sub-contractor as at 31 March 2022 and the transaction amounts of sub-contracting services for this sub-contractor provided to the Group for the year then ended; and (iii) confirmations in relation to certain major trade payables. As the amount of costs had not been finalised with such sub-contractor since the sub-contractor requested further payment on the scope of work they have provided during the year ended 31 March 2022, the management of the Group was not able to provide final invoices from the sub-contractor and the sub-contractor refused to confirm the balance as at 31 March 2022. In addition, as the Group was in the course of negotiating revised repayment schedule with some major creditors in relation to outstanding payments from the Group, they had then refused to confirm the balance of amounts payable by the Group.

Since the Auditors were unable to obtain sufficient evidence from the management of the Group for the above, the Auditors opinion was also modified in relation to the completeness of the direct costs and balance of trade payables.

The management of the Company is of the opinion that the amount of trade payables as at 31 March 2022 as recorded by the Group and the amount of direct costs for the year ended 31 March 2022 as recorded by the Group are accurate based on the amounts agreed with and the scope of services provided by the sub-contractor and therefore the Group has legitimate grounds to believe that it would be able to agree such final sum with the sub-contractor.

As at the date of this announcement, the Group has no more liability regarding the project with the sub-contractor and all such amount has been fully settled; and (b) has confirmed major trade payables with its major creditors.

In addition, going forward in future financial years, the Group intends to perform the following (the “**Direct Costs and Trade Payables Action Plan**”):

- (a) to communicate with its sub-contractor in respect of direct costs, including but not limited to obtaining written confirmation in a timely manner; and
- (b) to communicate with its trade creditor to confirm balance on a monthly or quarterly basis, for aligning or reconciling the trade payable outstanding balance.

4. Property, plant and equipment and right-of-use assets

The Group had incurred operating loss during the year ended 31 March 2022, so the management performed an impairment assessment to review the carrying amounts of the Group’s property, plant and equipment and right-of-use assets.

With regards to the above, the Auditors had requested the Group to provide the impairment assessment of property, plant and equipment (“**PPE**”) and right-of-use assets (“**ROU**”) with recoverable value (i.e., cash flow forecast or fair value of these assets). The management of the Company has explained to the Auditor for the impairment assessment was based on the estimated resell price of the relevant assets and as the Group believed the remaining assets are in good condition compared with the sold PPE and ROU during the year as they were sold in a bad condition as scrap metal. The management of the Company believed the existing PPE and ROU are worth more than the recorded accounting value based on the management of the Group and the project managers’ experience. However, the Group was unable to provide the relevant supporting documents for the impairment assessment.

Since the Auditors were unable to obtain sufficient evidence from the management of the Group for the above, the Auditors’ opinion was also modified in relation to the appropriateness and reasonableness of the carrying amounts of the PPE and ROU as at 31 March 2022 and the impairment loss recognised for the year then ended.

As at the date hereof, the Company has commenced the review of estimated useful life of PPE and ROU taking into account of their heavy use at the respective relevant projects (such as site formation projects), by getting project managers to report the usage and condition of PPE and ROU on a monthly basis. Also, as some assets have been disposed of after the year end date, the Group has also reviewed the carrying amount of the same type of assets to assess if they have the impairment indicator for the period and to review the condition of those assets compared with second-hand market selling price. In addition, the Group intends to continue to re-assess the carrying amounts of the property, plant and equipment and right-of-use assets as at 31 March 2022 and the impairment loss recognised for the year then ended by way of obtaining multiple quotations in respect of each

material property, plant and equipment and right-of-use assets, on a best-effort basis, which is expected to take place throughout the period of the upcoming financial year (the “**PPE Action Plan**”, together with the Going Concern Action Plan, the Revenue and Contract Asset Action Plan, and the Direct Costs and Trade Payables Action Plan, the “**Action Plans**”).

5. Taxation

As the Auditors were not able to obtain sufficient appropriate audit evidence on the accuracy of revenue and the direct costs as set out above, the Auditors were of the opinion that the accuracy of the taxation provision for the year ended 31 March 2022 has not been satisfied.

Based on the above, the management of the Company is of the opinion that the amount of taxation provision as at 31 March 2022 as recorded by the Group is accurate. With respect to the implementation of the Action Plans, the Board believes that this issue could be resolved accordingly.

PARTIAL FULFILMENT OF RESUMPTION GUIDANCE

As disclosed in the Company’s announcement dated 24 October 2022, the Company is required to fulfil the Resumption Guidance (as defined therein), including to address the issues giving rise to the disclaimer of opinion, publish all outstanding financial results and address any audit modifications.

The publication of this supplemental announcement by the Company is to fulfil item (a) of the Resumption Guidance.

The Company is continuing to take appropriate steps to fulfil the remainder of the Resumption Guidance and will keep its shareholders and the public informed of the latest developments by making further announcement(s) as and when appropriate.

By Order of the Board
Sheung Moon Holdings Limited
Tang Sze Wo
Chairman

Hong Kong, 26 October 2022

As at the date of this announcement, the board of directors of the Company comprises three executive directors, namely, Mr. Tang Sze Wo, Mr. Lai Yung Sang and Mr. Tang Siu Tim and three independent non-executive directors namely, Dr. Wong Kwok Yiu Chris, Mr. Wong Choi Chak and Mr. Leung Kim Hong.

This announcement, for which the directors of 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 of Hong Kong Limited 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 announcement 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 announcement misleading.

This announcement will remain on the “Latest Listed Company Information” page on the Stock Exchange’s website at www.hkexnews.hk for at least 7 days from the day of its posting. This announcement will also be published on the Company’s website at www.smcl.com.hk.