爵士芭蕾舞學院
Jazz & Ballet Academie

SDM Group Holdings Limited

(Incorporated in the Cayman Islands with limited liability)
（於開曼群島註冊成立之有限公司）

Stock Code 股份代號: 8363

2014
ANNUAL REPORT
年報

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*This report will remain on the "**Latest Company Announcements**" page of the GEM website at www.hkgem.com for at least seven days from the date of its publication and the Company's website at www.sdm.hk.*

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*本報告將自其刊發日期起計至少於創業板網站www.hkgem.com「**最新公司公告**」一頁內保留七日，並於本公司網站www.sdm.hk刊登。*

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Chiu Ka Lok *(Chairman)*
Mr. Chun Chi Ngon, Richard
(Chief Executive Officer)

Non-executive Directors

Dr. Chun Chun
Ms. Yeung Siu Foon
Ms. Yip Sze Pui, Fione

Independent Non-executive Directors

Mr. Lau Sik Yuen
Ms. Chiu Wing Kwan, Winnie
Dr. Yuen Man Chun, Royce

COMPANY SECRETARY

Mr. Au Wai Keung

COMPLIANCE OFFICER

Mr. Chiu Ka Lok

COMPLIANCE ADVISER

Ample Capital Limited

AUTHORISED REPRESENTATIVES

Mr. Chiu Ka Lok
Mr. Chun Chi Ngon, Richard

AUDIT COMMITTEE

Mr. Lau Sik Yuen
(Chairman of Audit Committee)
Ms. Chiu Wing Kwan, Winnie
Dr. Yuen Man Chun, Royce

REMUNERATION COMMITTEE

Ms. Chiu Wing Kwan, Winnie
(Chairlady of Remuneration Committee)
Dr. Yuen Man Chun, Royce
Mr. Chiu Ka Lok

NOMINATION COMMITTEE

Dr. Yuen Man Chun, Royce
(Chairman of Nomination Committee)
Ms. Chiu Wing Kwan, Winnie
Mr. Chun Chi Ngon, Richard

AUDITORS

Deloitte Touche Tohmatsu

REGISTERED OFFICE

Clifton House
75 Fort Street
P.O. Box 1350
Grand Cayman, KY1-1108
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 202B, 2/F
Liven House
61–63 King Yip Street
Kwun Tong
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Appleby Trust (Cayman) Ltd.
Clifton House
75 Fort Street
P.O. Box 1350
Grand Cayman, KY1-1108
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Union Registrars Limited
A18/F., Asia Orient Tower, Town Place
33 Lockhart Road, Wanchai
Hong Kong

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
Hang Seng Bank Limited
The Hong Kong and Shanghai Banking Corporation Limited
Bank Julius Baer & Co. Ltd.

WEBSITE ADDRESS

www.sdm.hk

STOCK CODE

8363

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the Board of Directors (the "**Board**") of SDM Group Holdings Limited (the "**Company**"), it is my pleasure to present the audited financial statements of the Company and its subsidiaries (the "**Group**") for the year ended 31 December 2014.

REVIEW

While the global economy grew modestly in 2014, Hong Kong has slowed down to growth in 2014 and the People's Republic of China (the "**PRC**") showed signs of faltering which continues to carefully reposition its economy from an export orientation to domestic consumption amidst an uncertain international financial and trade environment. It was challenging to the Group's businesses for the year 2014, the Group's 2014 profits attributable to shareholders turned around from profit approximately HK$10.2 million for the year ended 31 December 2013 to the loss of approximately HK$2.3 million for the year ended 31 December 2014. The loss in 2014 was mainly due to a one-off listing expenses of approximately HK$10.5 million (2013: approximately HK$1.8 million) incurred during the year ended 31 December 2014. Excluding this non-recurring expenses, the Group's profits would have been approximately HK$8.2 million (2013: approximately HK$12.0 million), representing a decrease by approximately 31.3%, mainly due to the dramatic increment in the rental expenses of approximately 55.2% for the year ended 31 December 2014 subsequent to the purchase of 4 franchise dance centres on 30 December 2013.

Notwithstanding the above challenges, the shares of the Company (the "**Shares**") were successfully listed (the "**Listing**") on the Growth Enterprise Market (the "**GEM Board**") of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 14 October 2014. It was a milestone for the Group which also boosted the confidence of the customers and the suppliers in efficiency of the operation and the provision of the quality services by the Group.

FORWARD

The Group intends to enhance the geographical coverage by opening and/or acquiring 10 dance centres in the next three years to be located near populated residential areas in Hong Kong, in particular, in private housing estates in areas close to a network of schools or which are currently without the presence of the Group's dance centres. To cope with this expansion plan, the Group has launched a new dance centre in Happy Valley on 8 March 2015. In implementing the expansion plan, the Group will also consider to acquire existing dance centres, if the right opportunity should arise as the Group can immediately benefit from the existing clientele base. With the Listing of the Company in 2014, the financial position of the Group has been strengthened and is sound. The Company will continue to prudently seek investments that would maximize shareholders' return in the long term.

A NOTE OF APPRECIATION

On behalf of the Board, I wish to take this opportunity to express my gratitude to our shareholders, business partners, suppliers, students and the parents who trust and remain faithful to the Group. I would also like to express our sincere thanks to the management and staff for their commitment and contribution throughout the years.

SDM Group Holdings Limited
Chiu Ka Lok
Chairman

Hong Kong, 20 March 2015

MANAGEMENT DISCUSSION AND ANALYSIS

INTRODUCTION

SDM Group Holdings Limited and its subsidiaries (collectively, the "**Group**") is one of the largest dance institutions for children in Hong Kong and is operating under the brand of "**SDM Jazz & Ballet Academie**" (**SDM爵士芭蕾舞學院**) which has established goodwill and gained brand recognition in Hong Kong. The shares of the Company were successfully listed on GEM on 14 October 2014.

As at 31 December 2014, the Group had 17 self-operated dance centres and 3 joint venture dance centres in Hong Kong offering wide range of dance courses for children generally between the age of 1 and 16 consisting of elementary courses, RAD ballet courses, CSTD jazz courses and other dance courses. The vision of the Group is to provide social and life experience to children at a young age through their participation in dance and thereby nurturing their social interaction skills and confidence. "Let's be a star leader" is the slogan promoting the Group's vision to develop children being a positive, influential and contributive individual.

BUSINESS REVIEW

Subsequent to the acquisition of 4 franchise dance centres (the "**Acquisition**") on 30 December 2013, the number of self-operated dance centres has increased from 13 to 17 upon the completion of the Acquisition which further enhanced the competitive strengths of the Group by increasing the geographical coverage of our dance centres in Hong Kong.

The Listing provided additional working capital to the Group to implement the corporate plans as set out in the prospectus of the Company dated 30 September 2014 (the "**Prospectus**") under the heading of "Business — Our Business Strategies" and "Future Plans and Use of Proceeds — Implementation Plans". Furthermore, the Listing also strengthened the financial position and enhanced the competitiveness of the Group.

FINANCIAL REVIEW

Revenue

The revenue was mainly contributed by the self-operated dance centres in respect of the provision of elementary courses, CSTD jazz courses, RAD ballet courses etc. to the students.

During the year ended 31 December 2014, the revenue from the provision of elementary courses was the main source of revenue which amounted to approximately HK$30.5 million (2013: approximately HK$22.9 million), representing approximately 54.3% (2013: approximately 52.7%) of the Group's total revenue. It is expected to remain as the principal source of income for the Group in the future.

Revenue from the provision of CSTD jazz courses during the year ended 31 December 2014 was approximately HK$14.8 million (2013: approximately HK$11.7 million), representing approximately 26.3% (2013: approximately 26.8%) of the Group's total revenue.

Revenue from the provision of RAD ballet courses during the year ended 31 December 2014 was approximately HK$4.4 million (2013: approximately HK$4.1 million), representing approximately 7.9% (2013: approximately 9.5%) of the Group's total revenue.

The total revenue of the Group increased by approximately 29.0% from approximately HK$43.6 million for the year ended 31 December 2013 to approximately HK$56.2 million for the year ended 31 December 2014. The increase was mainly driven by the acquisition of 4 franchise dance centres on 30 December 2013.

Other Income

Other income of the Group decreased by approximately 14.1% from approximately HK$8.8 million for the year ended 31 December 2013 to approximately HK$7.5 million for the year ended 31 December 2014. The decrease was mainly due to that there was no franchise income for the year ended 31 December 2014 as compared to the franchise income in amount of approximately HK$3.1 million for the year ended 31 December 2013 as a result of the termination of the franchise agreements entered into among the Group and the four franchised dance centres on 30 December 2013. Despite of this, there were increase in building management fee and rental income by approximately 148.6% from approximately HK$0.9 million for the year ended 31 December 2013 to approximately HK$2.3 million for the year ended 31 December 2014. Further, examination handling fee income has also increased by approximately 42.9% from approximately HK$1.0 million for the year ended 31 December 2013 to approximately HK$1.4 million for the year ended 31 December 2014. The aggregate increased amount of approximately HK$1.8 million from building management fee and rental income, and examination handling fee income were able to partially set off the effect of nil franchise income for the year ended 31 December 2014.

Advertising and promotion expenses

Advertising and promotion expenses of the Group for the year ended 31 December 2014 had no significant change as compare to the year ended 31 December 2013.

Depreciation of property, plant and equipment

The Group recorded depreciation on property, plant and equipment of approximately HK$1.0 million and HK$1.1 million for the two years ended 31 December 2013 and 2014 respectively.

Rental expenses

All the properties on which the Group's dance centres and its head office are located are leased. For the two years ended 31 December 2013 and 2014, the rental expenses of the Group approximate to the amount of HK$9.0 million and HK$14.0 million respectively, representing approximately 25.0% and 20.6% of the revenue of each such year. A relatively significant increase in rental expenses of approximately 55.2% has been recorded in the year ended 31 December 2014. Taking into account the expected revenue will be generated from the dance centres and the plan to open new centres in the future, the Directors expect the rental expenses will continue to increase in the future.

Staff costs

The staff costs mainly comprised salaries, performance bonuses and retirement benefits scheme contributions paid to the directors, instructors, teaching assistants, sales and marketing staff, operating staff and administrative staff. The staff costs of the Group accounted for approximately 29.8% and 30.2% of the revenue for the two years ended 31 December 2013 and 2014 respectively.

Other operating expenses

Other operating expenses of the Group increased by approximately 53.1% from approximately HK$10.0 million for the year ended 31 December 2013 to approximately HK$15.3 million for the year ended 31 December 2014. The significant increase was mainly attributable to the professional fees incurred after the Listing in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the "**GEM Listing Rules**"). Another reason for such increase was the acquisition of four franchise dance centres.

Finance costs

Finance costs of the Group increased by approximately 148.3% from approximately HK$0.1 million for the year ended 31 December 2013 to approximately HK$0.4 million for the year ended 31 December 2014. The increase was attributable to the increase in bank borrowings during the year ended 31 December 2014.

Listing expenses

For the two years ended 31 December 2013 and 2014, the one-off listing expenses of approximately HK$1.8 million and HK$10.5 million respectively have been recorded by the Group.

Income tax expense

Income tax expense for the Group decreased by approximately 18.0% from approximately HK$2.3 million for the year ended 31 December 2013 to approximately HK$1.9 million for the year ended 31 December 2014. The decrease was mainly due to decrease in assessable profits for the year ended 31 December 2014.

Loss or profit and total comprehensive expense or income for the year attributable to the owners of the Company

The Group recorded the loss of approximately HK$2.3 million for the year ended 31 December 2014 in the loss or profit and total comprehensive expense or income for the year attributable to the owners of the Company, representing a turn around from profit of approximately HK$10.2 million during the year ended 31 December 2013. Such change was primarily attributable to the one-off listing expenses incurred by the Company for the year ended 31 December 2014. Secondly, there was the additional professional expenses incurred in relation to the compliance of the GEM Listing Rules after the listing. Excluding the aggregate amount of approximately HK$11.7 million comprising the one-off exceptional Listing expenses of the Group of approximately HK$10.5 million (2013: HK$1.8 million) and the approximate amount of HK$1.2 million relating to the professional fees incurred after the Listing, profit attributable to the owners of the Company for the year ended 31 December 2014 would be approximately HK$9.4 million, representing a decrease of approximately 21.6% compared to the corresponding figure for the year ended 31 December 2013 of approximately HK$12.0 million.

LIQUIDITY AND FINANCIAL RESOURCES

The current ratio of the Group as at 31 December 2014 was 1.7 times as compared to that of 1.4 times as at 31 December 2013. The increase was mainly due to increase in cash at bank resulted from the net proceeds received from the Listing. As at 31 December 2014, the Group had total bank balances and cash approximately HK$61.2 million (2013: HK$3.4 million) excluding the pledged bank deposits with fixed term of 3 years amounted to approximately HK$0.3 million (2013: Nil).

As at 31 December 2014, the Group had bank borrowings that amounted to approximately HK$0.7 million (2013: approximately HK$5.0 million) whilst no bank overdraft as at 31 December 2014 (2013: approximately HK$0.8 million). Amount due to related parties as at 31 December 2014 amounted to approximately HK$4.5 million (2013: approximately HK$3.7 million). The gearing ratio, calculated based on the total borrowings including interest-bearing bank borrowings and bank overdrafts, and amounts due to related parties which is non-trade nature divided by total equity at the end of the year and multiplied by 100%, stood at approximately 13.6% at the year ended 31 December 2014 (2013: approximately 42.1%). The Group's borrowings have not been hedged by any interest rate financial instruments. The Group's financial position is sound and strong. With available bank balances and cash and bank credit facilities, the Group has sufficient liquidity to satisfy its funding requirements.

CAPITAL STRUCTURE

The shares of the Company were successfully listed on the GEM Board of the Stock Exchange on 14 October 2014. There has been no change in the capital structure of the Group since then. The share capital of the Group only comprises of ordinary shares.

As at 31 December 2014, the Company's issued share capital was HK$20.0 million and the number of its issued ordinary shares was 200,000,000 of HK$0.1 each.

MANAGEMENT DISCUSSION AND ANALYSIS

COMMITMENTS

The contractual commitments of the Group were primarily related to the leases of its dance centres and office premises. The Group's operating lease commitments amounted to approximately HK$16.4 million as at 31 December 2014 (2013: approximately HK$10.3 million).

As at 31 December 2014, the Group did not have any significant capital commitments (2013: Nil).

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

Save as disclosed in the Prospectus of the Company, the Group did not have other plans for material investments and capital assets.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

During the financial year ended 31 December 2014, the Group did not have any material acquisitions or disposals of subsidiaries and affiliated companies save for those related to the Reorganisation (as defined under note 2 to the consolidated financial statements).

SIGNIFICANT INVESTMENTS

As at 31 December 2014, the Group did not hold any significant investments.

CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 31 December 2014 (2013: Nil).

FOREIGN EXCHANGE EXPOSURE

As at 31 December 2014, the Group have certain bank deposits which has exchanged to foreign currency denominated in Renminbi ("**RMB**"), which may expose the Group to foreign currency risk. The Group currently had no foreign currency hedging policy. However, the management will monitor foreign exchange position and will consider appropriate action should the circumstances change. The bank deposits denominated in RMB as mentioned above is equivalent to approximately HK$32.5 million (2013: Nil).

TREASURY POLICIES

The Group adopts a conservative approach towards its treasury policies. The Group's credit risk is primarily attributable to trade receivables, rental deposits, amounts due from related parties and pledged bank deposit and bank balances. In view of the business nature of the Group, the Directors considered that the credit risks of trade receivables are immaterial after considering the credit quality and financial ability of the relevant financial institutions and there is no history of delay or default in settlement by them. The management of the Group considered that the credit risks of rental deposits are insignificant after considering the financial ability of the counterparties. The management considered there was no recoverability problem from the related parties of the Group. The pledged bank deposit and the bank balances are deposited with banks which have good reputation. To manage liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and commitments can meet its funding requirements.

CHARGE ON GROUP'S ASSETS

As at 31 December 2014, the Group pledged its bank deposit of HK$0.3 million (2013: Nil) as securities for bank guarantee to the landlord of one of its dance centres over the lease term. The pledged bank deposit is interest bearing with a fixed rate of 0.25% per annum. The respective lease agreement will expire in the year of 2016.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2014, the Group employed a total of 109 full-time and 97 part-time employees (2013: 76 full-time and 95 part-time employees) respectively. The staff costs, including Directors' emoluments, of the Group were approximately HK$17.0 million for the year ended 31 December 2014 (2013: approximately HK$13.0 million). Remuneration is determined with reference to market terms and the performance, qualification and experience of individual employee. In addition to a basic salary, year-end discretionary bonuses were offered to those staff with outstanding performance to attract and retain eligible employees to contribute to the Group. Apart from basic remuneration, share options may be granted to eligible employees by reference to the Group's performance as well as individual contribution.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

An analysis comparing the business objectives as set out in the Prospectus with the Group's actual business progress for the period from 14 October 2014 ("**Date of Listing**") to 31 December 2014 is set out below:

Business objectives	Actual progress
Expansion of network by opening and/or acquiring new centres close to populated residential areas in Hong Kong	The Group has used HK$0.4 million for opening a new dance centre in Happy Valley of which is close to residential area and to be launched in 2015. This expansion increased geographical coverage in which the Group has not presented yet.
Brand building, marketing and promotion	The Group has used HK$0.9 million for brand building, marketing and promotion activities introducing more internationally recognized course offerings and examination courses.
Enhancement of existing centre facilities, inventory, IT, logistic and administrative services	The Group has used HK$0.9 million for enhancement in which HK$0.4 million used for existing centre facilities, HK$0.2 million used for inventory, HK$0.1 million used for IT and HK$0.2 million used for administrative services.
Repayment of bank loan	The Group has repaid HK$10.0 million of outstanding bank loan for financing the expenses in relation to the Listing and remaining expenses not covered by the bank loan has been financed by the Group's internal resources.
General working capital	The Group has used approximately HK$0.3 million for the general working capital requirements.

USE OF PROCEEDS

The net proceeds from the Listing in October 2014, after deducting listing related expenses, were approximately HK$25.4 million. After the Listing, these proceeds were used for the purposes in accordance with the future plans and use of proceeds as set out in the Prospectus.

An analysis of the utilisation of the net proceeds from the placing and the unused amount as at 31 December 2014 is set out below:

	Net proceeds from the placing HK$'000	Planned amount utilised up to 31 December 2014 HK$'000	Actual utilised amount as at 31 December 2014 HK$'000	Unutilised amount as at 31 December 2014 HK$'000
Expansion of network by opening and/or acquiring new centres close to populated residential areas in Hong Kong	10,073	(800)	(375)	9,698
Brand building, marketing and promotion	2,500	(900)	(900)	1,600
Enhancement of existing centre facilities, inventory, IT, logistic and administrative services	2,500	(900)	(900)	1,600
Repayment of bank loan	10,000	(10,000)	(10,000)	–
General working capital	300	(300)	(300)	–
Total	25,373	(12,900)	(12,475)	12,898

PROSPECT AND OUTLOOK

Hong Kong's economic environment remains relatively stable although there were uncertainties in the global economy. It is optimistic that parents' willingness to increase spending on nurturing their children by encouraging their children to participate in extra-curricular activities including dancing.

The shares of the Company were listed on the GEM of the Stock Exchange on 14 October 2014. The funds raised from the Listing have laid a solid foundation for the future development of the Group. Looking ahead, the Group will endeavor to strengthen the development of its existing businesses and further expand the industry network by opening and or acquiring new centres in Hong Kong with a view to provide steady returns as well as growth prospects for the Company's shareholders.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

Since the Listing, the Board recognized that the transparency and accountability is important to a listed company. Therefore, the Company is committed in establishing and maintaining good corporate governance practices and procedures. The Directors of the Company believe that good corporate governance provides a framework that is essential for effective management, successful business growth and a healthy corporate culture in return to the benefits of the Company's stakeholders as a whole.

The Board has adopted and complied with the Corporate Governance Code (the "**CG Code**") as set out in Appendix 15 to the GEM Listing Rules. The Directors of the Company will continue to review its corporate governance practices in order to enhance its corporate governance standard, to comply with the increasingly tightened regulatory requirements from time to time, and to meet the rising expectation of shareholders and other stakeholders of the Company.

The Board is pleased to report compliance with the code provisions of the CG Code for the period from the date of the Listing (14 October 2014) to 31 December 2014, except where otherwise stated.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by the Directors 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. The Company had also made specific enquiry of all the Directors and the Company was not aware of any non-compliance with the required standard of dealings regarding securities transactions by the Directors throughout the period from the date of the Listing to the year ended 31 December 2014.

BOARD OF DIRECTORS

As at 31 December 2014, the Board comprised eight Directors, including two executive Directors, namely Mr. Chiu Ka Lok and Mr. Chun Chi Ngon Richard, the three non-executive Directors are Dr. Chun Chun, Ms. Yeung Siu Foon and Ms. Yip Sze Pui Fione, and the three independent non-executive Directors are Mr. Lau Sik Yuen, Ms. Chiu Wing Kwan Winnie and Dr. Yuen Man Chun Royce.

Mr. Chiu Ka Lok is the Chairman (the "**Chairman**") of the Board and Mr. Chun Chi Ngon Richard is the Chief Executive Officer (the "**CEO**") of the Company.

RESPONSIBILITIES OF THE BOARD

The overall management of the Company's business is vested in the Board which assumes the responsibility for leadership and control of the Company and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. All the Directors should make decisions objectively in the interests of the Company. The Board has the full support from the executive Directors and the senior management of the Company to discharge its responsibilities.

CORPORATE GOVERNANCE REPORT

The day-to-day management, administration and operation of the Company are delegated to the executive Directors and the senior management of the Company. The delegated functions and work tasks are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the executive Director(s) and senior management. The Board also assumes the responsibilities of maintaining high standard of corporate governance, including, among others, developing and reviewing the Company's policies and practices on corporate governance, reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements, and reviewing the Company's compliance with the CG Code. All Directors, including independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective delivery of the Board functions. Independent non-executive Directors are invited to serve on the Audit Committee, the Remuneration Committee and the Nomination Committee.

The biographical details of the Directors and other senior management are set out in the section headed with "**Biographical Details of Directors and Senior Management**" on pages from 21 to 25 of this annual report.

The CEO is the father-in-law of the Chairman; Ms. Yeung Siu Foon is the spouse of the CEO and the mother-in-law of the Chairman; Dr. Chun Chun is the spouse of the Chairman and the daughter of the CEO and Ms. Yeung Siu Foon.

Save as disclosed above, the other Board members have no financial, business, family or other material or relevant relationships with each other.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Pursuant to the code provision A.2.1 of the Code, the roles of Chairman and CEO should be separate and should not be performed by the same individual. The division of responsibilities between the Chairman and CEO should be clearly established and set out in writing. To ensure a balance of power and authority, the Company fully supports the division of responsibility between the Chairman and the CEO. The roles of the Chairman and the CEO are segregated and performed by Mr. Chiu Ka Lok and Mr. Chun Chi Ngon Richard, respectively.

Code Provision of A.2.7 of the CG Code requires the chairman of the Board to hold meetings at least annually with the non-executive Directors (including independent non-executive Directors) without the executive Directors present. The Chairman did not hold meeting with the non-executive Directors for the year ended 31 December 2014 since the shares of the Company were listed in October 2014. As Mr. Chiu, the chairman of the Board, is also an executive Director, the Company has deviated from this code provision as it is not practicable.

BOARD DIVERSITY POLICY

The Company adopted a board diversity policy (the "**Board Diversity Policy**") from the Date of Listing up to the date of this corporate governance report. A summary of this Board Diversity Policy, together with the measureable objectives set for implementing this Board Diversity Policy, and the progress made towards achieving those objectives are disclosed as below.

Summary of the Board Diversity Policy

The Company recognised and embraced the benefits of having a diverse Board to the quality of its performance. The Board Diversity Policy aimed to set out the approach to achieve diversity on the Board. In designing the Board's composition, Board diversity has been considered from a number of measurable aspects including gender, age, ethnicity, knowledge and length of services. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regards for the benefits of diversity on the Board.

Measurable Objectives

Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of services. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

Implementation and Monitoring

The Nomination Committee reviewed the Board's composition under diversified perspectives, and monitored the implementation of the Board Diversity Policy annually.

The Nomination Committee of the Board has reviewed the Board Diversity Policy to ensure its effectiveness and considered that the Group achieved the Board Diversity Policy from the Date of the Listing up to the date of this report.

BOARD MEETING, GENERAL MEETING AND PROCEDURES

Since the date of the Listing up to 31 December 2014, 1 Board meeting was held. The attendance record of each Director at the Board meeting is set out in the table below:

Name of Directors	Number of attendance/ number of Board meetings
Mr. Chiu Ka Lok	1/1
Mr. Chun Chi Ngon Richard	1/1
Dr. Chun Chun	1/1
Ms. Yeung Siu Foon	1/1
Ms. Yip Sze Pui Fione	1/1
Mr. Lau Sik Yuen	1/1
Ms. Chiu Wing Kwan Winnie	0/1
Dr. Yuen Man Chun Royce	1/1

CORPORATE GOVERNANCE FUNCTIONS

No corporate governance committee has been established and the Board is responsible for performing the corporate governance functions such as developing and reviewing the Company's policies, practices on corporate governance, training and continuous professional development of the Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, etc. The Board held meetings from time to time whenever necessary. At least 14 days' notice of regular Board meetings is given to all Directors and they can include matters for discussion in the agenda as they think fit. The agenda accompanying Board papers are sent to all the Directors at least 3 days before the date of every Board meeting in order to allow sufficient time for the directors to review the documents.

Minutes of every Board meeting are circulated to all Directors for their perusal and comments prior to confirmation of the minutes. The Board also ensures that it is supplied in a timely manner with all necessary information in a form and of a quality appropriate to enable it to discharge its duties.

Every Board member has full access to the advice and services of the company secretary with a view to ensuring that Board procedures, and all applicable rules and regulations are followed and they are also entitled to have full access to Board papers and related materials so that they are able to make an informed decision and to discharge their duties and responsibilities.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

The current articles of association of the Company (the "**Articles**") provide that subject to the manner of retirement by rotation of directors as from time to time prescribed by the GEM Listing Rules, at each annual general meeting, one-third of the Directors for the time being shall retire from office by rotation and that every Director shall be subject to retirement by rotation at least once every three years.

Independent non-executive Directors are appointed for a specific term subject to retirement by rotation and re-election in accordance with the Articles. Each Independent non-executive Directors is required to inform the Company as soon as practicable if there is any change that may affect his/her independence. The Company has received from each of the independent non-executive Directors an annual confirmation of his/her independency pursuant to Rule 5.09 of the GEM Listing Rules and the Company considers these independent non-executive Directors to be independent.

CONTINUOUS PROFESSIONAL DEVELOPMENT

To assist Directors' continuing professional development, the Company recommends Directors to attend relevant seminars to develop and refresh their knowledge and skills. Directors also participate in continuous professional development programmes such as external seminars organised by qualified professionals, to develop and refresh their knowledge and skills in relation to their contribution to the Board. All board members have received directors' training hosted by a law firm which was about, inter alias, the listing rules, Companies Ordinance and Securities and Futures Ordinance.

All the Directors also understand the importance of continuous professional development and are committed to participate any suitable training to develop and refresh their knowledge and skills.

Pursuant to the code provision A6.5 of the Code, during the year ended 31 December 2014, all directors had participated in continuous professional development in the following manner:

Name of Directors	Training on Director's responsibilities provided by the Company's legal consultant prior to the Listing
Mr. Chiu Ka Lok	Attended
Mr. Chun Chi Ngon Richard	Attended
Dr. Chun Chun	Attended
Ms. Yeung Siu Foon	Attended
Ms. Yip Sze Pui Fione	Attended
Mr. Lau Sik Yuen	Attended
Ms. Chiu Wing Kwan Winnie	Attended
Dr. Yuen Man Chun Royce	Attended

BOARD COMMITTEES

The Board has established three board committees, namely the audit committee (the "**Audit Committee**"), the remuneration committee (the "**Remuneration Committee**") and the nomination committee (the "**Nomination Committee**"), with written terms of reference which are available on the website of the Stock Exchange and the Company.

AUDIT COMMITTEE

The Company established the Audit Committee on 26 September 2014 with written terms of reference in compliance with the GEM Listing Rules, in accordance with provisions set out in the CG Code which are available on the websites of the Stock Exchange and the Company.

The Audit Committee currently consists of three independent non-executive Directors namely Mr. Lau Sik Yuen, Ms. Chiu Wing Kwan, Winnie and Dr. Yuen Man Chun, Royce. The chairman of the Audit Committee is Mr. Lau Sik Yuen, who has appropriate professional qualifications and experience in accounting matters.

The Audit Committee is mainly responsible for the followings:

(a) to consider the appointment of the external auditors, the performance of the external auditors, the audit fee, and any questions of resignation or dismissal;

(b) to review with the Group's management, external auditor and internal auditor, the adequacy of the Group's policies and procedures regarding internal controls (including financial, operational and compliance controls), risk management system and any statement by the Director to be included in the annual accounts prior to endorsement by the Board;

(c) to have familiarity with the financial reporting principles and practices applied by the Group in preparing its financial statements;

(d) to review the scope of the external audit, including the engagement letter prior to audit commencement. The Audit Committee should understand the factors considered by the external auditor in determining their audit scope. The external audit fees are to be negotiated by management, and presented to the Audit Committee for review and approval annually;

(e) to review the annual and interim financial reports prior to approval by the Board, with particular focus on:

  (i) any changes in accounting policies and practices;

  (ii) major judgmental areas;

  (iii) significant adjustments resulting from the audit;

  (iv) the going concern assumption and any qualifications;

  (v) compliance with accounting and auditing standards, and

  (vi) compliance with the listing requirements of The Stock Exchange of Hong Kong Limited and legal requirements;

From the Date of Listing up to 31 December 2014, the Audit Committee held one meeting to consider and approve the following:

(a) to review the quarterly financial statements for the nine months ended 30 September 2014 before submission to the Board, with a focus on compliance with accounting standards, the GEM Listing Rules and other requirements in relation to financial reporting of the Audit Committee;

(b) to discuss the effectiveness of the internal controls system throughout the Group, including financial, operational and compliance controls, and risk management;

(c) to review the accounting principles and practices adopted by the Group and other financial reporting matters; and

(d) to address the audit issues raised by the external auditors of the Group.

The individual attendance record of each member of the Audit Committee is as follows:

Name of Directors	Number of attendance/ number of meetings
Mr. Lau Sik Yuen	1/1
Ms. Chiu Wing Kwan Winnie	0/1
Dr. Yuen Man Chun Royce	1/1

The Group's audited annual results in respect of the year ended 31 December 2014 have been reviewed by the Audit Committee.

There was no disagreement between the Board and the Audit Committee on the selection, appointment of the external auditors during the year ended 31 December 2014.

REMUNERATION COMMITTEE

The Remuneration Committee of the Company was established on 26 September 2014 comprising one executive director, namely Mr. Chiu Ka Lok and two independent non-executive Directors, namely Ms. Chiu Wing Kwan, Winnie, Dr. Yuen Man Chun, Royce. Ms. Chiu Wing Kwan, Winnie is the chairlady of the Remuneration Committee. The terms of reference of the Remuneration Committee are available at the Company's website and on the website of the Stock Exchange.

The main roles and functions of the Remuneration Committee include the followings:

(a) establish guidelines for the recruitment of the managing director and senior management;

(b) recommend to the Board the policy and structure for the remuneration of directors and senior management whilst ensuring no director or any of his associates is involved in deciding his own remuneration;

(c) determine the remuneration of directors and senior management, including benefits in kind, pension right, compensation payment (including compensation for loss of office or appointment etc). The chairman and/or the managing director shall be consulted respectively about their proposals relating to the remuneration of the managing director and/or senior management, as the case may be;

(d) review and approve the compensation arrangements in connection with any loss or termination of their office or appointment, or dismissal or removal for misconduct to executive directors and senior management which shall be fair and not excessive;

(e) determine the criteria for assessing employee performance, which should reflect the Company's business objectives and targets; and

(f) consider the annual performance bonus for executive directors, senior management, and the general staff, having regard to the achievements against the performance criteria by reference to market norms, and make recommendation of the Board.

No Remuneration Committee meeting has yet held from the Date of Listing to 31 December 2014.

The emolument payable to Directors depends on their respective contractual terms under the service contracts and the appointment letters, and as recommended by the Remuneration Committee. Details of the Directors' emolument are set out in note 12 to the consolidated financial statements.

NOMINATION COMMITTEE

The Nomination Committee was established on 26 September 2014 comprising one executive director, namely Mr. Chun Chi Ngon Richard and two independent non-executive Directors, namely Dr. Yuen Man Chun, Royce, Ms. Chiu Wing Kwan, Winnie. Dr. Yuen Man Chun, Royce is the chairman of the Nomination Committee. The terms of reference of the Nomination Committee are available at the Company's website and on the website of The Stock Exchange.

The main roles and functions of the Nomination Committee include the followings:

(a) review and monitor the structure, size and composition (including the skills, knowledge and experience) of the Board to complement the Company's corporate strategy;

(b) identify and nominate qualified individuals for appointment as additional directors or to fill Board vacancies as and when they arise;

(c) make recommendations to the Board on matters relating to the appointment or reappointment of directors and succession planning for directors, in particular the chairman and the managing director;

(d) assess the independence of independent non-executive directors and review the independent non-executive directors' annual confirmations on their independence; and make disclosure of its review results in the corporate governance report; and

(e) report back to the Board on decisions or recommendations made, unless there are legal or regulatory restrictions to do so.

No Nomination Committee meeting has yet held from the Date of Listing to 31 December 2014.

DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for preparing the financial statements of the Group that gives a true and fair view of the state of affairs of the Group. The Directors aim to present a balanced and understandable assessment of the Group's position and prospects with timely publication of the financial statements of the Group. As at 31 December 2014, the Board was not aware of any material uncertainties relating to events or conditions that might cast significant doubt upon the Group's ability to continue as a going concern.

The responsibility of the external auditor is to form an independent opinion, based on their audit, on those consolidated financial statements prepared by the Board and to report their opinion to the shareholders of the Company. The statements by external auditor, DELOITTE TOUCHE TOHMATSU, about their reporting responsibility on the financial statements of the Group are set out in the independent auditor's report from pages 35 to 36 of this annual report.

INTERNAL CONTROL

The Board has overall responsibility for the establishment, maintenance and review of the Group's internal control system to safeguard shareholder investments and the assets of the Group. The internal control system of the Group aims to facilitate effective and efficient operation which in turn minimizes the risks to which the Group is exposed. The system can only provide reasonable but not absolute assurance against misstatement or losses.

The Board has conducted a review of the implemented system and procedures, covering financial, operational and legal compliance controls and risk management functions. The Directors consider that the Group has implemented appropriate procedures safeguarding the Group's assets against unauthorized use or misappropriation, maintaining proper accounting records, execution with appropriate authority and compliance of the relevant laws and regulations.

AUDITORS' REMUNERATION

The amount of fees charged by the external auditor generally depends on the scope and volume of the external auditor's work performed.

For the year ended 31 December 2014, the remuneration paid or payable to the external auditor of the Company in respect of the statutory audit services and non-audit services for the Group are as follows:

	Fees paid/payable for the services rendered HK$'000
Statutory audit services	699
Non-audit services for acting as reporting accountant for the Listing and tax services	2,728

COMPANY SECRETARY

Mr. Au Wai Keung ("**Mr. Au**") was appointed as the company secretary of the Company on 24 March 2014. Mr. Au has taken no less than 15 hours of relevant professional training for the year ended 31 December 2014. Mr. Au is an external service provider and its primary corporate contact person at the Company is Mr. Chiu Ka Lok, Chairman of the Company. The biographical details of Mr. Au are set out under the section headed "**Biographical Details of Directors and Senior Management**" of this annual report.

SHAREHOLDERS' RIGHTS

As one of the measures to safeguard shareholders' interest and rights, separate resolutions can be proposed at shareholders' meetings on each substantial issue, including the election of individual directors, for shareholders' consideration and voting. All resolutions put forward at shareholders' meeting will be voted by poll pursuant to the GEM Listing Rules and the poll voting results will be posted on the website of The Stock Exchange and the Company's website after the relevant shareholders' meeting.

PROCEDURES FOR SHAREHOLDERS TO CONVENE EXTRAORDINARY GENERAL MEETING

The following procedures for shareholders to convene an extraordinary general meeting are subject to the Articles (as amended from time to time), and the applicable legislation and regulation, in particular the GEM Listing Rules (as amended from time to time):

(a) any one or more shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company (the "**Eligible Shareholder(s)**") carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the company secretary of the Company (the "**Company Secretary**"), to require an extraordinary general meeting ("**EGM**") to be called by the Board for the transaction of any business specified in such requisition;

(b) Eligible Shareholders who wish to convene an EGM must deposit a written requisition (the "**Requisition**") signed by the Eligible Shareholder(s) concerned to the head office and principal place of business of the Company in Hong Kong at Room 202B, 2/F, Liven House, 61–63 King Yip Street, Kwun Tong, Hong Kong, or Hong Kong branch share registrar and transfer office of the Company, Union Registrars Limited, A18/F., Asia Orient Tower, Town Place, 33 Lockhart Road, Wanchai, Hong Kong for the attention of the Board and/or the Company Secretary;

(c) the Requisition must state clearly the name of the Eligible Shareholder(s) concerned, his/her/their shareholding, the reason(s) to convene an EGM and the details of the business(es) proposed to be transacted in the EGM, and must be signed by the Eligible Shareholder(s) concerned together with a deposit of a sum of money reasonable sufficient to meet the Company's expenses in serving the notice of the resolution and circulating the statement submitted by the shareholders concerned in accordance with the statutory requirements to all the registered shareholders;

(d) the Requisition will be verified with Hong Kong branch share registrar and transfer office of the Company and upon their confirmation that the Requisition is proper and in order, the Board will convene an EGM by serving sufficient notice in accordance with the requirements under the Articles to all the registered Shareholders. On the contrary, if the Requisition has been verified as not in order or the Shareholders concerned have failed to deposit sufficient money to meet the Company's expenses for the said purposes, the Eligible Shareholder(s) concerned will be advised of this outcome and accordingly, the Board will not call for an EGM;

(e) if within 21 days of the deposit of the Requisition, the Board fails to proceed to convene such EGM, the Eligible Shareholder(s) himself/herself/themselves may do so, and all reasonable expenses incurred by the Eligible Shareholder(s) concerned as a result of the failure of the Board shall be reimbursed to the Eligible Shareholder(s) concerned by the Company.

PROCEDURES FOR SHAREHOLDERS TO PUT FORWARD PROPOSALS AT SHAREHOLDERS' MEETINGS

There are no provisions allowing shareholders to move new resolutions at the general meetings under the Companies Law (Revised) of Cayman Islands. However, pursuant to the Articles, shareholders who wish to move a resolution may by means of Requisition convene an EGM following the procedures set out above.

PROCEDURES FOR RAISING ENQUIRIES

Shareholders should direct their questions about their shareholdings, share transfer, registration and payment of dividend to the Company's Hong Kong share registrar (details of which are set out in the section headed "**Corporate Information**" of this annual report).

Should there are any enquiries and concerns from shareholders, they may send in written enquiries addressed to the head office and principal place of business of the Company in Hong Kong at Room 202B, 2/F, Liven House, 61–63 King Yip Street, Kwun Tong, Hong Kong by post for the attention of the Board and/or the Company Secretary.

Shareholders are reminded to lodge their questions together with their detailed contact information for the prompt response from the Company if it deems appropriate.

INVESTORS RELATIONS

The Company has established a range of communication channels between itself and its shareholders, and investors. These include answering questions through the annual general meeting, the publication of annual, interim and quarterly reports, notices, announcements and circulars, the Company's website at www.sdm.hk and meetings with investors and shareholders. News update of the Group's business development and operation are also available on the Company's website.

From the Date of the Listing to 31 December 2014, there had been no significant change in the Company's constitutional documents.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Chiu Ka Lok (趙家樂) (''Mr. Chiu''), aged 38, is our chairman and executive Director. He was appointed as our Director on 12 February 2014 and was re-designated as an executive Director on 24 March 2014. Mr. Chiu is also the member of the remuneration committee of the Company. Mr. Chiu founded our Group in May 2006. Mr. Chiu is primarily responsible for the overall corporate strategies, management and business development of our Group. Mr. Chiu holds various positions within our Group, including the director of SDM Management Limited (''**SDM Management**''), SDM Group Limited (''**SDM Group**'') and SDM Academie Limited (''**SDM Academie**''). Prior to establishing Shelly De Mozz, Mr. Chiu was engaged in the production and sales of education software to primary and secondary school teachers. Mr. Chiu was awarded the ''Quality Education Fund'' from the Government of Hong Kong in 1997 for a ''Teachers Learning Programme'' project. Since then, Mr. Chiu continued to develop his career and team in the education industry. Mr. Chiu has approximately eight years of experience in children education and management. Mr. Chiu is the chief executive officer of the Hong Kong Speech and Swallowing Therapy Centre, a company principally engaged in providing swallowing and speech treatment, responsible for business development. He is also a director of Pok Oi Hospital, a charitable organisation providing various services to the local community including child care and education. Mr. Chiu graduated from The University of Science & Technology, Hong Kong, in November 1998, with a bachelor's degree in computer engineering.

Mr. Chiu is the spouse of Dr. Chun Chun, a non-executive Director of the Company and the son-in-law of Mr. Chun Chi Ngon Richard, an executive Director of the Company and Ms. Yeung Siu Foon, a non-executive Director of the Company.

Mr. Chiu had not been a director of any other listed company for the last three preceding years.

Mr. Chun Chi Ngon Richard (秦志昂) (''Mr. Chun''), aged 67, is our chief executive officer and executive Director. Mr. Chun was appointed as our Director on 12 February 2014 and was redesignated as an executive Director on 24 March 2014. Mr. Chun is also the member of the nomination committee of the Company. Mr. Chun joined our Group in May 2006. Mr. Chun is primarily responsible for procurement, administration and inventory management. Mr. Chun holds various positions within our Group, including the director of SDM Group Limited and SDM Management Limited. Mr. Chun has over 20 years of experience in procurement. Prior to joining our Group, Mr. Chun was the general manager of Mandarin Fashions Limited, a company principally engaged in clothing, from January 1984 to April 1998, and was responsible for the overall management of our Company, meeting customers, purchase order negotiation and finalisation, purchase of raw materials, production supervision, sale of products and exports management.

Mr. Chun is the father-in-law of Mr. Chiu Ka Lok, an executive Director of the Company and the father of Dr. Chun Chun, a non-executive Director of the Company. Mr. Chun is also the spouse of Ms. Yeung Siu Foon, a non-executive Director of the Company.

Mr. Chun had not been a director of any other listed company for the last three preceding years.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

NON-EXECUTIVE DIRECTORS

Dr. Chun Chun (秦蓁) (''Dr. Chun''), aged 38, was appointed as our non-executive Director on 24 March 2014. Dr. Chun has approximately 12 years of experience in speech & swallowing therapy. Dr. Chun has worked as a consultant of Hong Kong Speech & Swallowing Therapy Centre, a company principally engaged in providing swallowing and speech treatment. She was responsible for the provision of assessment and treatment for patients and training for internal staff since June 2006. Dr. Chun also worked in various hospitals or bureau. From August 2003 to December 2004, she was the speech and language consultant of the Hong Kong Education Department. From December 2001 to December 2002 and November 1999 to October 2001, Dr. Chun was the speech therapist of Tung Wah Eastern Hospital and Pamela Youde Nethersole Eastern Hospital, respectively. Dr. Chun obtained a bachelor's degree and doctorate's degree in Speech and Hearing Sciences from The University of Hong Kong, Hong Kong, in December 1999 and December 2007, respectively. Dr. Chun is a certified VitalStim Therapy Provider, Deep Pharyngeal Neuromuscular Stimulation Provider and an administrator of the Lee Silverman Voice Treatment.

Dr. Chun is the spouse of Mr. Chiu, an executive Director of the Company and the daughter of Mr. Chun Chi Ngon Richard, an executive Director of the Company and Ms. Yeung Siu Foon, a non-executive Director of the Company.

Dr. Chun had not been a director of any other listed company for the last three preceding years.

Ms. Yeung Siu Foon (楊少寬) (''Ms. Yeung''), aged 64, was appointed as our non-executive Director on 24 March 2014. Ms. Yeung has approximately 15 years of experience in education sector as a teacher. From July 1968 to January 1970, Ms. Yeung worked as a panel teacher in Chiu Kwong Kindergarten. From January 1970 to August 1985, Ms. Yeung worked as a panel teacher and kindergarten officer in Rainbow Middle School. Ms. Yeung graduated from Macao Saint Joseph's Kindergarten College, Macao, in June 1967, with a secondary certificate in kindergarten teacher.

Ms. Yeung is the mother-in-law of Mr. Chiu Ka Lok, an executive Director of the Company and is the mother of Dr. Chun Chun, a non-executive Director of the Company. Ms. Yeung is also the spouse of Mr. Chun Chi Ngon Richard, an executive Director of the Company.

Ms. Yeung had not been a director of any other listed company for the last three preceding years.

Ms. Yip Sze Pui Fione (葉思貝) (''Ms. Yip''), aged 48, was appointed as our non-executive Director on 24 March 2014. Ms. Yip has over five years of experience in financial trading. Currently, Ms. Yip is a director of Value Logic Ltd, an investment holding company, since January 2010, responsible for overall management and marketing. From June 2010 to January 2014, Ms. Yip was the senior vice president of Emperor Bullion Investment (Asia) Ltd., a company principally engaged in trading of bullion and precious metals, responsible for providing trading services to customers. From May 2011 to June 2012, Ms. Yip worked as operation director of Wealth Blooming (Hong Kong) Ltd. (富國盛世(亞太)有限公司), a company principally engaged in financial trading, responsible for overseeing administrative department, arranging all promotional events and partially helping out in marketing and sales department. From December 2008 to September 2010, she was the vice president of United Simsen Bullion Ltd. (天行聯合金業有限公司), a company principally engaged in bullion trading, responsible for bullion trading. Currently, Ms. Yip was a director of Pok Oi Hospital in 2013/2014, a charitable organization providing various services to the local community including child care and education.

Ms. Yip had not been a director of any other listed company for the last three preceding years.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lau Sik Yuen (劉錫源) (''Mr. Lau''), aged 47, was appointed as our independent non-executive Director on 26 September 2014. Mr. Lau has over 20 years of experience in auditing and financial accounting. Mr. Lau currently is the company secretary and chief financial officer of Xinyi Glass Holdings Limited, a company listed on the Main Board of the Stock Exchange (Stock code: 00868), responsible for their financial, management and cost accounting, taxation, treasury and investor relations strategy and operation. Currently, Mr. Lau also serves as an independent non-executive director of China QinfaGroup Ltd. (Stock code: 00866) and Dragon Crown Group Holdings Limited (Stock code: 00935), both of which are companies listed on the Main Board of the Stock Exchange, as well as a non-executive director of ZMFY Automobile Glass Services Limited (Stock code: 08135) from September 2013 to December 2014, which is listed on GEM Board of the Stock Exchange. Mr. Lau had worked with PricewaterhouseCoopers over five years, responsible for auditing. Mr. Lau was the financial controller of a subsidiary of NWS Holdings Limited for over three years, a company listed on the Stock Exchange (Stock code: 00659). Mr. Lau graduated from Oregon State University, United States, with Bachelor of Science in business administration. Mr. Lau is a fellow member of the Hong Kong Institute of Certified Public Accountants and a member of the American Institute of Certified Public Accountants.

Saved as disclosed above, Mr. Lau had not been a director of any other listed company for the last three preceding years.

Ms. Chiu Wing Kwan Winnie (邱詠筠) (''Ms. Chiu''), aged 34, was appointed as our independent non-executive Director on 26 September 2014. Ms. Chiu is also the chairlady of the remuneration committee of the Company, and members of the audit committee and nomination committee of the Company. Ms. Chiu has over 10 years of experiences in hotels, property development and retail management. Ms. Chiu has been a non-executive director of Dorsett Hospitality International Limited, a company listed on the Hong Kong Stock Exchange (Stock code: 02266), since June 2010. She is also a non-independent non-executive director of Land & General Berhad, a company listed on the Malaysia Stock Exchange (Stock code: 03174), since July 2008. From August 2004 to October 2010, Ms. Chiu was the director of Project Development of Far East Consortium International Limited, a company listed on the Stock Exchange (Stock code: 00035), responsible for the overall project development and overseeing the group's hotel development. She has been a Director of Malaysia Land Properties Sdn. Bhd. (''**MayLand**''), a company principally engaged in property development, June 2002, responsible for overseeing MayLand Group's management and operations. Ms. Chiu is also the founder of Freshness Burger Hong Kong, a company principally engaged in making hamburger. Ms. Chiu graduated from King's College, United Kingdom, with a bachelor's degree in business management in August 2003. Ms. Chiu is a governor of the Hong Kong Philharmonic Society Limited, a Council member of the Better Hong Kong Foundation, and a member of the Betting and Lotteries Commission, Discipline Advisory Board of Hotel, Service & Tourism Studies of the Hong Kong Institute of Vocational Training Council and a governor of the Hong Kong Art School Council.

Saved as disclosed above, Ms. Chiu had not been a director of any other listed company for the last three preceding years.

Dr. Yuen Man Chun Royce (袁文俊) (''Dr. Yuen''), aged 50, was appointed as our independent non-executive Director on 26 September 2014. Dr. Yuen is also the chairman of the nomination committee of the Company and the member of the audit committee and remuneration committee of the Company. Dr. Yuen has over 11 years of experiences in brand-building and marketing management. Dr. Yuen has been the chief executive officer of New Brand New Limited, a company principally engaged in marketing and brand consulting, since August 2013. Dr. Yuen was the chairman of Ogilvy & Mather Advertising, a company principally engaged in offering integrated marketing communications solutions, from April 2003 to January 2010, he was responsible for the management of the operation and profit and loss of Ogilvy's Group. From January 2010 to June 2011, Dr. Yuen was an executive director of Fantastic Natural Cosmetics Limited (FANCL), a company principally engaged in the sale of skincare and health supplements, he was responsible for leading its global strategic planning and brand development. Dr. Yuen is also the chairman of The Association of Accredited Advertising Agencies of Hong Kong, from December 2005 to December 2009, an association that deals with issues concerning the future of the advertising industry and the business of member agencies. Dr. Yuen obtained an Honour Diploma in Communications from Hong Kong Baptist University, Hong Kong, in December 1987, a master's degree in Marketing from Macquarie University, Australia, in September 1996 and a doctorate's degree in business administration from Hong Kong Polytechnic University, Hong Kong, in November 2000. Dr. Yuen is a visiting associate professor of The University of Hong Kong and a professor of The Hong Kong Polytechnic University. Dr. Yuen is council member of the Hong Kong Trade Development Council and the Hong Kong Academy for Performing Arts, and an advisory board member for many not-for-profit and government bodies, including the Hong Kong Museum of History.

Dr. Yuen had not been a director of any other listed company for the last three preceding years.

Saved as disclosed herein, to the best of the knowledge, information and belief of our Directors having made all reasonable enquiries, there was no other matter with respect to the appointment of our Directors that needs to be brought to the attention of our Shareholders and there was no information in relation to our Directors that is required to be disclosed pursuant to Rules 17.50(2) of the GEM Listing Rules as at the date of this annual report.

SENIOR MANAGEMENT

Ms. Chan Yuen Hong (陳遠航) ("Ms. Chan"), aged 41, joined our Group in April 2007 as marketing officer and was promoted as our general manager and dean of SDM Jazz & Ballet on July 2007. She is primarily responsible for overall school operation including strategic planning, development of curriculum, marketing and general business operation of SDM Jazz & Ballet Academie. Ms. Chan has approximately 15 years of experience in management and marketing. From June 2005 to February 2006, she was the development executive of MV Destination Limited, a company principally engaged in providing event management services, responsible for marketing, promotion and event co-ordination. From July 1998 to July 2003, she was the senior marketing manager of Gold Royal International Enterprise Ltd., a company principally engaged in providing healthcare and beauty services, responsible for product development and training, brand building and marketing. From October 1996 to June 1998, Ms. Chan was a management trainee of The Marco Polo Hong Kong Hotel, responsible for providing assistance to various departments including human resources, marketing, food and beverage, housekeeping, front office and accounts. Ms. Chan graduated from Hong Kong Polytechnic University in November 1996, Hong Kong, with a bachelor's degree in hotel and catering management. Ms. Chan is currently the chairman of the Hong Kong Children Dance Promotion Association.

Ms. Chan has not been a director of any other listed company for the last three preceding years.

Ms. Yu Sze Wan (余思韻) ("Ms. Yu"), aged 37, was appointed as assistant to general manager in July 2007, as administration and human resources manager in February 2008 and was promoted as head of administrations and deputy manager in July 2013. Ms. Yu is responsible for coordinating the operation of various departments, human resources planning, and personnel recruitment. Ms. Yu has over 15 years of experience in management. Prior to joining us, Ms. Yu worked as administration assistant in Manulife (International) Limited, a company principally engaged in insurance, investment, asset management and financial planning, responsible for administrative matters, from April 1997 to November 1997. She was a consultant in World Sky International Limited, a company principally engaged in trading and marketing of health products, where she was responsible for providing assistance to improve the workflow, training memo, policies and practices, analyzing training needs, designing employee development programme and conducting product training, from November 1997 to February 2007. Ms. Yu obtained a certificate in secretarial studies from Sacred Heart Canossian Commercial School, Hong Kong, in June 1996. Ms. Yu is the administrative officer of the Hong Kong Children Dance Promotion Association. Ms. Yu obtained certificates in personnel administration and operations as well as in human resources management from the Hong Kong Management Association in 2011.

Ms. Yu has not been a director of any other listed company for the last three preceding years.

Ms. Lin Siu Wah (連少華) ("Ms. Lin"), aged 41, was appointed as our financial controller in January 2014. Ms. Lin joined our Group in September 2007 as an accountant and is primarily responsible for our Group's overall financial accounting and reporting, corporate finance and company secretarial matters. Ms. Lin has approximately 18 years of experience in accounting and auditing. Prior to joining our Group, Ms. Lin was the account clerk of Charoen Pokphand Management Limited, a subsidiary of Charoen Pokphand Foods Public Company Limited, a company listed on the Stock Exchange of Thailand (Stock code: CPF), from September 1996 to July 1997, responsible for general accounting duties. From July 1997 to May 2004, Ms. Lin was the audit trainee, semi-senior I, semi-senior II and audit senior of Wilson Ho & Co, an accounting firm, where she was responsible for performing audit assignments and review on the assignments performed by juniors. From October 2004 to March 2005, she was the audit senior of Tai Kong CPA Limited, responsible for auditing. From April 2005 to March 2007, Ms. Lin is the accounting officer of Eastern Asia Technology (HK) Ltd, a company principally engaged in manufacturing electronic products, responsible for performing daily accounting functions including monthly sales, cost and aging analyses. Ms. Lin graduated from Hong Kong Technical Colleges in July 1996, Hong Kong, with a higher diploma in accountancy. Ms. Lin is a member of the Hong Kong Institute of Certified Public Accountants and a fellow of Association of Chartered Certified Accountants.

Ms. Lin has not been a director of any other listed company for the last three preceding years.

COMPANY SECRETARY

Mr. Au Wai Keung (區偉強) ("Mr. Au"), aged 43, was appointed as the company secretary of our Company on 24 March 2014. Mr. Au has over 13 years of experience in accounting. Currently, Mr. Au is a director, a shareholder and the founder of Arion and Associates Limited (亞利安會計事務所有限公司), a corporate secretarial and accounting services provider in Hong Kong. He is also the company secretary of Honworld Group Limited (老恒和釀造有限公司) (Stock code: 02226) and China Shengmu Organic Milk Limited (中國聖牧有機奶業有限公司) (Stock code: 01432), both companies are listed on the Main Board of the Stock Exchange. He also served as the company secretary of Baofeng Modern International Holdings Company Limited (寶峰時尚國際控股有限公司) (Stock code: 01121), a company listed on the Main Board of the Stock Exchange, from January 2011 to December 2013.

Mr. Au received a bachelor's degree in social science from The Chinese University of Hong Kong in December 1993 and a master's degree in business administration from The City University of Hong Kong in November 1999. He is an associate member of the Hong Kong Institute of Certified Public Accountants and an associate member of the Institute of Chartered Accountants in England and Wales.

REPORT OF DIRECTORS

The Directors hereby present their report and the audited consolidated financial statements for the year ended 31 December 2014.

CORPORATE REORGANISATION

The Company was incorporated with limited liability in the Cayman Islands on 12 February 2014.

In preparing for the listing of the Company's shares on the GEM Board of the Stock Exchange (the ''Listing"), the Company became the holding company of the companies comprising the Group underwent the corporate reorganisation (the ''Reorganisation") upon the completion of the Reorganisation on 14 April 2014.

Details of the Reorganisation are set out in note 2 to the consolidated financial statements. The shares of the Company were listed on the GEM Board of the Stock Exchange with effect from 14 October 2014.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are set out in note 36 to the consolidated financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2014 are set out in the consolidated statement of profit or loss and other comprehensive income on page 37 of this annual report.

Prior to the Listing, the Company declared total dividends in the amount of HK$19.5 million to its then sole shareholder, Wealthy Together Limited during the year ended 31 December 2014 (2013: Nil).

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2014 (2013: Nil).

FINANCIAL SUMMARY

The summary of the results and of the assets and liabilities of the Group is set out on page 92 of this annual report.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements during the year in the property, plant and equipment of the Group are set out in note 15 to the consolidated financial statements of this annual report.

SHARE CAPITAL

Details of the movements during the year in the share capital of the Company are set out in note 27 to the consolidated financial statements.

SHARE OPTION SCHEME

The share option scheme (the "**Scheme**") is a share incentive scheme prepared in accordance with Chapter 23 of the GEM Listing Rules and is established to recognize and acknowledge the contribution of the Directors and other employees who have made valuable contribution to the Group. The Scheme of the Company was adopted on 26 September 2014 (the "**Adoption**"). There was no share option granted or agreed to be granted under the Scheme from the date of the Adoption to 31 December 2014.

The following is a summary of the principal terms of the Scheme but it does not form Part of, nor was it intended to be Part of the Scheme nor Should it be taken as affecting the interpretation of the rules of the Scheme:

(a) Purpose

The Scheme is a share incentive scheme prepared in accordance with Chapter 23 of the GEM Listing Rules and is established to recognise and acknowledge the contributions that the Eligible Participants (as defined in paragraph (b) below) had or may have made to our Group. The Scheme will provide the Eligible Participants an opportunity to have a personal stake in the Company with the view to achieving the following objectives:

(i) motivate the Eligible Participants to optimise their performance efficiency for the benefit of the Group; and

(ii) attract and retain or otherwise maintain an on-going business relationship with the Eligible Participants whose contributions are or will be beneficial to the long-term growth of the Group.

(b) The Participants of the Scheme

The Board may, at its discretion, offer to grant an option to the following persons (collectively the "**Eligible Participants**") to subscribe for such number of new Shares as the Board may determine at an exercise price determined in accordance with paragraph (e) below:

(i) any full-time or part-time employees, executives or officers of the Company or any of its subsidiaries;

(ii) any directors (including independent non-executive directors) of the Company or any of its subsidiaries; and

(iii) any advisers, consultants, suppliers, customers, distributors and such other persons who in the sole opinion of the Board will contribute or have contributed to the Company or any of its subsidiaries.

Upon acceptance of the option, the grantee shall pay HK$1.00 to the Company by way of consideration for the grant.

(c) Maximum number of shares

The maximum number of shares in respect of which options may be granted under the Scheme and under any other share option schemes of the Company must not in aggregate exceed 10% of the total number of shares in issue, being 20,000,000 shares, unless the Company obtains a fresh approval.

(d) Maximum number of options to any one individual

The total number of shares issued and which may fall to be issued upon exercise of the options granted under the Scheme and any other share option schemes of the Company (including both exercised and outstanding options) to each Eligible Participant in any 12-month period up to the date of grant shall not exceed 1% of the issued shares of the Company as at the date of grant.

(e) Price of Shares

The subscription price of a share in respect of any particular option granted under the Scheme shall be such price as the Board in its absolute discretion shall determine, save that such price must be at least the higher of:

(i) the official closing price of the shares as stated in the Stock Exchange's daily quotation sheets on the date of grant, which must be a day on which the Stock Exchange is open for the business of dealing in securities;

(ii) the average of the official closing prices of the shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and

(iii) the nominal value of a share.

(f) Time of exercise of Option and duration of the Share Option Scheme

An option may be exercised in accordance with the terms of the Scheme at any time after the date upon which the option is deemed to be granted and accepted and prior to the expiry of 10 years from that date. The period during which an option may be exercised will be determined by the Board in its absolute discretion, save that no option may be exercised more than 10 years after it has been granted. No option may be granted more than 10 years after the date of approval of the Scheme. Subject to earlier termination by the Company in general meeting or by the Board, the Scheme shall be valid and effective for a period of 10 years from the date of its adoption.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Since the shares of the Company was listed on the GEM Board on 14 October 2014, neither the Company nor any of its subsidiaries have purchased, sold or redeemed any securities of the Company during the year ended 31 December 2014.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2014, the Company's reserves available for distribution to the shareholders, calculated in accordance with the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands amounted to approximately HK$12.7 million (2013: Nil).

MAJOR CLIENTS AND SUPPLIERS

Due to the nature of our business, sales to the Group's five largest customers for the year ended 31 December 2014, were approximately 0.6% (2013: approximately 0.5%) of the total revenue, which is less than 30% of the total revenue.

The suppliers mainly consist of suppliers for dance costumes and dance accessories. The purchase from the Group's five largest suppliers was less than 30% of the Group's total revenue for the year ended 31 December 2014. In addition, due to our business nature being a dance institution, the landlords of our leased properties are also essential to the Group's operations. During the year ended 31 December 2014, the rental expenses accounted for approximately 25.0% (2013: approximately 20.6%) of the total revenue. Meanwhile, the rental expenses paid to the largest landlord accounted for approximately 9.8% (2013: approximately 16.1%) of the total rental expenses for the year ended 31 December 2014. The rental expenses paid to the top five landlords accounted for approximately 42.0% (2013: approximately 53.9%) of the total rental expenses for the year ended 2014. None of the Directors, their close associates or any shareholders (which to the knowledge of the Directors own more than 5% of the share capital) of the Group had any interest in any of the top five landlords during the financial year ended 31 December 2014.

DIRECTORS

The Directors during the year and up to the date of this report were as follows:

Executive Directors

Mr. Chiu Ka Lok *(Chairman)*	(appointed on 12 February 2014)
Mr. Chun Chi Ngon Richard *(Chief Executive Officer)*	(appointed on 12 February 2014)

Non-executive Directors

Dr. Chun Chun	(appointed on 24 March 2014)
Ms. Yeung Siu Foon	(appointed on 24 March 2014)
Ms. Yip Sze Pui Fione	(appointed on 24 March 2014)

Independent non-executive Directors

Mr. Lau Sik Yuen	(appointed on 26 September 2014)
Ms. Chiu Wing Kwan Winnie	(appointed on 26 September 2014)
Dr. Yuen Man Chun Royce	(appointed on 26 September 2014)

Pursuant to Article 112 of the Articles, the Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the Board or as an addition to the existing Board. Any Director so appointed by the Board shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election.

Pursuant to Article 108 of the Articles, at each annual general meeting one-third of the Directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director, including those appointed for a specific term, shall be subject to retirement at least once every three years.

BIOGRAPHICAL DETAILS OF DIRECTORS

Brief biographical details of the Directors of the Group are set out on pages from 21 to 25 of this annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the executive and non-executive Directors has entered into a service agreement with the Company for an initial term of three years commencing from the month of Listing and will continue thereafter until terminated in accordance with the terms of the agreement. Independent non-executive Directors are appointed for a term of three year initially and will continue thereafter unless terminated by either party giving at least three month's notice in writing.

Save as disclosed above, none of the Directors has entered into any service contracts with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment compensation other than the statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

No contract of significance, to which the Company, its holding company or subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

EMOLUMENTS OF THE DIRECTORS AND THE FIVE HIGHEST PAID INDIVIDUALS

Details of the emoluments of the Directors and the five highest paid individuals of the Group are set out in note 12 to the consolidated financial statements in this annual report.

EMOLUMENT POLICY

The remuneration committee will review and determine the remuneration and compensation packages of the Directors with reference to their responsibilities, workload, time devoted to the Group and the performance of the Group. The Directors and other employees who have made valuable contribution to the Group may also receive options to be granted under the Share Option Scheme.

COMPETING INTERESTS

The Directors are not aware of any business or interest of the Directors nor the controlling shareholder of the Company nor any of their respective associates (as defined in the GEM Listing Rules) that compete or may compete with the business of the Group and any other conflicts of interest which any such person has or may have with the Group during the year ended 31 December 2014.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

The Listing took place on 14 October 2014. As at 31 December 2014, the interests or short positions of the Directors and chief executives of the Company in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the "**SFO**")), which are required (a) to be notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) have to be notified to the Company and the Stock Exchange pursuant to the required standards of dealing by directors as referred to in Rule 5.46 of the GEM Listing Rules were as follows:

Name of Directors and chief executive	Nature of interest/ Holding capacity	Number of ordinary shares held	Percentage of issued share capital (Note 1)
Mr. Chiu Ka Lok	Interest of a controlled corporation	150,000,000 (L) (Note 2, 4)	75%
Dr. Chun Chun	Family interest	150,000,000 (L) (Note 3, 4)	75%

Note:

(1) As at 31 December 2014, the Company's issued ordinary share capital was HK$20,000,000 divided into 200,000,000 Shares of HK$0.1 each.

(2) Wealthy Together Limited ("**Wealthy Together**"), a company incorporated in the BVI on 11 February 2014 and an investment holding company, is wholly and beneficially owned by Mr. Chiu Ka Lok and Mr. Chiu Ka Lok is executive director and the chairman of the Company. Mr. Chiu Ka Lok is deemed to be interested in 150,000,000 Shares held by Wealthy Together by virtue of his 100% shareholding interest in Wealthy Together.

(3) Dr. Chun Chun is the spouse of Mr. Chiu and is therefore deemed to be interested in all the shares held/owned by Mr. Chiu (by himself or through Wealthy Together) by virtue of the SFO. Dr. Chun Chun is a non-executive Director of the Company.

(4) The letter "L" denotes the person's long position in the Shares.

Save as disclosed above, as at 31 December 2014, none of the Directors and chief executive of the Company had any other interests or short positions in any shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of listed issuer referred to rule 5.46 of the GEM Listing Rules.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2014, the following parties, other than Directors and the chief executive of the Company, held interests or short positions (directly or indirectly) in the Company's Shares or underlying Shares were recorded in the register kept by the Company pursuant to Section 336 of the SFO:

Name of Shareholder	Nature of interest/ holding capacity	Number of shares	Percentage of interests in the Company's issued share capital (Note 1)
Wealthy Together	Beneficial owner	150,000,000 (L) (Note 2, 3)	75%

Note:

(1) As at 31 December 2014, the Company's issued ordinary share capital was HK$20,000,000 divided into 200,000,000 Shares of HK$0.1 each.

(2) Wealthy Together is beneficially and wholly owned by Mr. Chiu Ka Lok, an executive Director of the Company. By virtue of the SFO, Mr. Chiu is deemed to be interested in the shares held by Wealthy Together.

(3) The letter "L" denotes the person's long position in the Shares.

Save as disclosed above, the Directors were not aware of any other persons, other than the Directors or the chief executive of the Company who held an interest or short positions in the shares and underlying shares of the Company as at 31 December 2014 which required to be recorded pursuant to Section 336 of SFO.

INTERESTS OF THE COMPLIANCE ADVISER

As notified by the compliance adviser of the Company, Ample Capital Limited, as at 31 December 2014, save for the compliance adviser agreement dated 14 June 2014 entered into between the Company and Ample Capital Limited, neither Ample Capital Limited, its directors, employees and associates had any interest in relation to the Group which is required to be notified to the Group pursuant to Rule 6A.32 of the GEM Listing Rules.

RELATED PARTY TRANSACTIONS

Details of related party transactions of the Group during the year ended 31 December 2014 are set out in note 33 to the consolidated financial statements. Save as the building management fees, rent and rates received from other related companies, which constitute continuing connected transactions and are exempted from the reporting, announcement and independent shareholders' approval requirements under Chapter 20 of the GEM Listing Rules, none of these related party transactions constitute connected transactions as defined under the GEM Listing Rules.

Details of the connected transactions is summarized in the paragraph headed "**Continuing Connected Transactions**" below.

CONTINUING CONNECTED TRANSACTIONS

The Group has entered into certain sub-lease agreements (the "**Sub-lease Agreements**") with Dunn's Education Limited, Rainbow Creative Arts Limited and Sunshine Chinese Painting. Dunn's Education Limited is owned as to 33.33% by Mr. Chiu, Rainbow Creative Arts Limited is wholly-owned by Mr. Chiu, and Sunshine Chinese Painting is a sole proprietorship of Ms. Yeung Siu Foon, the non-executive Director and the mother-in-law of Mr. Chiu, one of the executive Directors and a controlling shareholder. Accordingly, each of Dunn's Education Limited, Rainbow Creative Arts Limited and Sunshine Chinese Painting is a connected person of the Company under the GEM Listing Rules. Hence any transactions entered into between the Group and Dunn's Education Limited, Rainbow Creative Arts Limited and/or Sunshine Chinese Painting will constitute connected transactions for the Company under Chapter 20 of the GEM Listing Rules. Details of such connected transactions are set out in the Prospectus under the heading of "Connected Transactions".

Since each of the percentage ratios (other than the profits ratio) for transactions contemplated under the Sub-lease Agreements, on aggregate basis, is less than 5% and the total annual consideration is less than HK$3,000,000, the transactions under the Sub-lease Agreements are therefore exempt from the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

The Directors, including the independent non-executive Directors, consider that all the continuing connected transactions above are conducted on normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole and are in the ordinary and usual course of the business. The Directors, including the independent non-executive Directors, are also of the view that the annual caps of all of the exempted continuing connected transactions above are fair and reasonable.

SUFFICIENCY OF PUBLIC FLOAT

As at the date of this report, based on the information that is publicly available to the Company and to the best knowledge of the Directors, the Directors confirm that the Company complies with the minimum of public float as required under the GEM Listing Rules.

PRE-EMPTIVE RIGHTS

There is no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

EVENTS AFTER THE REPORTING PERIOD

There is no significant event after the reporting period of the Group.

AUDITOR

Deloitte Touche Tohmatsu was the reporting accountants of the Group for the purpose of the listing of the Company's Shares on the GEM Board of the Stock Exchange. Deloitte Touche Tohmatsu was appointed by the Directors as the first auditor of the Company. The consolidated financial statements for the year ended 31 December 2014 have been audited by Deloitte Touche Tohmatsu.

Deloitte Touche Tohmatsu will retire, and being eligible, offer themselves for re-appointment at the forthcoming annual general meeting. A resolution for their re-appointment as auditor of the Company will be proposed at the forthcoming annual general meeting.

By Order of the Board
Chiu Ka Lok
Chairman

Hong Kong, 20 March 2015

Deloitte.
德勤

TO THE MEMBERS OF SDM GROUP HOLDINGS LIMITED
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of SDM Group Holdings Limited (the ''Company") and its subsidiaries (collectively referred to as the ''Group") set out on pages 37 to 91, which comprise the consolidated statement of financial position as at 31 December 2014, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors of the Company, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITOR'S REPORT

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2014, and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

20 March 2015

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2014

	Notes	**2014 HK$'000**	2013 HK$'000
Revenue	7	**56,195**	43,567
Other income	8	**7,548**	8,790
Gain on disposal of a subsidiary	32	**9**	–
Changes in inventories of finished goods		**(315)**	254
Finished goods purchased		**(1,724)**	(1,583)
Advertising and promotion expenses		**(3,738)**	(3,612)
Depreciation		**(1,095)**	(956)
Amortisation		**(89)**	–
Rental expenses	11	**(14,024)**	(9,038)
Staff costs	11	**(16,964)**	(12,974)
Listing expenses		**(10,540)**	(1,809)
Other operating expenses		**(15,321)**	(10,009)
Finance costs	9	**(360)**	(145)
(Loss) profit before taxation		**(418)**	12,485
Income tax expense	10	**(1,899)**	(2,317)
(Loss) profit and total comprehensive (expense) income for the year	11	**(2,317)**	10,168
(Loss) profit and total comprehensive (expense) income for the year attributable to:			
Owners of the Company		**(2,317)**	10,169
Non-controlling interests		**–**	(1)
		(2,317)	10,168
(Loss) earnings per share	14		
Basic (HK dollars)		**(0.02)**	0.24

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

	Notes	2014 HK$'000	2013 HK$'000
Non-current assets			
Property, plant and equipment	15	**2,238**	1,291
Goodwill	16	**1,897**	1,897
Intangible assets	17	**445**	534
Interests in joint ventures	18	**–**	–
Rental deposits	20	**3,916**	2,215
Pledged bank deposit	23	**315**	–
Deferred tax assets	28	**374**	400
		9,185	6,337
Current assets			
Inventories	19	**596**	911
Trade and other receivables, deposits and prepayments	20	**5,182**	5,058
Amounts due from related parties	21	**5,972**	27,300
Amount due from Controlling Shareholder	22	**–**	21,356
Tax recoverable		**2,069**	1,753
Bank balances and cash	23	**61,234**	3,408
		75,053	59,786
Current liabilities			
Other payables, accrued charges and deposits received	24	**35,690**	29,197
Amounts due to related parties	21	**4,490**	3,736
Tax liabilities		**3,127**	3,127
Bank overdrafts	23	**–**	800
Bank borrowings	25	**743**	4,969
Provisions	26	**600**	900
		44,650	42,729
Net current assets		**30,403**	17,057
Total assets less current liabilities		**39,588**	23,394
Non-current liabilities			
Provisions	26	**1,101**	800
Net assets		**38,487**	22,594

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

	Notes	2014 HK$'000	2013 HK$'000
Capital and reserves			
Issued capital	27	**20,000**	30
Reserves		**18,487**	22,572
Equity attributable to owners of the Company		**38,487**	22,602
Non-controlling interests		**–**	(8)
		38,487	22,594

The consolidated financial statements on pages 37 to 91 were approved and authorised for issue by the Board of Directors on 20 March 2015 and are signed on its behalf by:

Chiu Ka Lok
DIRECTOR

Chun Chi Ngon Richard
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2014

	Attributable to owners of the Company						
	Issued capital HK$'000	Share premium HK$'000	Other reserve HK$'000 (Note)	Accumulated profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2013	30	–	–	12,403	12,433	(7)	12,426
Profit (loss) and total comprehensive income (expense) for the year	–	–	–	10,169	10,169	(1)	10,168
At 31 December 2013	30	–	–	22,572	22,602	(8)	22,594
Loss and total comprehensive expense for the year	–	–	–	(2,317)	(2,317)	–	(2,317)
Issue of shares	2,925	40,950	–	–	43,875	–	43,875
Deemed distribution to the Controlling Shareholder (as defined in note 2)	–	–	(1,685)	–	(1,685)	–	(1,685)
Transaction costs attributable to issue of shares	–	(4,468)	–	–	(4,468)	–	(4,468)
Disposal of a subsidiary (note 32)	–	–	–	–	–	8	8
Effect of reorganisation	(30)	–	10	–	(20)	–	(20)
Capitalisation issue (note 27)	17,075	(17,075)	–	–	–	–	–
Dividend declared (note 13)	–	–	–	(19,500)	(19,500)	–	(19,500)
At 31 December 2014	20,000	19,407	(1,675)	755	38,487	–	38,487

Note: The other reserve represents the aggregate of:

(i) difference between the nominal value of the share capital of SDM Jazz & Ballet Academie Co. Limited (formerly known as Shelly De Mozz Ballet & Jazz Academie Co. Limited) ("**SDM Jazz & Ballet**"), SDM Academie Limited (**"SDM Academie**"), SDM Group Limited ("**SDM Group**"), SDM Management Limited ("**SDM Management**") and Metro Noble Limited ("**Metro Noble**") at the dates on which they were acquired by Brilliant Together Limited ("**Brilliant Together**") and Tycoon Together Limited ("**Tycoon Together**") and par value of the 3 shares issued by the Company and by cash of HK$20,000 pursuant to the Reorganisation (as defined in note 2); and

(ii) deemed distribution to Controlling Shareholder in respect of the listing expenses borne by the Company.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2014

	Note	2014 HK$'000	2013 HK$'000
OPERATING ACTIVITIES			
(Loss) profit before taxation		**(418)**	12,485
Adjustments for:			
Depreciation of property, plant and equipment		**1,095**	956
Amortisation of intangible assets		**89**	–
Gain on disposal of a subsidiary		**(9)**	–
Impairment loss on other receivables		**120**	–
Interest income		**(214)**	–
Interest expenses		**360**	145
Operating cash flows before movements in working capital		**1,023**	13,586
Decrease (increase) in inventories		**315**	(220)
Increase in trade and other receivables, deposits and prepayments		**(2,095)**	(4,811)
Increase in other payables, accrued charges and deposits received		**6,510**	6,762
Increase in provisions		**1**	–
Cash generated from operations		**5,754**	15,317
Income tax paid		**(2,189)**	(3,268)
NET CASH GENERATED FROM OPERATING ACTIVITIES		**3,565**	12,049
INVESTING ACTIVITIES			
Interest received		**214**	–
Purchases of property, plant and equipment		**(2,042)**	(630)
Advances to related parties		**(26,359)**	(22,676)
Repayment from related parties		**49,543**	7,804
Placement of pledged bank deposit		**(315)**	–
Acquisition of subsidiaries, net of cash and cash equivalent acquired	31	**–**	27
NET CASH FROM (USED IN) INVESTING ACTIVITIES		**21,041**	(15,475)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2014

	2014 HK$'000	2013 HK$'000
FINANCING ACTIVITIES		
Interest paid	**(360)**	(145)
Proceed from issuance of shares	**43,875**	–
Transaction costs attributable to issuance of shares and paid for the Controlling Shareholder	**(6,153)**	–
Cash paid pursuant to the Reorganisation	**(20)**	–
New bank borrowings raised	**10,000**	3,268
Repayment of bank borrowings	**(14,226)**	(1,749)
Advances from related parties	**6,509**	3,841
Repayment to related parties	**(5,605)**	(1,704)
NET CASH FROM FINANCING ACTIVITIES	**34,020**	3,511
NET INCREASE IN CASH AND CASH EQUIVALENTS	**58,626**	85
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**2,608**	2,523
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	**61,234**	2,608
REPRESENTED BY:		
Bank balances and cash	**61,234**	3,408
Bank overdrafts	**–**	(800)
	61,234	2,608

1. GENERAL

The Company was incorporated and registered as an exempted company with limited liability in the Cayman Islands under the Cayman Companies Law on 12 February 2014 and its shares are listed on GEM of the Stock Exchange on 14 October 2014. The addresses of the Company's registered office and the principal place of business are Clifton House, 75 Fort Street, P.O. Box 1350, Grand Cayman, KY1-1108, Cayman Islands and Room 202B, 2/F, Liven House, 61–63 King Yip Street, Kwun Tong, Hong Kong respectively.

The Company is an investment holding company and its principal subsidiaries are mainly engaged in business of jazz and ballet academy in Hong Kong.

The functional currency of the Company is Hong Kong dollar ("**HK$**"), which is the same as the presentation currency of the consolidated financial statements.

2. GROUP REORGANISATION AND BASIS OF PRESENTATION

Prior to the corporate reorganisation, SDM Jazz & Ballet and Metro Noble were owned by Excel Concept Technology Development Limited ("**Excel Concept**"). Excel Concept is owned as to 60% and 40% by Mr. Chiu Kwok Kwong and Ms. Hui Bing Mui respectively, each of whom holds the shares of Excel Concept on trust for Mr. Chiu Ka Lok ("**the Controlling Shareholder**").

In preparation for the listing of the Company's shares on the Growth Enterprise Market of the Stock Exchange (the "**Listing**"), the companies comprising the Group underwent the corporate reorganisation (the "**Reorganisation**") as described below.

(a) On 17 August 2012, SDM Academie was incorporated in Hong Kong with an authorised share capital of HK$100,000 divided into 100,000 shares of HK$1 each. SDM Group and SDM Management were incorporated in Hong Kong on 20 August 2012 with an authorised share capital of HK$100,000 divided into 100,000 shares. 10,000 shares of par value of HK$1 each in each of these three companies were allotted and issued to SDM Education Limited ("**SDM Education**"), which is 100% owned by the Controlling Shareholder upon incorporation.

(b) On 30 September 2013, SDM Management acquired 50% of the issued share capital of Mutual Bright Corporation Limited ("**Mutual Bright**") and Well Team International Development Limited ("**Well Team**") from Excel Concept for each of the consideration of HK$1.

2. GROUP REORGANISATION AND BASIS OF PRESENTATION (CONTINUED)

(c) On 30 December 2013, Excel Concept acquired the entire equity interest in Faith Emperior Limited ("**Faith Emperior**"), Fine Progress Limited ("**Fine Progress**") and Stand Kind Limited ("**Stand Kind**") (altogether collectively referred to as the "**Acquired Companies**") from certain independent third parties at a total consideration of HK$1,420,000. On 30 December 2013, SDM Academie acquired the businesses and certain assets and liabilities of the Acquired Companies from Excel Concept at a total consideration of HK$1,420,000 and acquired the dancing school operated by and from Innoland Company Limited (the "**Innoland Operation**") (all the businesses altogether collectively referred to as the "**Acquired Businesses**"), an independent third party, at a consideration of HK$11,000. Details of the acquisitions by SDM Academie are set out in note 31.

(d) On 11 February 2014, Wealthy Together Limited ("**Wealthy Together**"), which is 100% owned by the Controlling Shareholder, was incorporated in the British Virgin Islands ("**BVI**") with an authorised share capital of United States Dollars ("**US$**") 50,000 divided into 50,000 shares of US$1 each. 1 share of par value of US$1 each was allotted and issued to the Controlling Shareholder upon incorporation.

(e) On 12 February 2014, the Company was incorporated in the Cayman Islands with an authorised share capital of HK$380,000 divided into 3,800,000 shares of HK$0.1 each. 1 share of par value of HK$0.1 each was allotted and issued to Wealthy Together upon incorporation.

(f) On 13 February 2014, Brilliant Together was incorporated in the BVI with an authorised share capital of US$50,000 divided into 50,000 shares of US$1 each. 1 share of par value of US$1 each was allotted and issued to the Company upon incorporation.

(g) On 13 February 2014, Tycoon Together was incorporated in the BVI with an authorised share capital of US$50,000 divided into 50,000 shares of US$1 each. 1 share of par value of US$1 each was allotted and issued to the Company upon incorporation.

(h) On 18 March 2014, SDM Education transferred its entire interests in SDM Academie, SDM Group and SDM Management to Brilliant Together for cash considerations of HK$20,000,000, HK$10,000 and HK$10,000 respectively.

(i) On 18 March 2014, Brilliant Together acquired the entire issued share capital of SDM Jazz & Ballet from Excel Concept for a cash consideration of HK$7,900,000.

(j) On 18 March 2014, Tycoon Together acquired the entire issued share capital of Metro Noble from Excel Concept for a cash consideration of HK$7,900,000.

(k) On 11 March 2014, SDM Jazz & Ballet disposed its entire interests in Shelly De Mozz Management Co. Limited ("**Shelly De Mozz Management**") to an independent third party with a consideration of HK$70.

2. GROUP REORGANISATION AND BASIS OF PRESENTATION (CONTINUED)

(l) On 14 April 2014, Brilliant Together, SDM Education and the Company entered into amendment agreement pursuant to which the cash consideration of HK$20,000,000 for the acquisition of entire issued share capital of SDM Academie shall be satisfied by the allotment and issue of 1 share in total, credited as fully paid, by the Company to SDM Education's nominee, Wealthy Together.

(m) On 14 April 2014, Brilliant Together, Excel Concept and the Company entered into amendment agreement pursuant to which the cash consideration of HK$7,900,000 for the acquisition of entire issued share capital of SDM Jazz & Ballet shall be satisfied by the allotment and issue of 1 share in total, credited as fully paid, by the Company to Excel Concept's nominee, Wealthy Together.

(n) On 14 April 2014, Tycoon Together, Excel Concept and the Company entered into amendment agreement pursuant to which the cash consideration of HK$7,900,000 for the acquisition of entire issued share capital of Metro Noble shall be satisfied by the allotment and issue of 1 share in total, credited as fully paid, by the Company to Excel Concept's nominee, Wealthy Together.

Pursuant to the Reorganisation detailed above, the Company has become the holding company of the companies now comprising the Group by interspersing the Company between the Controlling Shareholder and the existing subsidiaries including SDM Jazz & Ballet, SDM Management, SDM Group, SDM Academie and Metro Noble. These subsidiaries were under the common control of the Controlling Shareholder throughout the year ended 31 December 2013 or since their respective dates of incorporation, where this is a shorter period. Accordingly, the consolidated financial statements have been prepared on the basis as if the Company had always been the holding company of the Group using the principles as stated in the Accounting Guideline 5 "**Merger Accounting for Common Control Combinations**" issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") for the acquisition of subsidiaries under common control.

Acquisitions of the Acquired Businesses do not involve business combinations under common control and accordingly, these acquisitions are accounted for using the acquisition method in accordance with Hong Kong Financial Reporting Standard 3 "**Business Combinations**".

The consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows of the Group for the years ended 31 December 2013 and 2014 have been prepared as if the current group structure had been in existence throughout the years ended 31 December 2013 and 2014, or since the respective dates of incorporation of the relevant companies now comprising the Group, where this is a shorter period except for the Acquired Businesses which were consolidated since the effective date of acquisition. The consolidated statement of financial position of the Group as at 31 December 2013 have been prepared to present the assets and liabilities of the companies now comprising the Group as if the current group structure had been in existence as at those dates except for the Acquired Businesses which were consolidated since the effective date of acquisition and Shelly De Mozz Management which was disposed of on 11 March 2014 as set out in note 32.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

For the purpose of preparing and presenting the consolidated financial statements for the year ended 31 December 2014, the Group has adopted all the HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") that are effective for the Group's financial year beginning on 1 January 2014.

At the date of issue of the consolidated financial statements of the Group, the HKICPA has issued the following new and revised HKFRSs which are not yet effective:

HKFRS 9	Financial instruments[1]
HKFRS 14	Regulatory deferral accounts[6]
HKFRS 15	Revenue from contracts with customers[5]
Amendments to HKFRS 10, HKFRS12 and HKAS 28	Investment entities: Applying the consolidation exception[4]
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture[4]
Amendments to HKFRS 11	Accounting for acquisitions of interests in joint operations[4]
Amendments to HKAS 1	Disclosure Initiative[4]
Amendments to HKAS 16 and HKAS 38	Clarification of acceptable methods of depreciation and amortisation[4]
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer plants[4]
Amendments to HKAS 19	Defined benefit plans: Employee contributions[2]
Amendments to HKAS 27	Equity method in separate financial statements[4]
Amendments to HKFRSs	Annual improvements to HKFRSs 2010–2012 cycle[3]
Amendments to HKFRSs	Annual improvements to HKFRSs 2011–2013 cycle[2]
Amendments to HKFRSs	Annual improvements to HKFRSs 2012–2014 cycle[4]

1 Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.
2 Effective for annual periods beginning on or after 1 July 2014, with earlier application permitted.
3 Effective for annual periods beginning on or after 1 July 2014, with limited exceptions. Earlier application permitted.
4 Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.
5 Effective for annual periods beginning on or after 1 January 2017, with earlier application permitted.
6 Effective for first annual HKFRS financial statements beginning on or after 1 January 2016.

The directors of the Company anticipate that the application of the new and revised HKFRSs will have no material impact on the consolidated financial statements of the Group.

HKFRS 9 "Financial Instruments"

HKFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for general hedge accounting. Another revised version of HKFRS 9 was issued in 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

HKFRS 9 "Financial Instruments" (Continued)

Key requirements of HKFRS 9 are described below:

- All recognised financial assets that are within the scope of HKAS 39 "**Financial Instruments: Recognition and Measurement**" are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

- In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Based on the analysis of the Group's financial assets and liabilities as at 31 December 2014, the directors of the Company anticipate that the application of HKFRS 9 in the future will not have any material impact on its financial assets and liabilities.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

HKFRS 15 "Revenue from Contracts with Customers"

In July 2014, HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

The directors of the Company anticipate that the application of HKFRS 15 in the future will not have a material impact on the amounts reported and disclosures made in the Group's consolidated financial statements based on the existing business model of the Group as at 31 December 2014.

The directors of the Company anticipate that the application of the other new and revised HKFRSs will have no material impact on the consolidated financial statements of the Group.

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange and by the Hong Kong Companies Ordinance, which for this financial year and the prior year continue to be those of the predecessor Companies Ordinance (Cap. 32), in accordance with transitional and saving arrangements for Part 9 of the Hong Kong Companies Ordinance (Cap. 622).

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in the consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 "**Share-based Payment**", leasing transactions that are within the scope of Hong Kong Accounting Standards ("**HKAS**") 17 "**Leases**", and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 "**Inventories**" or value in use in HKAS 36 "**Impairment of Assets**".

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

— Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

— Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

— Level 3 inputs are unobservable inputs for the asset or liability. The principal accounting policies adopted are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Group entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

— has the power over the investee;

— is exposed, or has rights, to variable returns from its involvement with the investee; and

— has the ability to use its power over the investee to affects its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of consolidation (Continued)

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in a subsidiary are presented separately from the Group's equity therein.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Business combinations (other than business combinations involving entities under common control)

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

— deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 "**Income taxes**" and HKAS 19 "**Employee benefits**", respectively;

— liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 at the acquisition date; and

— assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 "**Non-current assets held for sale and discontinued operations**" are measured in accordance with that standard.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations (other than business combinations involving entities under common control) (Continued)

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquire (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another HKFRS.

Merger accounting for business combinations involving entities under common control

The consolidated financial statements incorporate the financial statements items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated statement of profit or loss and other comprehensive income include the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Goodwill (Continued)

A cash-generating unit to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

Investments in joint ventures

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of joint ventures are incorporated in the consolidated financial statements using the equity method of accounting. The financial statements of joint ventures used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Appropriate adjustments have been made to conform the joint venture's accounting policies to those of the Group. Under the equity method, investments in joint ventures are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the joint ventures. When the Group's share of losses of joint ventures equals or exceeds its interest in that joint venture (which includes any long-term interests that, in substance, form part of the Group's net interest in the joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that joint venture.

Investment in a joint venture is accounted for using the equity method from the date on which the investee becomes a joint venture. On acquisition of the investment in a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments in joint ventures (Continued)

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investments in joint ventures. When necessary, the entire carrying amount of the investment is tested for impairment in accordance with HKAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with its joint venture, profits and losses resulting from the transactions with the joint venture are recognised in the consolidated financial statements only to the extent of interests in the joint venture that are not related to the Group.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts.

Course fee income is recognised over the period of instruction. Course fee received in advance is recognised as deferred income.

Franchise income is recognised on an accrual basis during the period of the relevant agreement as the rights are used.

Management fee income and examination handling fee income is recognised when services are provided.

Performance and show income are recognised when the event takes place.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

— the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;

— the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

— the amount of revenue can be measured reliably;

— it is probable that the economic benefits associated with the transaction will flow to the Group; and

— the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest income from a financial asset is recognised when it is probable that economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment

Property, plant and equipment held for use in the supply of goods or services, or for administrative purposes are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment less their residual values over their estimated useful lives using the straight-line method. The estimated useful lives, residual value and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred. In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

Borrowing costs

All borrowing costs are recognised in profit or loss in the period in which they are incurred.

Retirement benefits costs

Payments to the Mandatory Provident Fund Scheme are recognised as expenses when employees have rendered service entitling them to the contributions.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from (loss) profit before taxation as reported in the consolidated statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other periods, and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Current and deferred tax are recognised in profit or loss. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the account for the business combination.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at costs less accumulated amortisation and any accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment on tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash- generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments

Financial assets and financial liabilities are recognised in the statements of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Group's financial assets are classified as loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees or points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, amounts due from related parties and the Controlling Shareholder, pledged bank deposit and bank balances and cash) are measured at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on loans and receivables below).

Impairment of loans and receivables

Loans and receivables of the Group are assessed for indicators of impairment at the end of the reporting period. Loans and receivables are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the loan and receivable, the estimated future cash flows of the loans and receivables have been affected.

Objective evidence of impairment could include:

— significant financial difficulty of the issuer or counterparty; or

— breach of contract, such as default or delinquency in interest or principal payments; or

— it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of loans and receivables (Continued)

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments and observable changes in national or local economic conditions that correlate with default on receivables.

The amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group entities after deducting all of its liabilities. Equity instruments issued by the Group entities are recognised at the proceeds received, net of direct issue costs.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees or points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis for debt instruments.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial liabilities and equity instruments (Continued)

Financial liabilities

Financial liabilities including other payables and accrued charges, amounts due to related parties, bank overdrafts and bank borrowings are subsequently measured at amortised cost, using the effective interest method.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the consideration received and receivable is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets within the next financial year from the end of each reporting period.

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the recoverable amount which is the higher of fair value less cost of disposal and value in use of the cash-generating unit to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. As at 31 December 2014, the carrying amount of goodwill is HK$1,897,000 (2013: HK$1,897,000). Details of the recoverable amount calculation are disclosed in note 16.

Estimated useful life of intangible assets and impairment of intangible assets

The estimated useful life of intangible assets, being the customer relationship, is based on the management's best estimate according to its understanding of the business of jazz and ballet academy. If there is any adverse change on the management's estimation, impairment of intangible assets may arise. As at 31 December 2014, the carrying amount of intangible assets is and HK$445,000 (2013: HK$534,000) respectively.

6. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to owners through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged during the year.

The capital structure of the Group consists of amounts due to related parties and bank borrowings as disclosed in notes 21 and 25 respectively and equity of the Group, comprising issued capital, share premium, other reserve and accumulated profits.

Management of the Group reviews the capital structure regularly taking into account the cost of capital and the risk associated with the capital. The Group will balance its overall capital structure through issuance of new shares and the raising of borrowings or the repayment of the existing borrowings.

Categories of financial instruments

	2014 HK$'000	2013 HK$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**68,486**	53,211
Financial liabilities		
Amortised cost	**14,822**	13,768

Financial risk management objectives and policies

The Group's financial instruments include trade and other receivables, amounts due from related parties and the Controlling Shareholder, pledged bank deposit, bank balances and cash, other payables and accrued charges, amounts due to related parties, bank overdrafts and bank borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

6. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (Continued)

Interest rate risk management

The Group is exposed to fair value interest rate risk in relation to fixed-rate pledged bank deposit (note 23) and bank borrowings (note 25).

The Group's cash flow interest rate risk primarily relates to the bank balances as well as floating-rate bank overdrafts (note 23).

The Group has not used any interest rate swaps to mitigate its exposure associated with interest rate risk. However, the management of the Group monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

In the opinion of management of the Group, a reasonably possible change in interest rate on bank balances and bank overdrafts is not expected to have significant impact to the Group in the near future, hence sensitivity analysis is not presented.

Foreign currency risk management

The Group have certain bank balances which is denominated in Renminbi ("**RMB**"), foreign currency of the relevant group entity, which expose the Group to foreign currency risk. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise. As at 31 December 2014, bank balances of HK$32,500,000 (2013: nil) is denominated in RMB.

Foreign currency sensitivity analysis

For the purpose of sensitivity analysis, 5% sensitivity rate is used to illustrate the effect of increase and decrease in HK$ against RMB. 5% is the sensitivity rate used which represents management's assessment of the reasonably possible change in HK$ against RMB. The sensitivity analysis includes only outstanding RMB denominated bank balances and adjusts the translation at the year end for a 5% change in foreign currency rates. For a 5% strengthening of HK$ against RMB, the post-tax loss for the year ended 31 December 2014 would be increased by HK$1,357,000. For a 5% weakening of HK$ against RMB, the post-tax loss for the year ended 31 December 2014 would be decreased by HK$1,357,000. In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

6. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (Continued)

Credit risk management

The Group's credit risk is primarily attributable to trade receivables, rental deposits, amounts due from related parties and the Controlling Shareholder, pledged bank deposit and bank balances.

The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge the obligations by counterparties is arising from the carrying amounts of the respective recognised financial assets as stated in the consolidated statement of financial position at the end of the reporting period.

In view of the business nature, management of the Group considered that the credit risks of trade receivables are insignificant after considering the credit quality and financial ability of the relevant financial institutions and there is no history of delay or default in settlement by them.

The management of the Group considered that the credit risks of rental deposits are insignificant after considering the financial ability of the counterparties.

As at 31 December 2014, the Group has concentration of credit risk on amounts due from related parties including Well Team and Mutual Bright amounted to HK$3,395,000 and HK$2,374,000 respectively. Considering the Group has overall balances of amount due from Well Team amounted to HK$2,089,000 and amount due to Mutual Bright amounted to HK$516,000 and subsequent to the end of the reporting period, settlement of HK$800,000 was received from Well Team. The management considered there was no recoverability problem.

As at 31 December 2013, the Group had concentration of credit risk on amounts due from related parties including Excel Concept, Tim EDPlatform Limited ("**T.E.P.**"), Rainbow Creative Arts Limited ("**Rainbow**"), Hong Kong Speech & Swallowing Therapy Co. Limited ("**Speech & Swallowing**"), Max Info Corporation Limited ("**Max Info**"), Well Team, Mutual Bright and the Controlling Shareholder amounted to HK$10,988,000, HK$4,387,000, HK$2,826,000, HK$1,621,000, HK$2,123,000, HK$2,238,000, HK$1,068,000 and HK$21,356,000 respectively. Except for the amounts due from Mutual Bright and Well Team, the amounts were substantially settled by cash and the net settlement agreements executed on 1 August 2014. Details are set out in note 34.

The Group also has concentration of credit risk on liquid funds of which the pledged bank deposit and majority of the bank balances are deposited with banks with good reputation.

6. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (Continued)

Liquidity risk management

In the management of the liquidity risk, the directors of the Company monitor and maintain a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and mitigate the effects of unexpected fluctuations in cash flows.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The maturity dates for the financial liabilities below are based on the agreed repayment dates.

The table includes both interest and principal cash flows.

	Weighted average effective interest rate	Repayable on demand or within 1 year and total undiscounted cash flows	Total carrying amount
	%	HK$'000	HK$'000
As at 31 December 2014			
Non-derivative financial liabilities			
Other payables and accrued charges	**N/A**	**9,589**	**9,589**
Amounts due to related parties	**N/A**	**4,490**	**4,490**
Bank borrowings — fixed-rate	**3.00**	**743**	**743**
		14,822	**14,822**
As at 31 December 2013			
Non-derivative financial liabilities			
Other payables and accrued charges	N/A	4,263	4,263
Amounts due to related parties	N/A	3,736	3,736
Bank overdrafts — floating-rate	4.00	800	800
Bank borrowings — fixed-rate	3.86	4,969	4,969
		13,768	13,768

Bank borrowings with a repayment on demand clause are included in the "repayable on demand or within 1 year" time band in the above maturity analysis. As at 31 December 2014, the aggregate carrying amounts of these bank borrowings amounted to HK$743,000 (2013: HK$4,969,000). Taking into account the Group's financial position, the management does not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The management believes that such bank borrowings will be repaid in accordance with the scheduled repayment dates set out in the loan agreements.

6. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (Continued)

Liquidity risk management (Continued)

For the purpose of managing liquidity risk, management reviews the expected cash flows information of the Group's bank borrowings based on the scheduled repayment dates set out in the bank borrowings agreements and set out in the table below:

	Weighted average effective interest rate %	Less than 1 year HK$'000	1–2 years HK$'000	Total undiscounted cash flows HK$'000	Total carrying amount HK$'000
Bank borrowings:					
As at 31 December 2014					
— fixed-rate	**3.00**	**189**	**566**	**755**	**743**
As at 31 December 2013					
— fixed-rate	3.86	4,106	990	5,096	4,969

7. REVENUE AND SEGMENT INFORMATION

Revenue represents the fair value of amounts received and receivable for goods sold and services provided by the Group to outside customers, less discount during the relevant year. The Group's operation is solely derived from jazz and ballet academy in Hong Kong during the year. For the purpose of resources allocation and performance assessment, the chief operating decision maker (i.e. the chief executive officer of the Group) reviews the overall results and financial position of the Group as a whole. Accordingly, the Group has only one single operating segment and no further analysis of this single segment is presented.

The following is an analysis of the Group's revenue:

	2014 HK$'000	2013 HK$'000
Course fee income	**53,778**	41,553
Sales of dance uniforms, shoes and accessories	**2,417**	2,014
	56,195	43,567

Geographical information

The Group's revenue are all derived from Hong Kong based on the location of goods delivered and services provided and all the Group's non-current assets are located in Hong Kong by location of assets.

No individual customer was accounted for over 10% of the Group's total revenue for both years.

8. OTHER INCOME

	2014 HK$'000	2013 HK$'000
Franchise income (Note)	–	3,133
Management fee income	1,800	1,800
Examination handling fee income	1,403	982
Performance and show income	1,211	1,302
Building management fee and rental income	2,332	938
Interest income	214	–
Others	588	635
	7,548	8,790

Note: On 30 December 2013, all the franchise agreements entered into among the Group and the four franchised dance centres were terminated. Accordingly, no franchise income is earned by the Group since 30 December 2013.

9. FINANCE COSTS

	2014 HK$'000	2013 HK$'000
Interests on:		
Interest on bank overdrafts and bank borrowings wholly repayable within five years	360	145

10. INCOME TAX EXPENSE

	2014 HK$'000	2013 HK$'000
Current tax		
— Hong Kong Profits Tax	**1,899**	2,400
— Overprovision in prior year	**(26)**	–
	1,873	2,400
Deferred tax (note 28)	**26**	(83)
	1,899	2,317

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for both years.

The income tax expense for the year can be reconciled to the (loss) profit before taxation as follows:

	2014 HK$'000	2013 HK$'000
(Loss) profit before taxation	**(418)**	12,485
Tax at the profits tax rate of Hong Kong of 16.5%	**(69)**	2,060
Tax effect of expenses not deductible for tax purpose	**2,051**	370
Tax effect of income not taxable for tax purpose	**(28)**	–
Overprovision in prior year	**(26)**	–
Others	**(29)**	(113)
Income tax expense for the year	**1,899**	2,317

11. (LOSS) PROFIT AND TOTAL COMPREHENSIVE (EXPENSE) INCOME FOR THE YEAR

	2014 HK$'000	2013 HK$'000
(Loss) profit and total comprehensive (expense) income for the year has been arrived at after charging:		
Auditor's remuneration	**699**	120
Directors' remuneration (note 12)		
Other emoluments	**195**	–
Instructor costs	**4,062**	3,244
Other staff costs	**12,096**	8,937
Retirement benefits scheme contributions	**611**	793
Total staff costs	**16,964**	12,974
Consultants service costs	**3,661**	2,779
Cost of inventories recognised as expenses	**2,039**	1,329
Net exchange loss	**557**	–
Impairment loss on other receivables	**120**	–
Operating lease payments in respect of tenancy agreements of rented premises entered:		
by the Group for minimum lease payment	**13,076**	6,169
by the related parties for minimum lease payment	**775**	2,869
Contingent rents (Note)	**173**	–
	14,024	9,038

Note: The contingent rents are determined based on certain percentage of the gross sales of the relevant dancing centres when the sales meet certain specified level.

12. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

Directors' and Chief Executive's emoluments

The remuneration paid or payable to the Company's directors was as follows:

		Other emoluments		
	Directors' fees HK$'000	Salaries and other benefits HK$'000	Retirement benefits scheme contributions HK$'000	Total HK$'000
2014				
Executive directors				
Mr. Chiu Ka Lok (Note i)	–	–	–	–
Mr. Chun Chi Ngon Richard ("Mr. Chun") (Notes i, iv)	60	–	–	60
Non-executive directors				
Ms. Yeung Siu Foon ("Ms. Yeung") (Note ii)	–	–	–	–
Dr. Chun Chun (Note ii)	–	–	–	–
Ms. Yip Sze Pui Fione (Note ii)	–	–	–	–
Independent non-executive directors				
Mr. Lau Sik Yuen (Note iii)	45	–	–	45
Ms. Chiu Wing Kwan Winnie (Note iii)	45	–	–	45
Mr. Yuen Man Chun Royce (Note iii)	45	–	–	45
Total	195	–	–	195
2013				
Executive directors				
Mr. Chiu Ka Lok (Note i)	–	–	–	–
Mr. Chun (Notes i, iv)	–	–	–	–
Total	–	–	–	–

Notes:

(i) Mr. Chiu Ka Lok and Mr. Chun were appointed as the executive directors of the Company on 12 February 2014.

(ii) Ms. Yeung, Dr. Chun Chun and Ms. Yip Sze Pui Fione were appointed as the non-executive directors of the Company on 24 March 2014.

(iii) Mr. Lau Sik Yuen, Ms. Chiu Wing Kwan Winnie and Mr. Yuen Man Chun Royce were appointed as the independent non-executive directors of the Company on 26 September 2014.

(iv) Mr. Chun is also the Chief Executive Officer of the Group.

12. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS (CONTINUED)

Directors' and Chief Executive's emoluments (Continued)

No remuneration was paid by the Group to the directors of the Company as an inducement to join or upon joining the Group or as compensation for loss of office for both years. None of the directors of the Company has waived any remuneration during the years ended 31 December 2014 and 2013.

Employees' emoluments

None of the five highest paid individuals are directors of the Company. These employees' emoluments for the years ended 31 December 2014 and 2013, which was individually less than HK$1,000,000, were as follows:

	2014 HK$'000	2013 HK$'000
Salaries and other benefits	2,072	1,654
Bonuses	–	100
Contributions to retirement benefit scheme	76	61
	2,148	1,815

During both years, no emoluments were paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

13. DIVIDEND

Prior to the Listing, the Company declared total dividends of HK$19,500,000 to its sole shareholder, Wealthy Together during the year ended 31 December 2014.

The directors of the Company do not recommend the payment of a final dividend for the year ended 31 December 2014 (2013: Nil).

14. (LOSS) EARNINGS PER SHARE

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

	2014 HK$'000	2013 HK$'000
(Loss) earnings:		
(Loss) earnings for the purpose of calculating basic (loss) earnings per share ((loss) profit for the year attributable to owners of the Company)	**(2,317)**	10,169

	2014 '000	2013 '000
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic (loss) earnings per share	**140,943**	42,688

The weighted average number of ordinary shares for the purpose of calculating basic (loss) earnings per share has been determined on the assumption that the Reorganisation and the Capitalisation Issue (as defined in note 27) had been effective on 1 January 2013.

No diluted (loss) earnings per share for both years was presented as there were no potential ordinary shares in issue during both years.

15. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Total HK$'000
COST			
At 1 January 2013	4,613	795	5,408
Additions	126	504	630
Acquisitions of businesses (note 31)	314	44	358
At 31 December 2013	5,053	1,343	6,396
Additions	997	1,045	2,042
Written off	(700)	(166)	(866)
At 31 December 2014	5,350	2,222	7,572
DEPRECIATION			
At 1 January 2013	3,758	391	4,149
Provided for the year	641	315	956
At 31 December 2013	4,399	706	5,105
Provided for the year	570	525	1,095
Eliminated on written off	(700)	(166)	(866)
At 31 December 2014	4,269	1,065	5,334
CARRYING VALUES			
At 31 December 2014	1,081	1,157	2,238
At 31 December 2013	654	637	1,291

Depreciation is charged so as to write off the cost over their estimated useful lives, using the straight-line method, at the following rate per annum:

Leasehold improvements	Over the lease terms of 2 to 4 years
Furniture, fixtures and equipment	33.33%

16. GOODWILL

	HK$'000
As at 1 January 2013	–
Acquisitions of businesses (note 31)	1,897
As at 31 December 2013 and 31 December 2014	**1,897**

Impairment testing on goodwill

The Group has acquired the Acquired Businesses comprising the operations of certain dancing schools together with the relevant assets and liabilities, on 30 December 2013 (note 31) which further expands and provides synergies to the Group's jazz and ballet academy business (the "**CGU**"). As at 31 December 2014, management of the Group determines that there was no impairment of the CGU as the recoverable amounts of the CGU exceed its carrying amounts.

The recoverable amount of the CGU has been determined on the basis of value in use calculation. Its recoverable amount is based on certain key assumptions. The calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period, and at a discount rate of 18.90% (2013: 18.90%) as at 31 December 2014. The CGU's cash flows beyond the 5-year period are extrapolated using a growth rate of 3% (2013: 3%) as at 31 December 2014. The growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted revenue and gross margin, such estimation is based on the CGU's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of the CGU to exceed the aggregate recoverable amount of the CGU.

17. INTANGIBLE ASSETS

	Customer relationship HK$'000
As at 1 January 2013	–
Acquisitions of businesses (note 31)	534
As at 31 December 2013	534
Charge for the year	(89)
As at 31 December 2014	445

The intangible assets are amortised on a straight-line basis over 6 years.

18. INTERESTS IN JOINT VENTURES

	2014 HK$'000	2013 HK$'000
Cost of unlisted investment in joint ventures	–	–
Share of post-acquisition losses	–	–
	–	–

Name of joint venture	Place and date of incorporation	Place of operation	Issued and fully paid share capital	Attributable equity interest of the Group as at 31 December 2014 %	2013 %	Principal activities
Mutual Bright (Note)	Hong Kong 5 January 2012	Hong Kong	HK$2	50	50	Jazz and ballet academy
Well Team (Note)	Hong Kong 11 January 2012	Hong Kong	HK$2	50	50	Jazz and ballet academy

Note: Mutual Bright and Well Team were acquired by the Group from Excel Concept on 30 September 2013.

The Group has acquired two joint ventures in 2013 of which details are set out in note 2. All the Group's joint ventures are not considered as individually material and the Group has not recognised any share of loss after the acquisition.

	2014 HK$'000	2013 HK$'000
The unrecognised share of losses of the two joint ventures for the year/from date of acquisition to 31 December 2013	594	289
Cumulative share of losses of the two joint ventures	883	289

19. INVENTORIES

	2014 HK$'000	2013 HK$'000
Finished goods — dance uniform, shoes and accessories	596	911

20. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2014 HK$'000	2013 HK$'000
Trade receivables from third parties	**796**	940
Rental deposits (Note i)	**5,850**	3,398
Other deposits, receivables and prepayments (Note ii)	**2,452**	2,935
Total trade and other receivables, deposits and prepayments	**9,098**	7,273
Analysed as		
Current	**5,182**	5,058
Non-current	**3,916**	2,215
	9,098	7,273

Notes:

(i) As at 31 December 2014, rental deposits include amount of nil (2013: HK$1,523,000) where the tenancy agreements were entered into by certain related parties of the Group.

(ii) As at 31 December 2013, included in other deposits, receivables and prepayments was prepayment of listing expenses amounting to HK$1,195,000.

Trade receivables from third parties mainly represent receivables from financial institutions in relation to the payments settled by credit cards by customers of which the settlement period is normally one to two months from transaction date. No credit period is granted for tutoring and examination fee as they are normally received in advance.

The following is an aged analysis of trade receivables from third parties net of allowance for doubtful debts presented based on the invoice date at the end of the reporting period, which approximated the respective revenue recognition dates:

	2014 HK$'000	2013 HK$'000
0 to 30 days	**607**	630
31 to 60 days	**166**	242
61 to 90 days	**23**	50
91 to 365 days	**–**	18
	796	940

As at 31 December 2014 and 2013, there was no trade receivables from third parties which are past due at the end of the reporting period.

21. AMOUNTS DUE FROM/TO RELATED PARTIES

	2014 HK$'000	2013 HK$'000
Amounts due from joint ventures:		
Mutual Bright (Note i)	**2,374**	1,068
Well Team (Note i)	**3,395**	2,238
	5,769	3,306
Amounts due from other related parties:		
Excel Concept (Note ii)	**–**	10,988
T.E.P. (Note iii)	**–**	4,387
Stage Photography Company Limited ("Stage Photography") (Note iv)	**–**	273
Rainbow (Note v)	**194**	2,826
Speech & Swallowing (Note v)	**–**	1,621
Red Vocal Limited ("Red Vocal") (formerly known as Star Choir & Vocal Academie Limited) (Note v)	**–**	478
Trend Success Limited ("Trend Success") (Note vi)	**–**	922
Max Info (Note vii)	**–**	2,123
SDM Education (Note viii)	**–**	19
Dunn's Education Limited ("Dunn's Education") (Note ix)	**–**	128
E.L.S.A. EDU. Limited ("E.L.S.A.") (Note ix)	**6**	58
Mr. Chun (Note x)	**–**	3
Sunshine Chinese Painting ("Sunshine") (Note xi)	**3**	13
Hong Kong Association of Children Dance Promotion Co. Ltd. ("Children Dance") (Note xi)	**–**	155
	203	23,994
Total amounts due from related parties	**5,972**	27,300

21. AMOUNTS DUE FROM/TO RELATED PARTIES (CONTINUED)

Notes:

(i) Mutual Bright and Well Team were previously jointly controlled by Excel Concept and another independent third party. The Group has acquired 50% interest in Mutual Bright and Well Team from Excel Concept on 30 September 2013. Details are set out in note 2.

(ii) Excel Concept is legally owned and controlled by Mr. Chiu Kwok Kwong and Ms. Hui Bing Mui, whom hold the shares on trust for the Controlling Shareholder.

(iii) T.E.P. is 73.14% beneficially owned and controlled by the Controlling Shareholder.

(iv) Stage Photography is 75% beneficially owned and controlled by the Controlling Shareholder.

(v) Rainbow, Speech & Swallowing and Red Vocal are 100% beneficially owned and controlled by the Controlling Shareholder.

(vi) Trend Success is 66% beneficially owned and controlled by T.E.P..

(vii) Max Info is 100% beneficially owned and controlled by T.E.P..

(viii) SDM Education is 100% beneficially owned and controlled by the Controlling Shareholder.

(ix) The Controlling Shareholder holds 33.33% interest in Dunn's Education and E.L.S.A. is 100% beneficially owned and controlled by Dunn's Education.

(x) Mr. Chun is father-in-law of the Controlling Shareholder and has become a director of the Company since 12 February 2014.

(xi) Sunshine and Children Dance are 100% beneficially owned and controlled by Ms. Yeung, mother-in-law of the Controlling Shareholder and has become a director of the Company since 24 March 2014.

All balances are non-trade nature, unsecured, non-interest bearing and repayable on demand which are classified as current as they are expected to be recovered within twelve months from the end of reporting period.

21. AMOUNTS DUE FROM/TO RELATED PARTIES (CONTINUED)

Maximum amount of the non-trade balances outstanding during the respective year:

	2014 HK$'000	2013 HK$'000
Amounts due from joint ventures:		
Mutual Bright	**2,374**	1,068
Well Team	**3,395**	2,515
Amounts due from other related parties:		
Excel Concept	**14,722**	14,392
T.E.P.	**5,947**	4,387
Stage Photography	**293**	273
Rainbow	**3,218**	2,826
Speech & Swallowing	**2,792**	2,209
Red Vocal	**478**	543
Trend Success	**977**	922
Max Info	**2,123**	2,315
SDM Education	**19**	32
Dunn's Education	**164**	128
E.L.S.A.	**86**	58
Mr. Chun	**3**	3
Sunshine	**29**	13
Children Dance	**155**	155
Amounts due to joint ventures:		
Mutual Bright	**2,890**	1,932
Well Team	**1,306**	966
	4,196	2,898
Amount due to Controlling Shareholder	**144**	–
Amounts due to other related parties:		
Excel Concept	**150**	–
Golden Goal (Hong Kong) Limited ("Golden Goal") (Note i)	**–**	289
Talent Information Management (H.K.) Limited ("Talent Information") (Note ii)	**–**	549
	150	838
Amounts due to related parties	**4,490**	3,736

21. AMOUNTS DUE FROM/TO RELATED PARTIES (CONTINUED)

Notes:

(i) Golden Goal is 100% beneficially owned and controlled by Mr. Chun.

(ii) Talent Information is 100% beneficially owned and controlled by T.E.P..

All balances are non-trade in nature, unsecured, non-interest bearing and repayable on demand.

22. AMOUNT DUE FROM CONTROLLING SHAREHOLDER

	2014 HK$'000	2013 HK$'000
Amount due from Controlling Shareholder (Notes i, ii)	–	21,356

Notes:

(i) The maximum amount outstanding during the years ended 31 December 2014 is HK$31,407,000 (2013: HK$21,356,000).

(ii) As at 31 December 2013, the amount was non-trade in nature, unsecured, non-interest bearing and repayable on demand which is classified as current as it is expected to be recovered within twelve months from the end of the reporting period. During the year ended 31 December 2014, an amount of HK$10,000,000 has been advanced to Controlling Shareholder which bore interest rate at 6.0% per annum and the amount has been repaid during the year ended 31 December 2014.

23. PLEDGED BANK DEPOSIT, BANK BALANCES AND CASH AND BANK OVERDRAFTS

Pledged bank deposit carries fixed interest rate of 0.25% per annum and represents bank deposit pledged to a landlord and will be released upon expiry of the lease agreement. The respective lease agreement would be expired in the year 2016 and accordingly, the pledged bank deposit is classified as non-current asset.

Included in bank balances and cash is an amount of HK$32,500,000 (2013: nil) representing time deposit denominated in RMB with maturity of three months or less, carrying interest at rate of 4% (2013: nil) per annum. The other bank balances carried interest at average market rates of 0.02% (2013: 0.02%) per annum as at 31 December 2014.

Bank overdrafts carried interest at average market rates of 4.0% per annum as at 31 December 2013.

24. OTHER PAYABLES, ACCRUED CHARGES AND DEPOSITS RECEIVED

	2014 HK$'000	2013 HK$'000
Accrued rental expenses	**1,043**	908
Accrued staff costs	**583**	2,413
Receipt in advance	**3,025**	3,327
Deferred income (Note i)	**22,538**	21,064
Other payables and accrued charges (Note ii)	**8,501**	1,485
	35,690	29,197

Notes:

(i) Deferred income represents the course fee received in advance.

(ii) As at 31 December 2014, included in other payables and accrued charges was accrual of listing expenses amounting to HK$5,949,000 (2013: nil).

25. BANK BORROWINGS

	2014 HK$'000	2013 HK$'000
Unsecured bank borrowings	**743**	4,969
Carrying amount repayable*:		
Within one year	**743**	3,993
More than one year, but not exceeding two years	**–**	976
	743	4,969

* The amounts due are based on scheduled repayment dates set out in the loan agreements.

As at 31 December 2014 and 2013, all the bank borrowings contain a repayment on demand clause and accordingly are shown under current liabilities.

As at 31 December 2014, the unsecured bank borrowings are guaranteed by the Company. As at 31 December 2013, the unsecured bank borrowings were under the personal guarantee from the Controlling Shareholder, Mr. Chiu Kwok Kwong and Ms. Hui Bing Mui, corporate guarantee from Excel Concept and certain bank borrowings are under the guarantee from the government of the Hong Kong Special Administrative Region.

25. BANK BORROWINGS (CONTINUED)

The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group's borrowings are as follows:

	2014	2013
Effective interest rate (per annum):		
Fixed-rate borrowings	**3.0%**	3.0%–5.0%

26. PROVISIONS

	Provision for reinstatement cost HK$'000
As at 1 January 2013	1,300
Acquisitions of businesses (note 31)	400
As at 31 December 2013	1,700
Additional provisions recognised	101
Reductions arising from payments	(100)
As at 31 December 2014	**1,701**

	2014 **HK$'000**	2013 HK$'000
Analysed as		
Current	**600**	900
Non-current	**1,101**	800
	1,701	1,700

The provision is made based on the best estimate of the reinstatement cost for restoring the leased properties and the relevant leases will be expired one to two years at the end of the respective reporting period which will be the expected timing of the outflows of economic benefits.

27. ISSUED CAPITAL

The issued capital of the Group as at 31 December 2013 represented the combined share capital of SDM Jazz & Ballet, Metro Noble, SDM Academie, SDM Group and SDM Management. The issued capital of the Group as at 31 December 2014 represents the share capital of the Company.

	Number of shares	Share capital HK$'000
Ordinary shares of HK$0.1 each		
Authorised:		
As at 12 February 2014 (date of incorporation) (Note i)	3,800,000	380
Increase on 26 September 2014 (Note iii)	7,996,200,000	799,620
As at 31 December 2014	8,000,000,000	800,000
Issued:		
As at 12 February 2014 (date of incorporation) (Note i)	1	–
Issue of new shares on Reorganisation (Note ii)	3	–
Capitalisation Issue (Note iv)	170,749,996	17,075
Issue of new shares upon Listing (Note v)	29,250,000	2,925
As at 31 December 2014	200,000,000	20,000

Notes:

(i) On 12 February 2014, the Company was incorporated and registered as an exempted company in the Cayman Islands with an authorised share capital of HK$380,000 divided into 3,800,000 shares of HK$0.1 each. Upon its incorporation, 1 subscriber share was allotted and issued to Wealthy Together.

(ii) On 14 April 2014, to effect the Reorganisation, 3 shares were allotted, issued, credited as fully paid to Wealthy Together.

(iii) Pursuant to the written resolutions passed by the shareholders on 26 September 2014, the authorised share capital of the Company was increased from HK$380,000 divided into 3,800,000 ordinary shares to HK$800,000,000 divided into 8,000,000,000 ordinary shares by the creation of additional 7,996,200,000 new ordinary shares which shall, when issued and paid, rank pari passu in all respects with the existing issued ordinary shares.

(iv) Pursuant to the written resolutions passed by the shareholders on 26 September 2014, a sum of HK$17,075,000 standing to the credit of the share premium account of the Company was capitalised by paying up in full at par a total of 170,749,996 new shares and for allotment and issue to Wealthy Together (the "**Capitalisation Issue**").

(v) On 14 October 2014, the Company placed 29,250,000 shares at HK$1.5 per share for a total gross proceeds of HK$43,875,000. The proceeds will be used to finance the implementation of the business plans as set forth in the section headed "Future Plan and Use of Proceeds" of the prospectus of the Company dated 30 September 2014.

All issued shares rank pari passu in all respects with each other.

None of the Company's subsidiaries purchased, sold or redeemed any of the Company's listed shares during the year ended 31 December 2014.

28. DEFERRED TAXATION

Accelerated accounting depreciation is recognised as deferred tax asset and movements thereon during the current and prior years:

	HK$'000
As at 1 January 2013	317
Credit to profit or loss (note 10)	83
As at 31 December 2013	400
Debit to profit or loss (note 10)	(26)
As at 31 December 2014	**374**

29. OPERATING LEASE COMMITMENTS

The Group as lessee

At the end of each reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases falling due as follows:

	2014 **HK$'000**	2013 HK$'000
Within one year	**10,231**	5,130
In the second to fifth year inclusive	**6,145**	5,177
	16,376	10,307

The Group leases its office premises and dancing schools under operating lease arrangements. Leases for office premises and dancing schools are negotiated for fixed terms ranged from 1 to 4 years. Certain related parties have signed lease agreements for the usage by the Group and the operating lease commitments are not included as above.

The Group as lessor

The Group sub-leased certain properties to related parties and has committed tenants for two to three years.

At the end of the reporting period, the Group had contracted with related parties for the following future minimum lease payments:

	2014 **HK$'000**	2013 HK$'000
Not later than one year	**822**	–
Later than one year and not later than five years	**60**	–
	882	–

30. RETIREMENT BENEFITS SCHEME

The Group operates defined contribution retirement benefit plan for all qualifying employees in Hong Kong. The Group and the employees shall make contributions based on a percentage of the employee's basic salary with a cap of HK$1,500 per month starting from 1 June 2014 (prior to 1 June 2014: HK$1,250 per month) and charged to profit or loss as they become payable in accordance with the rules of Mandatory Provident Fund Scheme. The assets of the plan are held separately from those of the Group in funds under the control of trustees.

31. ACQUISITIONS OF BUSINESSES

As detailed in note 2, on 30 December 2013, SDM Academie acquired the relevant businesses and certain assets and liabilities of the Acquired Businesses from Excel Concept and Innoland Company Limited. These acquisitions have been accounted for using the acquisition method. The aggregate amount of goodwill arising as a result of these acquisitions was HK$1,897,000. The Acquired Businesses are operations of dancing schools at certain locations in Hong Kong. These dancing schools were acquired so as to continue the expansion of the Group's jazz and ballet operations and provide synergies to the Group's operation as a whole. The consideration of HK$1,431,000 payable by the Group was offset with the amount due from Excel Concept.

Assets acquired and liabilities recognised at the date of acquisition were as follows:

	Stand Kind HK$'000	Fine Progress HK$'000	Faith Emperior HK$'000	Innoland Operation HK$'000	Total HK$'000
Property, plant and equipment	75	55	212	16	358
Intangible assets	256	134	144	–	534
Inventories	10	10	8	6	34
Trade and other receivables, deposits and prepayments	237	248	176	232	893
Amounts due from group entities	837	4,520	2,776	341	8,474
Bank balances and cash	1	6	2	18	27
Other payables, accrued charges and deposits received	(726)	(1,538)	(1,115)	(519)	(3,898)
Amounts due to group entities	(1,241)	(3,259)	(1,905)	(83)	(6,488)
Provisions	(100)	(100)	(100)	(100)	(400)
Net (liabilities) assets acquired	(651)	76	198	(89)	(466)
Consideration transferred	200	620	600	11	1,431
Goodwill	851	544	402	100	1,897

The fair value of trade and other receivables and amounts due from group entities at the date of acquisition amounted to HK$9,367,000, which was the same as the gross contractual amounts of those trade and other receivables acquired at the date of acquisition.

None of the goodwill arising on these acquisitions was expected to be deductible for tax purposes.

31. ACQUISITIONS OF BUSINESSES (CONTINUED)

Cash inflow arising on acquisition

	HK$'000
Bank balances and cash acquired	27

Had these acquisitions been completed on 1 January 2013, total group revenue for the year ended 31 December 2013 would have been HK$51,351,000, and profit for the year would have been HK$9,029,000. The pro forma information was for illustrative purposes only and was not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2013, nor was it intended to be a projection of future results.

32. DISPOSAL OF A SUBSIDIARY

On 11 March 2014, SDM Jazz & Ballet disposed of its 70% equity interests in Shelly De Mozz Management to an independent third party for a consideration of HK$70. The liabilities of Shelly De Mozz Management at the date of disposal were as follows:

Consideration received and receivable

	HK$'000
Cash consideration	–

Analysis of liabilities over which control was lost

	HK$'000
Other payables and accrued charges	(17)
Liabilities of subsidiary disposed of	(17)

Gain on disposal of a subsidiary

	HK$'000
Consideration received and receivable	–
Liabilities disposed of	17
Non-controlling interest	(8)
Gain on disposal	9

33. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in these consolidated financial statements, the Group also had the following related party transactions during both years:

	2014 HK$'000	2013 HK$'000
Payroll expenses paid to related companies for the staffing service provided to the Group:		
— T.E.P.	**41**	219
— Excel Concept	**120**	713
	161	932
Interest income from the Controlling Shareholder	**135**	–
Professional expenses attributable to the sale of shares of the Company held by the Controlling Shareholder paid by the Company recognised as deemed contribution	**1,685**	–
Rental deposits paid by Excel Concept on behalf of the Group	**150**	–

33. RELATED PARTY TRANSACTIONS (CONTINUED)

	2014 HK$'000	2013 HK$'000
Building management fee, rent and rates received from other related companies:		
— Rainbow	582	292
— Dunn's Education	1,173	591
— Sunshine	151	55
	1,906	938
Outsourcing fee paid to Richard's Co. (Note i)	–	240
Management fee income received from:		
Joint ventures:		
— Mutual Bright (Note ii)	600	150
— Well Team (Note ii)	1,200	300
	1,800	450
Other related companies:		
— Mutual Bright (Note ii)	–	450
— Well Team (Note ii)	–	900
	–	1,350
	1,800	1,800

Notes:

(i) Richard's Co. is 100% beneficially owned and controlled by Mr. Chun.

(ii) Mutual Bright and Well Team were previously jointly owned and controlled by Excel Concept and another independent third party. The Group had acquired 50% interest in Mutual Bright and Well Team from Excel Concept on 30 September 2013. Details are set out in note 2.

33. RELATED PARTY TRANSACTIONS (CONTINUED)

During the years ended 31 December 2014 and 2013, certain related parties have entered into tenancy agreements for the premises occupied by the Group for dancing schools, the total building management fee, rent and rates paid and payable to the landlords under the tenancy agreements entered into by related parties are as follows:

	2014 HK$'000	2013 HK$'000
Max Info	–	265
Joy Flash Limited ("Joy Flash") (Note i)	310	849
Sun Bright International Development Limited ("Sun Bright") (Note i)	92	1,102
Charm Wide Limited ("Charm Wide") (Note i)	169	657
5 Dimensions Limited ("5 Dimensions") (Note ii)	169	981
Stand Kind (Note i)	220	–
Fine Progress (Note i)	53	–
Faith Emperior (Note i)	157	–
	1,170	3,854

Notes:

(i) Joy Flash, Sun Bright, Charm Wide are 100% beneficially owned and controlled by Excel Concept. Stand Kind, Fine Progress and Faith Emperior were acquired by Excel Concept on 30 December 2013 and 100% beneficially owned and controlled by Excel Concept.

(ii) 5 Dimensions is 95% and 5% beneficially owned by T.E.P. and the Controlling Shareholder respectively and is controlled by T.E.P..

During the year ended 31 December 2013, tenancy agreements of a dance centre and eight dance centres entered into by the Group and certain related parties were with clauses of provision of personal guarantee by Mr. Chun and the Controlling Shareholder respectively. Ms. Yeung had provided personal guarantee for the tenancy agreement of a dance centre before the change of guarantee to the Controlling Shareholder on 1 April 2013. All the personal guarantees provided by related parties were released prior to the Listing.

33. RELATED PARTY TRANSACTIONS (CONTINUED)

Compensation of key management personnel

The remuneration of members of key management of the Group during the years ended 31 December 2014 and 2013 were as follows:

	2014 **HK$'000**	2013 HK$'000
Short-term benefits	**195**	971
Post-employment benefits	**–**	36
	195	1,007

34. MAJOR NON-CASH TRANSACTIONS

On 1 August 2014, the Company has entered into agreements with Wealthy Together and the Controlling Shareholder to net settle the balances among the Group, Wealthy Together and the Controlling Shareholder (the "**Net Settlement Agreements**"). Pursuant to the Net Settlement Agreements, the balances being net settled are summarised as follows:

(a) The Group's dividend payable to Wealthy Together of HK$19,500,000; and

(b) The Group's amounts due from Controlling Shareholder of HK$31,491,000.

Upon the completion of the net settlements mentioned above, amounts due from Controlling Shareholder decreased by HK$19,500,000.

The aggregate consideration payable of HK$35,800,000 for acquisition of SDM Academie, SDM Jazz & Ballet and Metro Noble was satisfied by issuance of 3 shares by the Company.

Pursuant to the written resolutions passed by the shareholders on 26 September 2014, a sum of HK$17,075,000 standing to the credit of the share premium account of the Company was capitalised by paying up in full at par a total of 170,749,996 new shares and for allotment and issue to Wealthy Together.

During the year ended 31 December 2013, the Group acquired the Acquired Businesses at a total consideration of HK$1,431,000. The consideration was settled by offsetting the amount due from Excel Concept of which Excel Concept will pay HK$11,000 to Innoland Company Limited on behalf of the Group. Details of the acquisitions are set out in note 31.

35. FINANCIAL INFORMATION OF THE COMPANY

Financial information of the Company at the end of the reporting period includes:

	Notes	2014 HK$'000
Non-current assets		
Unlisted investments		26,610
Current assets		
Other receivables and prepayments		1,346
Amounts due from subsidiaries	i	32,445
Bank balances and cash		22,616
		56,407
Current liabilities		
Other payables and accrued charges		7,107
Amount due to Controlling Shareholder	i	279
Amounts due to subsidiaries	i	42,977
		50,363
Net current liabilities		6,044
Total assets less current liabilities		32,654
Capital and reserves		
Share capital		20,000
Reserves	ii	12,654
		32,654

Particulars of the principal subsidiaries of the Company at 31 December 2014 are set out in note 36.

Notes:

(I) AMOUNTS DUE FROM SUBSIDIARIES

The amount is unsecured, interest-free and expected to be repayable within one year.

AMOUNTS DUE TO CONTROLLING SHAREHOLDER AND SUBSIDIARIES

The amounts are unsecured, interest-free and repayable on demand.

35. FINANCIAL INFORMATION OF THE COMPANY (CONTINUED)

Notes: (Continued)

(II) RESERVES OF THE COMPANY

	Share premium HK$'000	Other reserve HK$'000	Accumulated loss HK$'000	Total HK$'000
As at 12 February 2014 (date of incorporation)	–	–	–	–
Profit and total comprehensive income for the period	–	–	14,432	14,432
Issue of shares	40,950	–	–	40,950
Deemed distribution to the Controlling Shareholder	–	(1,685)	–	(1,685)
Transaction costs attributable to issue of shares	(4,468)	–	–	(4,468)
Capitalisation Issue	(17,075)	–	–	(17,075)
Dividend declared	–	–	(19,500)	(19,500)
As at 31 December 2014	19,407	(1,685)	(5,068)	12,654

36. PARTICULARS OF SUBSIDIARIES

Particulars of the subsidiaries of the Group as at 31 December 2014 and 2013 are as follows:

Name of subsidiary	Place and date of incorporation	Place of operation	Issued and fully paid share capital	Attributable equity interest of the Group as at 31 December 2014 %	2013 %	Principal activities
Limited liability companies						
Brilliant Together	BVI 13 February 2014	Hong Kong	US$1	**100**	–	Investment holding
Tycoon Together	BVI 13 February 2014	Hong Kong	US$1	**100**	–	Investment holding
Fortune Apex Enterprises Limited	BVI 21 October 2014	Hong Kong	US$1	**100**	–	Investment holding
SDM Jazz & Ballet	Hong Kong 12 May 2006	Hong Kong	HK$100	**100**	100	Provision of management services to group entities and joint ventures
Shelly De Mozz Management	Hong Kong 16 June 2006	Hong Kong	HK$100	**–**	70	Inactive
SDM Academie	Hong Kong 17 August 2012	Hong Kong	HK$10,000	**100**	100	Jazz and ballet academy
SDM Group	Hong Kong 20 August 2012	Hong Kong	HK$10,000	**100**	100	Provision of management services to group entities
SDM Management	Hong Kong 20 August 2012	Hong Kong	HK$10,000	**100**	100	Investment holding
Metro Noble	Hong Kong 24 February 2011	Hong Kong	HK$1	**100**	100	Provision of management services to joint ventures

None of the subsidiaries had issued any debt securities at the end of the reporting period.

FINANCIAL SUMMARY

For the three years ended 31 December 2012, 2013 and 2014

RESULTS

	2012 HK$'000	2013 HK$'000	**2014** **HK$'000**
Revenue	40,293	43,567	**56,195**
Profit (loss) before taxation	13,512	12,485	**(418)**
Income tax expense	(2,267)	(2,317)	**(1,899)**
Profit (loss) for the year	11,245	10,168	**(2,317)**
Profit (loss) attributable to:			
Owners of the Company	11,246	10,169	**(2,317)**
Non-controlling interests	(1)	(1)	**–**
	11,245	10,168	**(2,317)**

ASSETS AND LIABILITIES

	2012 HK$'000	2013 HK$'000	**2014** **HK$'000**
Total assets	48,801	66,123	**84,238**
Total liabilities	(36,375)	(43,529)	**(45,751)**
Total equity	12,426	22,594	**38,487**
Non-controlling interests	7	8	**–**
Equity attributable to owners of the Company	12,433	22,602	**38,487**

SDM Group Holdings Limited