

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)

2015 ANNUAL REPORT 年報

Stock Code 股份代號：8363



SDM | 爵士芭蕾舞學院
Jazz & Ballet Academie

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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. Chak Chi Shing

COMPLIANCE OFFICER

Mr. Chiu Ka Lok

COMPLIANCE ADVISER

Innovax 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

(which will be relocated to Suites 3301–4,

33/F., Two Chinachem Exchange Square,

338 King's Road, North Point

Hong Kong with effect from 5 April 2016)

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited

Hang Seng Bank 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 consolidated financial statements of the Company and its subsidiaries (the "**Group**") for the year ended 31 December 2015.

BUSINESS REVIEW

The Group continue focusing on engaging in business of jazz and ballet and pop dance academy in Hong Kong and the People's Republic of China (the "**PRC**").

To cope with the intense competition and economy unsteadiness in 2015, the Group had developed more resources to promote brand image and maintain quality services in order to consolidate our leading position in the industry. During the year 2015, the Group had opened three dance centres in Hong Kong and two dance centres in the PRC (the "**New Centres**") therefore the number of self-operated dance centres has increased from 17 to 22 upon the New Centres opened. Through the New Centres developed, the Group further enhanced the competitive strengths of the Group by increasing the geographical coverage of our centres in Hong Kong and the PRC.

The shares of the Company were successfully listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited 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. The Group would therefore continue to adopt its previously stated strategy in diverting its attention to the development of other businesses which can generate a stable return.

FORWARD

The Group will continue enhancing the geographical coverage by opening and/or acquiring more centres in the future to strengthen our leading position in the industry. Opening and/or acquiring more centres will be located near populated residential areas in Hong Kong, in particular, in private house estates in areas close to a network of schools or which are currently without the presence of the Group's dance centres. 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.

The Group will continue developing new brand or offering wide range of dance courses for children. During the year, the Group offers pop dance courses for children under a new brand, "Cool Kids".

Meanwhile, the Company will also expedite its expansion in the PRC and overseas market to diversify and further broaden the source of income. The Group will adopt investment approach prudently to consider all potential mergers or acquisitions opportunities or cooperation with strong potential partners that 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, 21 March 2016

MANAGEMENT DISCUSSION AND ANALYSIS

INTRODUCTION

SDM Group Holdings Limited (the “**Company**”) and its subsidiaries (collectively, the “**Group**”) is one of the largest dance institutions for children in Hong Kong and is opening 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 the Growth Enterprise Market (the “**GEM Board**”) of the Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 14 October 2014 (the “**Listing**”).

As at 31 December 2015, the Group had 20 self-operated dance centres in Hong Kong, 2 self-operated dance centres in the People’s Republic of China (the “**PRC**”) 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

The Group continues focusing on engaging in business of jazz and ballet and pop dance academy in Hong Kong and the PRC.

During the year 2015 under review, the Group had opened three dance centres in Hong Kong and two dance centres in the PRC (the “**New Centres**”), therefore the number of self-operated dance centres has increased from 17 to 22 upon the New Centres opened. Through the New Centres developed, the Group further enhanced the competitive strengths of the Group by increasing the geographical coverage of our centres in Hong Kong and the PRC.

The Group offers pop dance courses for children under a new brand, “Cool Kids”. “Cool Kids” has been launched at the Group’s dance centres in Discovery Park and Coronation Circle in Austin Station in July and August 2015, respectively.

Meanwhile, the Company will also expedite its expansion in the PRC and overseas market to diversify and further broaden the source of income. The Group will adopt investment approach prudently to consider all potential mergers or acquisitions opportunities or cooperation with strong potential partners that maximize shareholders’ return in the long term.

FINANCIAL REVIEW

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. For the year under review, the Group recorded a revenue of approximately HK\$56.3 million, presenting an increase of approximately 0.1% compared with the revenue of approximately HK\$56.2 million for corresponding year. There was no significant change for the total revenue as compared to the year ended 31 December 2014. Total revenue of approximately HK\$1.1 million was contributed by the New Centres opened during the year as the New Centres are in the early stage of developing and expected to grow rapidly.

MANAGEMENT DISCUSSION AND ANALYSIS

During the year under review, the revenue from the provision of elementary courses was the main source of revenue which amounted to approximately HK\$29.4 million (2014: approximately HK\$30.5 million), representing approximately 52.2% (2014: approximately 54.3%) of the Group's total revenue. Revenue generating from the provision of CSTD jazz courses and RAD ballet courses during the year ended 31 December 2015 were approximately HK\$17.0 million (2014: approximately HK\$14.8 million) and HK\$4.1 million (2014: approximately HK\$4.4 million) respectively, representing approximately 30.2% (2014: approximately 26.3%) and approximately 7.3% (2014: approximately 7.8%) respectively. There was no significant changes as compared to year ended 31 December 2014.

Other income of the Group increased by approximately 9.3% from approximately HK\$7.5 million for the year ended 31 December 2014 to approximately HK\$8.2 million for the year ended 31 December 2015. The increase in other income was mainly due to the increase in building management fee and rental income and interest income from approximately HK\$2.3 million and HK\$0.2 million respectively for the year ended 31 December 2014 to approximately HK\$3.0 million and HK\$0.8 million respectively for the year ended 31 December 2015 which was partially offset by the decrease in examination handling fee income and performance and show income from approximately HK\$1.4 million and HK\$1.2 million respectively for the year ended 31 December 2014 to approximately HK\$1.1 million and HK\$0.9 million respectively for the year ended 31 December 2015.

Rental expenses of the Group increased by approximately 38.6% from approximately HK\$14.0 million for the year ended 31 December 2014 to HK\$19.4 million for the year ended 31 December 2015 was due to the New Centres opened during the year, representing approximately 24.9% and 34.5% respectively of the revenue for the years ended 31 December 2014 and 2015. All Group's dance centres and its head office are under lease.

Staff costs mainly comprise salaries, performance bonuses and retirement benefits scheme contributions paid to the directors, instructors, teaching assistants, sales and marketing staff, operating staff and administrative staff. Increased in staff costs by approximately 24.7% from approximately HK\$17.0 million for the year ended 31 December 2014 to approximately HK\$21.2 million for the year ended 31 December 2015 was due to the New Centres opened during the year.

Other operating expenses of the Group increased by approximately 38.6%, from approximately HK\$15.3 million for the year ended 31 December 2014 to approximately HK\$21.2 million for the year ended 31 December 2015, which was mainly attributable to additional professional fees incurred for continuing obligations and compliances after the Listing and the New Centres opened during the year.

The Group recorded a loss attributable to owners of the Company amounted to approximately HK\$4.5 million for the year ended 31 December 2015 while the Group recorded a loss attributable to owners of the Company amounted to approximately HK\$2.3 million for the year ended 31 December 2014. Such increase in loss was mainly due to the additional operation costs of the New Centres in 2015, which were reflected in the increase in (i) rental expenses; (ii) staff costs and (iii) other operating expenses for the year. Total revenue for the year of approximately HK\$1.1 million was generated by the New Centres as the New Centres are in the early stage of developing and expected to grow rapidly.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operation through internally-generated cash flows, bank facilities and borrowing provided by the banks during the year. As at 31 December 2015, the total bank balances and cash of the Group amounted to approximately HK\$29.4 million (2014: approximately HK\$61.2 million) excluding the pledged bank deposit with fixed term of 3 years amounted to approximately HK\$0.3 million (2014: HK\$0.3 million).

There was no bank borrowings of the Group as at 31 December 2015 (2014: bank borrowings repayable within one year were approximately HK\$0.7 million).

As at 31 December 2015, the current ratio (defined as total current assets divided by total current liabilities) was approximately 1.5 times as compared to that 1.7 times as at 31 December 2014.

As at 31 December 2015, the gearing ratio (calculating based on total bank borrowings and amounts due to related parties which is non-trade nature divided by total equity and multiplied by 100%) was approximately 5.5% (2014: approximately 13.6%).

CAPITAL STRUCTURE

The shares of the Company were successfully listed on the GEM Board of the Stock Exchange on 14 October 2014. There was no changes 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 and 2015, the authorised share capital of the Company was HK\$800,000,000 divided into 8,000,000,000 shares of the Company of HK\$0.1 each ("**Share(s)**"). As at 31 December 2014 and 2015, the issued share capital of the Company was HK\$20,000,000 divided into 200,000,000 Shares.

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 are approximately HK\$46.9 million as at 31 December 2015 (2014: approximately HK\$16.4 million).

As at 31 December 2015, the Group did not have any significant capital commitments (2014: Nil).

MATERIAL ACQUISITIONS AND DISPOSALS

During the year ended 31 December 2015, the Group did not have any material acquisitions or disposal of subsidiaries and affiliated companies.

SIGNIFICANT INVESTMENTS

During the year under review, the Group launched three new dance centres in Happy Valley, Discovery Park and Coronation Circle. The total capital expenditure and other initial investment incurred incidental to the opening of such new dance centres were approximately HK\$2.5 million.

The Group offers pop dance courses for children under a new brand, "Cool Kids". "Cool Kids" has been launched at the Group's dance centres in Discovery Park and Coronation Circle in Austin Station in July and August 2015, respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

In October 2015, the Group has launched two dance centres in Guangzhou City, the PRC. The total capital expenditure and other initial investment incurred incidental to the opening of such new dance centres were approximately HK\$2.6 million.

In April 2015, the Group entered into a subscription agreement for the subscription (the ("**Subscription**") of BRJ China Credit Fund Limited (the "**Fund**") in an aggregate amount of RMB8 million (equivalent to approximately HK\$10 million). The Fund is expected to generate a non-guaranteed 4% dividend income semiannually with a minimum lock-up period of one year, commencing from the date of the Subscription. Dividend income of approximately of HK\$0.2 million was generated by the Fund during the year. For further details, please refer to the announcement of the Company dated 8 April 2015.

FUTURE PLAN FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

Looking forward, the Group will endeavor to strengthen its position in the dance institution industry in Hong Kong and the PRC. The Board is still looking for other investment opportunities aiming at exploring the feasibility of further expansion in dance institution business including but not limited to, the dance institution industry in Asia.

On 14 March 2016, the Group entered into a conditional sale and purchase agreement with two independent third parties (the "**Vendors**") pursuant to which the Group will acquire 60% equity interest in Octopus Group Limited (the "**Target Company**") and its subsidiaries (the "**Target Group**") at an aggregate consideration of not more than HK\$6 million (the "**Acquisition**"), which shall be satisfied by the issuance of convertible bonds by the Company. The Target Group is principally engaged in providing extracurricular programs and English courses to kindergartens in Hong Kong and the PRC and English training centre in PRC currently. Through the Acquisition of the Target Company, the Target Group will be engaging in the operation of day care centre, kindergartens and indoor theme-based kids clubs in the PRC that provide branded education program and a series of entertainment services for both children and parents after completion. Based on the information provided by the Vendors, such facilities are under construction and are expected to be ready for service within six months.

The Acquisition of the Target Group is in line with the business development plan and expansion plan of the Group. The Board believes that the Acquisition provides an excellent investment opportunity for the Group to further establish its position in targeting for kids from 2 years to 12 years. The Directors are of the view of that the Acquisition has synergies effect for both jazz and ballet academy industry and Target Group's business. The Acquisition was not yet completed as at the date of these consolidated financial statements. For further details, please refer to the announcement of the Company dated 16 March 2016.

CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 31 December 2015 (2014: Nil).

FOREIGN EXCHANGE EXPOSURE

As at 31 December 2015, the Group have certain bank deposits, other receivables and deposits and available-for-sale investments which has exchanged to foreign currency denominated in Renminbi ("**RMB**"), which may expose the Group to foreign currency risk. The Group was exposed to certain foreign currency exchange risks but it does not anticipate future currency fluctuations to cause material operational difficulties or liquidity problems. 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, other receivables and deposits and available-for-sale investments denominated in RMB as mentions above are equivalent to approximately HK\$21.4 million (2014: HK\$32.5 million), HK\$0.4 million (2014: Nil) and HK\$10.1 million (2014: Nil) respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

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, pledged bank deposit and bank balances. In the 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 2015, the Group pledged its bank deposit of HK\$0.3 million (2014: HK\$0.3 million) 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 2016 and such pledged bank deposit would be matured in 2017.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2015, the Group employed a total of 120 full-time and 111 part-time employees (2014: 109 full-time and 97 part-time employees) respectively. Staff costs of the Group, including Directors' emoluments, were approximately HK\$21.2 million for the year ended 31 December 2015 (2014: approximately HK\$17.0 million). Remuneration is determined with reference to market terms and the performance, qualification and experience of individual employee. In addition to basic salaries, 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, the Company has adopted a share option scheme and share options may be granted to eligible employees by reference to the Group's performance as well as individual contribution.

MATERIAL EVENTS AFTER THE REPORTING DATE

Details of events after the reporting period of the Group are set out in Note 37 to the consolidated financial statement.

MANAGEMENT DISCUSSION AND ANALYSIS

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

An analysis comparing the business objectives as set out in the prospectus of the Company dated on 30 September 2014 (the “Prospectus”) to 31 December 2015 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 used HK\$2.9 million for opening new dance centres in Happy Valley, Discovery Park and Coronation Circle.
Brand building, marketing and promotion	The Group used HK\$1.7 million for brand building, marketing and promotion activities introducing more internationally recognised course offerings and examination courses.
Enhancement of existing centre facilities, inventory, IT, logistic and administrative services	The Group used HK\$1.7 million for enhancement in which HK\$0.5 million used for existing centre facilities, HK\$0.7 million used for inventories, HK\$0.3 million used for IT services and HK\$0.2 million used for administrative services.
Repayment of bank loan	The Group 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 were financed by the Group’s internal resources.
General working capital	The Group used approximately HK\$0.3 million for the general working capital requirements.

MANAGEMENT DISCUSSION AND ANALYSIS

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 2015 is set out below:

	Net proceeds from the placing HK\$'000	Planned amount utilised up to 31 December 2015 HK\$'000	Actual utilised amount as at 31 December 2015 HK\$'000	Unutilised amount as at 31 December 2015 HK\$'000
Expansion of network by opening and/or acquiring new centres close to populated residential areas in Hong Kong	10,073	(3,800)	(2,864)	7,209
Brand building, marketing and promotion	2,500	(1,700)	(1,700)	800
Enhancement of existing centre facilities, inventory, IT, logistic and administrative services	2,500	(1,700)	(1,700)	800
Repayment of bank loan	10,000	(10,000)	(10,000)	–
General working capital	300	(300)	(300)	–
Total	25,373	(17,500)	(16,564)	8,809

CORPORATE GOVERNANCE REPORT

The Group is committed in achieving high standard of corporate governance that is essential for effective management, successful business growth and a health 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 considers that the Company was in compliance with all applicable code provisions set out in the CG Code.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by the Directors (the "**Code of Conduct**") on terms no less exacting than the required standards of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules (the "**Required Standard Dealings**"). The Company had also made specific enquiry of all the Directors and each of them was in compliance with the Code of Conduct and Required Standard Dealings throughout the year under review. Further the Company was not aware of any non-compliance with the required standard of dealings regarding securities transactions by the Directors throughout the year under review.

THE BOARD OF DIRECTORS

As at 31 December 2015, 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 and discharge its responsibilities.

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.

CORPORATE GOVERNANCE REPORT

The biographical details of the Directors are set out in the section headed with “**Biographical Details of Directors and Senior Management**” on pages from 19 to 22 of this annual report.

The CEO is the father-in-law of the Chairman; Ms. Yeung Siu Soon 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 CG Code, the roles of Chairman and CEO should be separate and should not be performed by the same individual. During the year ended 31 December 2015, the roles of the Chairman and the CEO are segregated and was held by Mr. Chiu Ka Lok and Mr. Chun Chi Ngon Richard respectively. There is clear division of responsibilities between the Chairman and CEO which provides a balance of power and authority.

BOARD DIVERSITY POLICY

The Company adopted a board diversity policy (the “**Board Diversity Policy**”) on the date of Listing. A summary of the Board Diversity Policy, together with the measureable objectives set for implementing the Board Diversity Policy, and the progress made towards achieving those objectives are disclosed 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 measureable 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 during the year.

CORPORATE GOVERNANCE REPORT

BOARD MEETING

Board meetings involve the active participation, either in person or through other electronic means of communication, the Directors discuss and formulate the overall strategies of the Group, monitor financial performance and discuss the annual and interim and quarterly results, as well as discuss and decide on other significant matters.

The Company Secretary assists in preparing the meeting agenda, and each Director may request the inclusion of items in the agenda. 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.

All minutes of the Board meetings are recorded in detail and are properly kept by the Company Secretary, which are available for inspection at any reasonable time on reasonable notice by any Director.

Participation of individual Directors at Board meetings in 2015 is as follows:

Name of Directors	Number of attendance/ number of Board meetings
Number of meetings	9
Executive Directors:	
Mr. Chiu Ka Lok	9/9
Mr. Chun Chi Ngon Richard	9/9
Non-executive Directors:	
Dr. Chun Chun	9/9
Ms. Yeung Siu Foon	9/9
Ms. Yip Sze Pui Fione	3/9
Independent non-executive Directors:	
Mr. Lau Sik Yuen	9/9
Ms. Chiu Wing Kwan Winnie	5/9
Dr. Yuen Man Chun Royce	7/9

BOARD COMMITTEES & CORPORATE GOVERNANCE FUNCTIONS

The Board has established three board committees, namely, audit committee (the "**Audit Committee**"), remuneration committee (the "**Remuneration Committee**") and nomination committee (the "**Nomination Committee**"), for overseeing particular aspects of the Company's affairs. All board committees have been established with defined written terms of reference. All the board committees should report to the Board on their decisions or recommendations made.

The Board is responsible for performing the corporate duties set out in the CG Code which included developing and reviewing the Company's policies and practices on corporate governance, training and continuous professional development of the Directors, the Company's policies are practices on compliance with legal and regulatory requirements, etc.

CORPORATE GOVERNANCE REPORT

All board committees are provided with sufficient resources to perform their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstance, at the Company's expense.

The practices, procedures and arrangements in conducting meetings of board committees follow in line with, so far as practicable, those of the board meeting set out in above.

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 primary duties of the Audit Committee are mainly to review the financial information and reporting system, risk management and internal control system, audit plan and relationship with external auditors and arrangements to enable employees of the Company to raise, in confidence, concerns about possible improprieties in financial reporting, internal control, risk managements or other matters of the Company.

The Audit Committee held five meeting during the year. The Group's unaudited quarterly results for the three months ended 31 March 2015 and the nine months ended 30 September 2015, unaudited interim results for the six months ended 30 June 2015 and audited annual results for the year ended 31 December 2015 have been reviewed by the Audit Committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

The attendance record of each member of the Audit Committee, the Nomination Committee and the Remuneration Committee is as follows:

Name of Directors	Number of attendance/number of meetings		
	Audit Committee	Remuneration Committee	Nomination Committee
Number of meetings	5	2	1
Mr. Lau Sik Yuen	5/5	N/A	N/A
Ms. Chiu Wing Kwan Winnie	4/5	1/2	0/1
Dr. Yuen Man Chun Royce	4/5	2/2	1/1
Mr. Chiu Ka Lok	N/A	2/2	N/A
Mr. Chun Chi Ngon Richard	N/A	N/A	1/1

The Directors acknowledge their responsibility for the preparation of consolidated financial statement that give a true and fair view in accordance with Hong Kong Financial Reporting Standard issued by Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Company Ordinance and the GEM Listing Rules. The Directors have selected appropriate account policies and applied them consistently; made judgment and estimate that are prudent and reasonable. As at 31 December 2015, 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 Directors' responsibilities in the preparation of the consolidated financial statements and the auditors' responsibilities are set out in the Independent Auditor's Report from pages 33 to 34 of this annual report.

CORPORATE GOVERNANCE REPORT

Remuneration Committee

The Remuneration Committee of the Company was established on 26 September 2014 in accordance with CG Code. The Remuneration Committee is comprising one executive Director, namely Mr. Chiu Ka Lok and two independent non-executive Directors, namely Ms. Chiu Wing Kwan Winnie and Dr. Yuen Man Chun Royce. The chairlady of Remuneration Committee is Ms. Chiu Wing Kwan Winnie. The terms of reference of the Remuneration Committee are available on the websites of the Stock Exchange and the Company.

The remuneration has been charged with the responsibility of making recommendations to the Board on the appropriate policy and structures for all aspect of Directors and senior management. The Remuneration Committee considers factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration.

Details of the Directors' emolument are set out in Note 12 to the consolidated financial statements.

Nomination Committee

The Nomination Committee of the Company was established on 26 September 2014. The Nomination Committee is comprising one executive Director, namely Mr. Chun Chi Ngon Richard and two independent non-executive Directors, namely Dr. Yuen Man Chun Royce and 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 primary duties of the Nomination Committee are mainly to review and monitor the structure, size and composition of the Board to complement the Company's corporate strategy; identify suitable candidates for appointment as directors; make recommendations to the Board on appointment or re-appointment of a succession planning for directors; and assess the independence of independent non-executive Directors.

The Nomination Committee considered the past performance, qualification, general market conditions, the board diversity and the Company's articles of association in selecting and recommending candidates of directorship. The Nomination Committee discussed and reviewed the re-election of Directors.

TERMS OF APPOINTMENT AND RE-ELECTION OF DIRECTORS

The 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.

All the existing 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.

CORPORATE GOVERNANCE REPORT

CONTINUOUS PROFESSIONAL DEVELOPMENT

Our Directors are kept informed from time to time on the latest development of any changes to the regulatory requirements and the progress of compliance of applicable rules and regulations by the Company. Our Directors will also be updated from time to time on the business development and operation plans of the Company.

All our Directors are encouraged to participate in continuing professional development seminars and/or courses to update their skills and knowledge on the latest development or changes in the relevant statutes, GEM Listing Rules and corporate governance practices. The Company provides continuing briefings and professional development to Directors to update on the latest development in relation to the GEM Listing Rules and other applicable regulatory requirements as well as the Group's business and governance. The relevant materials were also sent to the Directors who were not available to attend the briefing session for their information. A summary of the continuous professional developments in relation to regulatory update, the duties and responsibilities of the Directors and the business of the Group received by the Directors for the year ended 31 December 2015 is as follows:

Name of Directors	Training on corporate governance, regulatory development and Directors other relevant topics
Executive Directors:	
Mr. Chiu Ka Lok	✓
Mr. Chun Chi Ngon Richard	✓
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	✓

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 misstatements 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 unauthorised use or misappropriation, maintaining proper accounting records, execution with appropriate authority and compliance of the relevant laws and regulations.

CORPORATE GOVERNANCE REPORT

AUDITORS' REMUNERATION

The fees in respect of audit services provided by the independent auditors to the Group for the year ended 31 December 2015 amounted approximately HK\$770,000 (2014: HK\$750,000). Non-audit services incurred during the year amounted approximately HK\$134,000 (2014: non-audit services for acting as reporting accountant for the Listing and tax services of approximately HK\$2,728,000).

COMPANY SECRETARY

The company secretary of the Company (the "**Company Secretary**") is responsible for distributing detailed documents to the Directors prior to the Board meetings to ensure that the Directors are able to make informed decisions regarding the matters discussed in the meetings. And all Directors have access to the advice and services of the Company Secretary with a view to ensuring that the Board procedures, and all applicable rules and regulations, are followed.

The Company Secretary was Mr. Au Wai Keung ("**Mr. Au**"), 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. On 11 September 2015, Mr. Au has resigned as the Company Secretary and Ms. Lam Man Wah ("**Ms. Lam**") has been appointed as the Company Secretary. Ms. Lam has taken no less than 15 hours of relevant professional training for the year ended 31 December 2015.

On 10 March 2016, Ms. Lam has resigned as the Company Secretary and Mr. Chak Chi Shing has been appointed as the Company Secretary.

SHAREHOLDERS' RIGHTS

The general meetings of the Company provide an opportunity for communication between the shareholders and the Board. An annual general meeting of the Company shall be held in each year and at the place as may be determined by the Board. Each general meeting, other than an annual general meeting, shall be called an extraordinary general meeting ("**EGM**").

Right 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 legislations and regulations, 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, to require an 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;

CORPORATE GOVERNANCE REPORT

- (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; and
- (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.

Right to Put Forward Proposals at General 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.

Right for Raising Enquiries to the Board

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.

CONSTITUTIONAL DOCUMENTS

During the year under review, there has no 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 39, 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. 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 nine 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 68, 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 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.

NON-EXECUTIVE DIRECTORS

Dr. Chun Chun (秦蕓) (“Dr. Chun”), aged 39, was appointed as our non-executive Director on 24 March 2014. Dr. Chun has approximately 13 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.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

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 65, was appointed as our non-executive Director on 24 March 2014. Ms. Yeung has approximately 16 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 49, was appointed as our non-executive Director on 24 March 2014. Ms. Yip has over six 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 48, was appointed as our independent non-executive Director on 26 September 2014. Mr. Lau has over 21 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 Qinfu Group 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. 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.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Ms. Chiu Wing Kwan Winnie (邱詠筠) (“Ms. Chiu”), aged 35, was appointed as our independent non-executive Director on 26 September 2014. Ms. Chiu is also the chairlady for 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 experience in finance, hotel, property development and retail management. Ms. Chiu has been a president and executive director of Dorsett Hospitality International Limited, a company previously listed on Hong Kong Stock Exchange (Stock code: 02226), since June 2010. Ms. Chiu was the director of project development of Far East Consortium International Limited, a company listed on the Hong Kong 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 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 51, 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 25 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.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Ms. Chan Yuen Hong (陳遠航) (“Ms. Chan”), aged 42, 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 38, 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.

REPORT OF DIRECTORS

DIRECTORS' REPORT

The Directors hereby present their report and the audited financial statements of SDM Group Holdings Limited (the “**Company**”) and the audited consolidated financial statements of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the year ended 31 December 2015.

CORPORATE REORGANISATION

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

In preparing for the listing (the “**Listing**”) of the Company’s shares (the “**Shares**”) on the Growth Enterprise Market (the “**GEM Board**”) of the Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”), 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 was no significant changes in the nature of the Group’s activities during the year.

SEGMENTAL INFORMATION

An analysis of the Group’s revenue and contribution to the loss from operations by principal activities and geographical area of operations for the year ended 31 December 2015 is set out in Note 7 to the consolidated financial statements.

RESULTS AND DIVIDENDS

The Group’s results for the year ended 31 December 2015 are set out in the consolidated statement of profit or loss and other comprehensive income on page 35.

Prior to the Listing, the Company declared total dividends in the amount of HK\$19.5 million to its then sole shareholder, Wealth Together Limited during the year ended 31 December 2014.

The Board has resolved to recommend a final dividend of HK\$0.01 per ordinary share for the year ended 31 December 2015 (2014: Nil), amounting to HK\$2,000,000 (2014: Nil) to shareholders of the Company whose names appear on the register of members of the Company at the close of business on 3 June 2016 (Friday), subject to the approval of shareholders of the Company at the forthcoming Annual General Meeting of the Company to be held on 13 May 2016 (Friday), and if passed, the final dividend will be paid to the shareholders of the Company on or about 10 June 2016 (Friday).

The Board will continue to review the Group’s financial positions and capital needs every year in deciding its dividend recommendations going forward.

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.

REPORT OF DIRECTORS

SHARE CAPITAL

Details of the movements during the year in the share capital of the Company are set out in Note 28 to the consolidated financial statements.

SHARE OPTION SCHEME

The Company's share option scheme (the "**Scheme**") was conditionally adopted by a written resolution of the shareholders of the Company on 26 September 2014 (the "**Date of Adoption**"), and 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. There was no share option granted or agreed to be granted under the Scheme from the Date of the Adoption to 31 December 2015 and up till the date of this report.

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 which may be issued upon exercise of all share options to be granted under the Scheme shall not, in the absence of shareholders' approval, in aggregate exceed 10% in nominal amount of total number of shares in issue immediately following the completion of the offering for the Listing of the Shares of the Company (i.e. 20,000,000) (the "**Scheme Limit**"). Options lapsed in accordance with the terms of the Scheme will not be counted for the purpose of calculating the Scheme Limit.

REPORT OF DIRECTORS

(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 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.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro-rata basis to its existing shareholders.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Company has not redeemed any of its shares, and neither the Company, nor any of its subsidiaries has purchased or sold any of the Company's listed securities during the year.

RESERVES

Details of movements in the reserves of the Company and of the Group during the year are set out in Note 35 to the consolidated financial statements and page 38 in the consolidated statement of changes in equity respectively.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2015, the Company had distributable reserves of approximately HK\$11.7 million (2014: HK\$12.7 million) calculated in accordance with the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

REPORT OF DIRECTORS

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, due to nature of our business, sales to the Group's five largest customers accounted for approximately 0.5% (2014: approximately 0.6%) of the total sales for the year ended 31 December 2015, which is less than 30% of total revenue and the sales to the largest customer included therein amounted to approximately 0.2% (2014: approximately 0.3%) of the total sales for the year ended 31 December 2015.

Due to our business nature being a dance institution, the landlords of our leased properties are essential to the Group's operations. During the year ended 31 December 2015, the rental expenses accounted for approximately 34.5% (2014: approximately 24.9%) of the total revenue.

None of the Directors, or any of their close associate(s) or any shareholders of the Company (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's 5 largest customers and 5 largest landlords during the year ended 31 December 2015.

DIRECTORS

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

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

In accordance with the Company's articles of association, Dr. Chun Chun, Dr. Yuen Man Chun Royce and Mr. Lau Sik Yuen will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

The Company has received, from each of the independent non-executive Directors, a confirmation of independence pursuant to Rule 5.09 of the GEM Listing Rules. The Company considers all of the independent non-executive Directors as independent.

BIOGRAPHICAL DETAILS OF DIRECTORS

Brief biographical details of the Directors of the Group are set out on pages from 19 to 22 of this annual report.

REPORT OF DIRECTORS

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 the 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 years initially and will continue thereafter unless terminated by either party giving at least three months' 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.

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 or the controlling shareholder of the Company or 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 interests which any such person has or may have with the Group during the year.

REPORT OF DIRECTORS

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES

As at 31 December 2015, 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:

Long positions in the Shares of the Company

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 (Note 2)	75%
Dr. Chun Chun	Family interest	150,000,000 (Note 3)	75%

Notes:

- (1) As at 31 December 2015, 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, an 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, a non-executive Director, is the spouse of Mr. Chiu Ka Lok and is therefore deemed to be interested in all the shares held/owned by Mr. Chiu Ka Lok (by himself or through Wealthy Together) by virtue of the SFO.

Save as disclosed above, as at 31 December 2015, 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.

REPORT OF DIRECTORS

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

So far as is known to the Directors, as at 31 December 2015, the following entities (not being Directors or chief executive of the Company) had, or were deemed to have, interests or short positions (directly or indirectly) in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to section 336 of the SFO were as follows:

Long positions in the Shares of the Company

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 (Note 2)	75%

Notes:

- (1) As at 31 December 2015, 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 and the Chairman of the Company. By virtue of the SFO, Mr. Chiu Ka Lok is deemed to be interested in the shares held by Wealthy Together.

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 2015 which required to be recorded pursuant to Section 336 of SFO.

RELATED PARTY TRANSACTIONS

Details of related party transactions of the Group during the year ended 31 December 2015 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.

REPORT OF DIRECTORS

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 Ka Lok, Rainbow Creative Arts Limited is wholly-owned by Mr. Chiu Ka Lok, 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 Ka Lok, 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 exempted 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 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.

AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the requirements of the Corporate Governance Code, for the purposes of reviewing and providing supervision over the Group’s financial reporting process and internal controls.

Currently the audit committee comprises the 3 independent non-executive directors, who have reviewed the consolidated financial statements for the year ended 31 December 2015.

INTERESTS OF THE COMPLIANCE ADVISER

As notified by the compliance adviser of the Company, Innovax Capital Limited (“**Innovax Capital**”), as at 31 December 2015, save for the compliance adviser agreement date 8 June 2015 entered into between the Company and Innovax Capital, neither Innovax Capital, its directors, employers and close 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.

CHANGE OF COMPLIANCE ADVISER

The Company and Ample Capital Limited (“**Ample Capital**”) have mutually agreed to terminate the compliance adviser agreement dated 16 June 2014 (and the supplement agreement dated 18 November 2014) entered into between the Company and Ample Capital with effect from 8 June 2015 for commercial reason. Subsequent to the termination of the compliance adviser agreement with Ample Capital, Innovax Capital has been appointed as the new compliance adviser to the Company as required pursuant to Rule 6A.27 of the GEM listing Rules. For further details, please refer to the announcement of the Company dated 8 June 2015.

REPORT OF DIRECTORS

NON-COMPETITION UNDERTAKINGS

Each of the controlling shareholders of the Company has undertaken to the Company in the deed of non-competition (the “**Deed of Non-Competition**”) that it/he will not, and procure its/his associates (other than members of our Group) not to directly or indirectly be involved in or undertake any business that directly or indirectly competes, or may compete, with the Group’s business or undertaking, or hold shares or interest in any companies or business that compete directly or indirectly with the business engaged by the Group from time to time except where the controlling shareholders hold less than 5% of the total issued share capital of any company (whose shares are listed on the Stock Exchange or any other stock exchange) which is engaged in any business that is or may be in competition with any business engaged by any member of the Group.

For the year ended 31 December 2015, the Company has received an annual written confirmation from each controlling shareholder of the Company in respect of its/his and its/his associates’ compliance with the Deed of Non-Competition. The independent non-executive Directors have also reviewed and were satisfied that each of the controlling shareholders of the Company had complied with the Deed of Non-Competition.

CORPORATE GOVERNANCE

During the year ended 31 December 2015, the Company has complied with the code provisions set out in the Corporate Governance Code and Corporate Governance Report contained in Appendix 15 of the GEM Listing Rules.

A report on the principal corporate governance practices adopted by the Company is set out in the section headed “**Corporate Governance Report**” of this annual report.

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.

MATERIAL EVENTS AFTER THE REPORTING PERIOD

On 31 December 2015 and 7 January 2016, the Company entered into a warrant placing agreement and a supplemental placing agreement respectively (collectively referred to as “**Warrant Placing Agreements**”) with a placing agent pursuant to which the placing agent agreed to place up to 40,000,000 warrants conferring rights at a warrant placing price of HK\$0.0574 for each warrant, subject to the fulfillment of the conditions precedent on or before 29 February 2016. The warrant allows the warrant placee(s) to subscribe for up to 40,000,000 warrants shares at the exercise price of HK\$1.5 per warrant share to the warrant placee(s), at any time during a period of 12 months commencing from the date immediately after the date of issue of the warrant. The Warrant Placing Agreements were approved by the extraordinary general meeting held on 15 February 2016 and the warrant placing was completed on 1 March 2016. The Directors of the Company are in the process of assessing the financial impact on the warranty placing.

On 14 March 2016, the Group entered into a conditional sale and purchase agreement with two independent third parties pursuant to which the Group will acquire 60% of the entire issued capital of Octopus Group Limited at consideration of not more than HK\$6,000,000, which shall be satisfied by the issuance of convertible bonds by the Company. The acquisition has not been completed as at the date of issuance of this annual report.

REPORT OF DIRECTORS

AUDITOR

The consolidated financial statements have been audited by Deloitte Touche Tohmatsu who will retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting.

By order of the Board

Mr. Chiu Ka Lok

Chairman

Hong Kong, 21 March 2016

INDEPENDENT AUDITOR'S REPORT

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 35 to 91, which comprise the consolidated statement of financial position as at 31 December 2015, 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 these 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 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, 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 financial position of the Group as at 31 December 2015, and of its financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

21 March 2016

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2015

	Notes	2015 HK\$'000	2014 HK\$'000
Revenue	7	56,254	56,195
Other income	8	8,203	7,548
Gain on disposal of a subsidiary	32	–	9
Changes in inventories of finished goods		261	(315)
Finished goods purchased		(1,989)	(1,724)
Advertising and promotion expenses		(4,000)	(3,738)
Depreciation		(1,574)	(1,095)
Amortisation		(89)	(89)
Rental expenses	11	(19,357)	(14,024)
Staff costs	11	(21,177)	(16,964)
Listing expenses		–	(10,540)
Other operating expenses		(21,158)	(15,321)
Finance costs	9	(10)	(360)
Loss before taxation		(4,636)	(418)
Income tax expense	10	(42)	(1,899)
Loss for the year	11	(4,678)	(2,317)
Other comprehensive expense			
<i>Item that may be reclassified to profit or loss:</i>			
Exchange differences arising on translation		(145)	–
Total comprehensive expense for the year		(4,823)	(2,317)
Loss for the year attributable to:			
Owners of the Company		(4,528)	(2,317)
Non-controlling interests		(150)	–
		(4,678)	(2,317)
Total comprehensive expense attributable to:			
Owners of the Company		(4,673)	(2,317)
Non-controlling interests		(150)	–
		(4,823)	(2,317)
Loss per share	14		
Basic (HK dollars)		(0.02)	(0.02)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2015

	Notes	2015 HK\$'000	2014 HK\$'000
Non-current assets			
Property, plant and equipment	15	5,927	2,238
Goodwill	16	1,897	1,897
Intangible assets	17	356	445
Interests in joint ventures	18	156	–
Other receivables, deposits and prepayment	20	8,001	3,916
Pledged bank deposit	24	315	315
Deferred tax assets	29	351	374
		17,003	9,185
Current assets			
Inventories	19	857	596
Trade and other receivables, deposits and prepayments	20	5,828	5,182
Amounts due from related parties	21	5,859	5,972
Amounts due from non-controlling shareholders of subsidiaries	22	4	–
Available-for-sale investments	23	10,116	–
Tax recoverable		1,828	2,069
Bank balances and cash	24	29,367	61,234
		53,859	75,053
Current liabilities			
Other payables, accrued charges and deposits received	25	33,368	35,690
Amounts due to related parties	21	1,838	4,490
Tax liabilities		–	3,127
Bank borrowings	26	–	743
Provisions	27	500	600
		35,706	44,650
Net current assets		18,153	30,403
Total assets less current liabilities		35,156	39,588
Non-current liabilities			
Provisions	27	1,488	1,101
Net assets		33,668	38,487

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2015

	Notes	2015 HK\$'000	2014 HK\$'000
Capital and reserves			
Issued capital	28	20,000	20,000
Reserves		13,814	18,487
Equity attributable to owners of the Company		33,814	38,487
Non-controlling interests		(146)	–
		33,668	38,487

The consolidated financial statements on pages 35 to 91 were approved and authorised for issue by the Board of Directors on 21 March 2016 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 2015

	Attributable to owners of the Company					Total HK\$'000	Non- controlling interests HK\$'000	Total HK\$'000
	Issued capital HK\$'000	Share premium HK\$'000	Exchange reserve HK\$'000	Other reserve HK\$'000 (Note)	Accumulated profits (losses) HK\$'000			
At 1 January 2014	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 as 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 28)	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
Loss for the year	-	-	-	-	(4,528)	(4,528)	(150)	(4,678)
Exchange differences arising on translation to presentation currency	-	-	(145)	-	-	(145)	-	(145)
Loss and total comprehensive expense for the year	-	-	(145)	-	(4,528)	(4,673)	(150)	(4,823)
Capital contributions by non-controlling interests	-	-	-	-	-	-	4	4
At 31 December 2015	20,000	19,407	(145)	(1,675)	(3,773)	33,814	(146)	33,668

Note: The other reserve represents the 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**") by issuance of 3 shares by the Company and the cash consideration of HK\$20,000 pursuant to the Reorganisation (as defined in note 2).

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2015

	Note	2015 HK\$'000	2014 HK\$'000
OPERATING ACTIVITIES			
Loss before taxation		(4,636)	(418)
Adjustments for:			
Depreciation of property, plant and equipment		1,574	1,095
Amortisation of intangible assets		89	89
Gain on disposal of a subsidiary	32	–	(9)
Impairment loss on other receivables		–	120
Interest income		(806)	(214)
Interest expenses		10	360
Dividend income from available-for-sale investments		(198)	–
Operating cash flows before movements in working capital		(3,967)	1,023
(Increase) decrease in inventories		(261)	315
Increase in trade and other receivables, deposits and prepayments		(4,722)	(2,095)
Increase in amount due from related parties		(889)	–
(Decrease) increase in other payables, accrued charges and deposits received		(2,297)	6,510
Increase in provisions		288	1
Cash (used in) generated from operations		(11,848)	5,754
Income tax paid		(2,905)	(2,189)
NET CASH (USED IN) GENERATED FROM OPERATING ACTIVITIES		(14,753)	3,565
INVESTING ACTIVITIES			
Interest received		768	214
Dividend income received		198	–
Purchases of property, plant and equipment		(5,326)	(2,042)
Purchase of available-for-sale investments		(10,116)	–
Advances to related parties		(2,785)	(26,359)
Repayment from related parties		3,787	49,543
Placement of pledged bank deposit		–	(315)
NET CASH (USED IN) FROM INVESTING ACTIVITIES		(13,474)	21,041

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2015

	2015 HK\$'000	2014 HK\$'000
FINANCING ACTIVITIES		
Interest paid	(10)	(360)
Proceed from issuance of shares	–	43,875
Transaction costs attributable to issuance of shares	–	(6,153)
Cash paid pursuant to the Reorganisation	–	(20)
New bank borrowings raised	–	10,000
Repayment of bank borrowings	(743)	(14,226)
Advances from related parties	1,050	6,509
Repayment to related parties	(3,857)	(5,605)
NET CASH (USED IN) FROM FINANCING ACTIVITIES	(3,560)	34,020
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(31,787)	58,626
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	61,234	2,608
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	(80)	–
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	29,367	61,234

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

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 the Growth Enterprise Market (“**GEM**”) of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 14 October 2014. Its parent is Wealthy Together Limited (“**Wealthy Together**”) (incorporated in the British Virgin Islands (“**BVI**”). Its ultimate controlling party is Mr. Chiu Ka Lok (the “**Controlling Shareholder**”), who is also the Chairman and Executive Director of the Company. 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 and pop dance academy in Hong Kong and the People’s Republic of China (the “**PRC**”).

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 was owned as to 60% and 40% by Mr. Chiu Kwok Kwong and Ms. Hui Bing Mui respectively, each of whom held the shares of Excel Concept on trust for the Controlling Shareholder. On 24 November 2015, Mr. Chiu Kwok Kwong and Ms. Hui Bing Mui transferred their entire equity interest in Excel Concept to 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

2. GROUP REORGANISATION AND BASIS OF PRESENTATION (CONTINUED)

- (c) On 30 December 2013, Excel Concept acquired the entire equity interest in Faith Emperor Limited, Fine Progress Limited and Stand Kind Limited (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 (all the businesses altogether collectively referred to as the “**Acquired Businesses**”), an independent third party, at a consideration of HK\$11,000.
- (d) On 11 February 2014, Wealthy Together, which is 100% owned by the Controlling Shareholder, was incorporated in the 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

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, the Company became the holding company of the companies now comprising the Group.

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

The Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

Amendments to HKAS 19	Defined benefit plans: Employee contributions
Amendments to HKFRSs	Annual improvements to HKFRSs 2010–2012 cycle
Amendments to HKFRSs	Annual improvements to HKFRSs 2011–2013 cycle

The application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

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

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

HKFRS 9	Financial instruments ²
HKFRS 15	Revenue from contracts with customers ²
Amendments to HKFRS 11	Accounting for acquisitions of interests in joint operations ¹
Amendments to HKAS 1	Disclosure initiative ¹
Amendments to HKAS 16 and HKAS 38	Clarification of acceptable methods of depreciation and amortisation ¹
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer plants ¹
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture ³
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment entities: Applying the consolidation exception ¹
Amendments to HKFRSS	Annual improvements to HKFRSs 2012–2014 cycle ¹

¹ Effective for annual periods beginning on or after 1 January 2016.

² Effective for annual periods beginning on or after 1 January 2018.

³ Effective for annual periods beginning on or after a date to be determined.

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 2014 to include the new requirements for general hedge accounting. Another revised version of HKFRS 9 was issued in 2015 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

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.

The directors anticipate that the application of HKFRS 9 in the future may have a material impact on the amounts reported in respect of the Group’s available-for-sale investments based on the analysis of the Group’s financial assets and liabilities as at 31 December 2015. Regarding the Group’s available-for-sale investments, it is not practicable to provide a reasonable estimate of that effect until a detail review has been completed.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

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

HKFRS 15 “Revenue from Contracts with Customers”

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 2015.

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 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 (“Listing Rules”) and by the Hong Kong Companies Ordinance (“CO”).

The provisions of the new Hong Kong Companies Ordinance (Cap 622) regarding preparation of accounts and directors’ reports and audits became effective for the Company for the financial year ended 31 December 2015. Further, the disclosure requirements set out in the Listing Rules regarding annual accounts have been amended with reference to the new CO and to streamline with HKFRSs. Accordingly the presentation and disclosure of information in the consolidated financial statements for the financial year ended 31 December 2015 have been changed to comply with these new requirements. Comparative information in respect of the financial year ended 31 December 2014 are presented or disclosed in the consolidated financial statements based on the new requirements. Information previously required to be disclosed under the predecessor CO or Listing Rules but not under the new CO or amended Listing Rules are not disclosed in these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 or value in use in HKAS 36.

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.

The principal accounting policies 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of consolidation (Continued)

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.

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

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 "Share-based payment" 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations (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 acquiree (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.

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 "Impairment of assets" 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

Dividend income from investments is recognised when the Group's rights to receive payment have been established (provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

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 values 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.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items and on the retranslation of monetary items are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. HK\$) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity, and will be reclassified from equity to profit or loss upon disposal of the foreign operation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 and state-managed retirement benefit scheme are recognised as expenses when employees have rendered service entitling them to the contributions.

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 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.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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).

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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).

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 available-for-sale ("**AFS**") financial assets and 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

AFS financial assets

AFS financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss. The Group designated investment in BRJ China Credit Fund Limited — Class B shares as AFS financial assets on initial recognition.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period (see the accounting policy in respect of impairment loss on financial assets below).

Dividends on AFS equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established.

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 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 financial assets

Financial assets of the Group are assessed for indicators of impairment at the end of the reporting period. Financial assets 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 financial asset, the estimated future cash flows of the financial assets have been affected.

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (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.

For financial assets carried at amortised cost, 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.

In respect of AFS equity investments, impairment losses previously recognised in profit or loss are not reversed through profit or loss.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial liabilities and equity instruments (Continued)

Other financial liabilities

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

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.

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 sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity 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 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 2015, the carrying amount of goodwill is HK\$1,897,000 (2014: 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 2015, the carrying amount of intangible assets is and HK\$356,000 (2014: HK\$445,000) respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

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 26 respectively and equity of the Group, comprising issued capital share premium, capital reserve, other reserve and accumulated profits (losses).

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

	2015 HK\$'000	2014 HK\$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	40,413	68,486
Available-for-sale investments	10,116	–
Financial liabilities		
Amortised cost	5,090	14,822

Financial risk management objectives and policies

The Group's financial instruments include trade and other receivables, available-for-sale investments, amounts due from related parties, pledged bank deposit, bank balances and cash, other payables and accrued charges, amounts due to related parties 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

6. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (Continued)

Market risk

Interest rate risk management

The Group is exposed to fair value interest rate risk in relation to fixed-rate pledged bank deposit (note 24) and bank borrowings (note 26).

The Group's cash flow interest rate risk primarily relates to the bank balances (note 24).

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 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 carrying amounts of the Group's foreign currency denominated monetary assets at the end of the reporting period are as follows:

	Bank balances and cash		Other receivables and deposits		Available-for-sale investments	
	2015	2014	2015	2014	2015	2014
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Renminbi ("RMB")	21,405	32,500	441	–	10,116	–
HK\$	–	–	401	–	–	–

The Group currently does not have a foreign currency hedging policy. However, the directors of the Company monitor foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

6. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (Continued)

Market risk (Continued)

Foreign currency sensitivity analysis

As at 31 December 2015, the monetary assets denominated in foreign currencies other than RMB are insignificant. No sensitivity analysis is presented.

For the purpose of sensitivity analysis, 5% (2014: 5%) sensitivity rate is used to illustrate the effect of increase and decrease in HK\$ against RMB. 5% (2014: 5%) is the sensitivity rate used which represents management's assessment of the reasonable possible change in HK\$ against RMB. The sensitivity analysis includes only outstanding RMB denominated monetary items and adjusts the translation at the year end for a 5% (2014: 5%) change in foreign currency rates. For a 5% (2014: 5%) strengthening of HK\$ against RMB, the post-tax loss for the year ended 31 December 2015 would be increased by HK\$1,092,000 (2014: HK\$1,625,000). For a 5% (2014: 5%) weakening of HK\$ against RMB, the post-tax loss for the year ended 31 December 2015 would be decreased by HK\$1,092,000 (2014: HK\$1,625,000). 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.

Credit risk management

The Group's credit risk is primarily attributable to trade receivables, rental deposits, amounts due from related parties, 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 2015, the Group has concentration of credit risk on amounts due from related parties including Well Team and Mutual Bright amounted to HK\$2,743,000 (2014: HK\$3,395,000) and HK\$2,024,000 (2014: HK\$2,374,000) respectively. In addition, the Group also has amounts due to Well Team and Mutual Bright amounted to HK\$nil (2014: HK\$1,306,000) and HK\$1,529,000 (2014: HK\$2,890,000) respectively. The Group has overall balances of amount due from Well Team amounted to HK\$2,743,00 (2014: HK\$2,089,000) and amount due from Mutual Bright amounted to HK\$495,000 (2014: amount due to of HK\$516,000). Subsequent to the end of the reporting period, settlement of HK\$1,520,000 (2014: HK\$800,000) was received from Well Team. The management considered there was no recoverability problem.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

6. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (Continued)

Market risk (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 HK\$'000	Total carrying amount HK\$'000
As at 31 December 2015			
<i>Non-derivative financial liabilities</i>			
Other payables and accrued charges	N/A	3,252	3,252
Amounts due to related parties	N/A	1,838	1,838
		5,090	5,090
As at 31 December 2014			
<i>Non-derivative financial liabilities</i>			
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

Bank borrowings with a repayment on demand clause were 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 was amounted to HK\$743,000. Such bank borrowings have been repaid in accordance with the scheduled repayment dates set out in the loan agreements during the year ended 31 December 2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

6. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (Continued)

Market risk (Continued)

Liquidity risk management (Continued)

For the purpose of managing liquidity risk, the 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 and total undiscounted cash flows HK\$'000	Total carrying amount HK\$'000
Bank borrowings:			
As at 31 December 2014			
— fixed-rate	3.00	755	743

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 and pop dance academy in Hong Kong and the PRC 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 prepared based on same accounting policies set out in note 4. 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:

	2015 HK\$'000	2014 HK\$'000
Course fee income	53,878	53,778
Sales of dance uniforms, shoes and accessories	2,376	2,417
	56,254	56,195

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

7. REVENUE AND SEGMENT INFORMATION (CONTINUED)

Geographical information

The Group's operations are located on Hong Kong and the PRC.

Information about the Group's revenue from external customers is presented based on the location of the operations. Information about the Group's non-current assets is presented based on the geographical location of the assets.

	Revenue from external customers for the year ended 31 December		Non-current assets as at 31 December	
	2015	2014	2015	2014
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	56,124	56,195	11,418	8,496
The PRC	130	–	2,991	–
	56,254	56,195	14,409	8,496

Note: Non-current assets excluded financial instruments and deferred tax assets.

Information about major customers

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

8. OTHER INCOME

	2015	2014
	HK\$'000	HK\$'000
Management fee income	1,800	1,800
Examination handling fee income	1,092	1,403
Performance and show income	917	1,211
Building management fee and rental income	2,984	2,332
Interest income	806	214
Dividend income	198	–
Others	406	588
	8,203	7,548

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

9. FINANCE COSTS

	2015 HK\$'000	2014 HK\$'000
Interests on:		
Interest on bank overdrafts and bank borrowings wholly repayable within five years	10	360

10. INCOME TAX EXPENSE

	2015 HK\$'000	2014 HK\$'000
Current tax		
— Hong Kong Profits Tax	76	1,899
— overprovision in prior years	(57)	(26)
Deferred tax (note 29)	19	1,873
	23	26
	42	1,899

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

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and the Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiary is 25%. No provision for Enterprise Income Tax as the PRC subsidiary did not have any assessable profit for the current year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

10. INCOME TAX EXPENSE (CONTINUED)

The income tax expense for the year can be reconciled to the loss before taxation per consolidated statement of profit or loss and other comprehensive income as follows:

	2015 HK\$'000	2014 HK\$'000
Loss before taxation	(4,636)	(418)
Tax at the profits tax rate of Hong Kong of 16.5%	(765)	(69)
Tax effect of expenses not deductible for tax purpose	359	2,051
Tax effect of income not taxable for tax purpose	(159)	(28)
Overprovision in prior year	(57)	(26)
Tax effect of tax losses not recognised	616	–
Others	48	(29)
Income tax expense for the year	42	1,899

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

11. LOSS AND TOTAL COMPREHENSIVE EXPENSE FOR THE YEAR

	2015 HK\$'000	2014 HK\$'000
Loss and total comprehensive expense for the year has been arrived at after charging:		
Auditor's remuneration	770	750
Directors' remuneration (note 12)		
Other emoluments	780	195
Instructor costs	3,709	4,062
Other staff costs	15,817	12,096
Retirement benefits scheme contributions	871	611
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Total staff costs	21,177	16,964
Consultants service costs	4,728	3,661
Cost of inventories recognised as expenses	1,728	2,039
Net exchange losses	1,216	557
Impairment loss on other receivables	–	120
Operating lease payments in respect of tenancy agreement of rented premises entered into:		
by the Group for minimum lease payment	19,135	13,076
by related parties on behalf of the Group for minimum lease payment	154	775
Contingent rents	68	173
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	19,357	14,024

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

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

Directors' and Chief Executive's emoluments

Directors' and chief executive's remuneration for the year, disclosed pursuant to the applicable Listing Rules and Companies Ordinance, is as follows:

	Other emoluments				Total HK\$'000
	Directors' fees HK\$'000	Salaries and other benefits HK\$'000	Retirement benefits scheme contributions HK\$'000	Performance related incentive HK\$'000 (Note v)	
2015					
<i>Executive Directors</i>					
Mr. Chiu Ka Lok (Note i)	-	-	-	-	-
Mr. Chun Chi Ngon Richard ("Mr. Chun") (Notes i, iv)	240	-	-	-	240
<i>Non-executive Directors</i>					
Ms. Yeung Siu Foon ("Ms. Yeung") (Note ii)	-	-	-	-	-
Dr. Chun Chun (Note ii)	-	-	-	-	-
Ms. Yip Sze Pui Fione (Note ii)	-	-	-	-	-
<i>Independent non-executive Directors</i>					
Mr. Lau Sik Yuen (Note iii)	180	-	-	-	180
Ms. Chiu Wing Kwan Winnie (Note iii)	180	-	-	-	180
Dr. Yuen Man Chun Royce (Note iii)	180	-	-	-	180
Total	780	-	-	-	780

The executive Directors' emoluments shown above were mainly for their services in connection with the management of the affairs of the Company and the Group. The independent non-executive Directors' emoluments shown above were mainly for their services as directors of the Company.

	Total 2015 HK\$'000
Total	780

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

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

Directors' and Chief Executive's emoluments (Continued)

	Other emoluments				Total HK\$'000
	Directors' fees HK\$'000	Salaries and other benefits HK\$'000	Retirement benefits scheme contributions HK\$'000	Performance related incentive HK\$'000 (Note v)	
2014					
<i>Executive Directors</i>					
Mr. Chiu Ka Lok (Note i)	–	–	–	–	–
Mr. Chun (Notes i, iv)	60	–	–	–	60
<i>Non-executive Directors</i>					
Ms. Yeung (Note ii)	–	–	–	–	–
Dr. Chun Chun (Note ii)	–	–	–	–	–
Ms. Yip Sze Pui Fione (Note ii)	–	–	–	–	–
<i>Independent non-executive Directors</i>					
Mr. Lau Sik Yuen (Note iii)	45	–	–	–	45
Ms. Chiu Wing Kwan Winnie (Note iii)	45	–	–	–	45
Dr. Yuen Man Chun Royce (Note iii)	45	–	–	–	45
Total	195	–	–	–	195

The executive Directors' emoluments shown above were mainly for their services in connection with the management of the affairs of the Company and the Group. The independent non-executive Directors' emoluments shown above were mainly for their services as directors of the Company.

	Total 2014 HK\$'000
Total	195

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 Dr. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

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 2015 and 2014.

Employees' emoluments

None of the five highest paid individuals are directors of the Company. These employees' emoluments for the years ended 31 December 2015 and 2014, which was individually less than HK\$1,000,000, were as follows:

	2015 HK\$'000	2014 HK\$'000
Salaries and other benefits	2,236	2,072
Contributions to retirement benefit scheme	81	76
	2,317	2,148

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.

A final dividend in respect of the year ended 31 December 2015 of HK\$0.01 per ordinary share (2014: Nil) is to be proposed at the annual general meeting on 13 May 2016.

	2015 HK\$'000	2014 HK\$'000
Proposed final dividend of HK\$0.01 (2014: HK\$ Nil) per ordinary share	2,000	–

14. LOSS PER SHARE

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

	2015 HK\$'000	2014 HK\$'000
Loss:		
Loss for the purpose of calculating basic loss per share (loss for the year attributable to owners of the Company)	(4,528)	(2,317)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

14. LOSS PER SHARE (CONTINUED)

	2015 '000	2014 '000
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic loss per share	200,000	140,943

The weighted average number of ordinary shares for the purpose of calculating basic loss per share has been determined on the assumption that the Reorganisation and the Capitalisation Issue (as defined in note 28) had been effective on 1 January 2014.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

15. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK\$'000	Furniture, fixtures and equipment HK\$'000	Total HK\$'000
COST			
At 1 January 2014	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
Additions	4,208	1,118	5,326
Exchange realignment	(59)	(5)	(64)
At 31 December 2015	9,499	3,335	12,834
DEPRECIATION			
At 1 January 2014	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
Provided for the year	861	713	1,574
Exchange realignment	(1)	–	(1)
At 31 December 2015	5,129	1,778	6,907
CARRYING VALUES			
At 31 December 2015	4,370	1,557	5,927
At 31 December 2014	1,081	1,157	2,238

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

Leasehold improvements	Over the lease terms of 1 to 7 years
Furniture, fixtures and equipment	33.33%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

16. GOODWILL

	HK\$'000
As at 1 January 2014, 31 December 2014 and 31 December 2015	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 which further expands and provides synergies to the Group's jazz and ballet academy business (the "CGU"). As at 31 December 2015, 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 15.40% (2014: 18.90%) as at 31 December 2015. The CGU's cash flows beyond the 5-year period are extrapolated using a growth rate of 3% (2014: 3%) as at 31 December 2015. The respective growth rates are based on the relevant industry growth forecasts and do 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 2014	534
Charge for the year	(89)
As at 31 December 2014	445
Charge for the year	(89)
As at 31 December 2015	356

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

18. INTERESTS IN JOINT VENTURES

	2015 HK\$'000	2014 HK\$'000
Cost of unlisted investment in joint ventures	156	–
Share of post-acquisition losses	–	–
	156	–

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		Principal activities
				2015 %	2014 %	
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
Milang and Rainbow Limited ("Milang and Rainbow")	BVI 21 September 2015	Hong Kong	US\$40,000	50	–	Inactive

Mutual Bright and Well Team are not considered as individually material and the Group has not recognised any share of loss after the acquisition.

Summarised financial information in respect of Milang and Rainbow is set out below. The summarised financial information below represents amounts shown in Milang and Rainbow's financial statements prepared in accordance with HKFRSs.

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For the year ended 31 December 2015

18. INTERESTS IN JOINT VENTURES (CONTINUED)

Milang and Rainbow

	2015 HK\$'000	2014 HK\$'000
Current assets — amounts due from shareholders	312	—

Reconciliation of the above summarised financial information to the carrying amount of the interest in Milang and Rainbow recognised in the consolidated financial statements:

	2015 HK\$'000	2014 HK\$'000
Net assets of Milang and Rainbow	312	—
Proportion of the Group's ownership interest in Milang and Rainbow	50%	—
Carrying amount of the Group's interest in Milang and Rainbow	156	—

19. INVENTORIES

	2015 HK\$'000	2014 HK\$'000
Finished goods — dance uniform, shoes and accessories	857	596

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

20. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2015 HK\$'000	2014 HK\$'000
Trade receivables from third parties	974	796
Rental deposits	7,191	5,850
Other deposits, receivables and prepayments (Note)	5,664	2,452
Total trade and other receivables, deposits and prepayments	13,829	9,098
Analysed as		
Current	5,828	5,182
Non-current	8,001	3,916
	13,829	9,098

Note: As at 31 December 2015, other receivables include (i) staff loans amounted to HK\$2,600,000 (2014: nil) of which HK\$1,500,000 and HK\$1,100,000 were granted to Ms. Chan Yuen Hong and Ms. Yu Sze Wan respectively. The amount is unsecured and interest bearing at 4.65%. In accordance with the repayment schedules, staff loans amounted to HK\$672,000 are required to be repaid during the year 2016 and HK\$1,928,000 are required to be repaid during the years 2017 to 2020. Accordingly, staff loans of HK\$672,000 are classified as current assets and staff loans of HK\$1,928,000 are classified as non-current assets; (ii) loan to a third party amounted to HK\$200,000 (2014: nil). The amount is unsecured, interest bearing at 3% and repayable on demand.

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:

	2015 HK\$'000	2014 HK\$'000
0 to 30 days	558	607
31 to 60 days	416	166
61 to 90 days	–	23
	974	796

As at 31 December 2015 and 2014, there was no trade receivables from third parties which are past due at the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

21. AMOUNTS DUE FROM/TO RELATED PARTIES

	2015 HK\$'000	2014 HK\$'000
Amounts due from joint ventures:		
Mutual Bright (Note i)	2,024	2,374
Well Team (Note i)	2,743	3,395
	4,767	5,769
Amounts due from other related parties:		
Rainbow Creative Arts Limited (“ Rainbow ”) (Note ii)	925	194
Dunn’s Education Limited (“ Dunn’s Education ”) (Note iii)	109	–
E.L.S.A. EDU. Limited (“ E.L.S.A. ”) (Note iii)	58	6
Sunshine Chinese Painting (“ Sunshine ”) (Note iv)	–	3
	1,092	203
Total amounts due from related parties	5,859	5,972

Notes:

- (i) Mutual Bright and Well Team were previously jointly controlled by Excel Concept and another independent third party. The Group acquired 50% interest in Mutual Bright and Well Team from Excel Concept on 30 September 2013. Details are set out in note 2.
- (ii) Rainbow is 100% beneficially owned and controlled by the Controlling Shareholder.
- (iii) 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.
- (iv) Sunshine is 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 as at 31 December 2015 and 2014 are 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

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

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

	2015 HK\$'000	2014 HK\$'000
Amounts due from joint ventures:		
Mutual Bright	3,639	2,374
Well Team	6,122	3,395
Amounts due from other related parties:		
Rainbow	925	3,218
Dunn's Education	109	164
E.L.S.A.	58	86
Sunshine	30	29
Non-controlling shareholders of subsidiaries	4	–
Amounts due to joint ventures:		
Mutual Bright	1,529	2,890
Well Team	–	1,306
Milang & Rainbow	156	–
	1,685	4,196
Amount due to Controlling Shareholder	126	144
Amount due to another related party:		
Except concept	27	150
Total amounts due to related parties	1,838	4,490

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

22. AMOUNTS DUE FROM NON-CONTROLLING SHAREHOLDERS OF SUBSIDIARIES

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

23. AVAILABLE-FOR-SALE INVESTMENTS

	2015 HK\$'000	2014 HK\$'000
Unlisted investments:		
Investments in BRJ China Credit Fund Limited — Class B shares	10,116	—

Note: The above unlisted equity investments represent investments in unlisted equity securities issued by a private entity incorporated in the Cayman Islands which is with a lock-up period of one year from the subscription date. They are measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is so significant that the Directors of the Company are of the opinion that their fair values cannot be measured reliably.

24. PLEDGED BANK DEPOSIT AND BANK BALANCES AND CASH

Pledged bank deposit carries fixed interest rate of 0.25% (2014: 0.25%) represents deposit as securities to the landlord of one of its dance centres over the lease term. Such pledged bank deposit would be matured in 2017 and accordingly, the pledged bank deposit is classified as non-current asset.

Included in bank balances and cash is an amount of HK\$18,818,000 (2014: HK\$32,500,000) representing a time deposit denominated in RMB with maturity of three months or less, carrying interest at rate of 8% (2014: 4%) per annum. The other bank balances carried interest at average market rates of 0.02% (2014: 0.02%) per annum as at 31 December 2015.

25. OTHER PAYABLES, ACCRUED CHARGES AND DEPOSITS RECEIVED

	2015 HK\$'000	2014 HK\$'000
Accrued rental expenses	911	1,043
Accrued staff costs	395	583
Receipt in advance	3,162	3,025
Deferred income (Note i)	25,681	22,538
Other payables and accrued charges (Note ii)	3,219	8,501
	33,368	35,690

Notes:

- (i) Deferred income represents the course fee received in advance.
- (ii) As at 31 December 2015, included in other payables and accrued charges was accrual of listing expenses amounting to HK\$500,000 (2014: HK\$5,949,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

26. BANK BORROWINGS

	2015 HK\$'000	2014 HK\$'000
Unsecured bank borrowings	–	743
Carrying amount repayable*:		
Within one year	–	743

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

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

All the unsecured bank borrowings were guaranteed by the Company as at 31 December 2014.

The effective interest rates (which are also equal to contracted interest rates) on the Group's fixed-rate borrowings was 3%.

27. PROVISIONS

	Provision for reinstatement cost HK\$'000
As at 1 January 2014	1,700
Additional provision recognised	101
Reductions arising from payments	(100)
As at 31 December 2014	1,701
Additional provisions recognised	288
Exchange realignment	(1)
As at 31 December 2015	1,988

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

27. PROVISIONS (CONTINUED)

	2015 HK\$'000	2014 HK\$'000
Analysed as		
Current	500	600
Non-current	1,488	1,101
	1,988	1,701

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

28. ISSUED CAPITAL

	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 and 2015	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 and 2015	200,000,000	20,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

28. ISSUED CAPITAL (CONTINUED)

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 both years.

29. DEFERRED TAX ASSETS

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

	HK\$'000
As at 1 January 2014	400
Debit to profit or loss (note 10)	(26)
As at 31 December 2014	374
Debit to profit or loss (note 10)	(23)
As at 31 December 2015	351

At 31 December 2015, the Group had estimated unused tax losses of HK\$3,733,000 (2014: nil) available for offset against future profits. No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams. Included in unrecognised tax losses are loss of HK\$2,740,000 (2014: Nil) that will expire in 2020. All other tax losses may be carried forward indefinitely.

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For the year ended 31 December 2015

30. 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:

	2015 HK\$'000	2014 HK\$'000
Within one year	17,281	10,231
In the second to fifth year inclusive	21,175	6,145
After five years	8,491	–
	46,947	16,376

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 7 years. Rainbow has signed a lease agreement for the usage by the Group and the operating lease commitments are not included as above.

The Group as lessor

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

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

	2015 HK\$'000	2014 HK\$'000
Not later than one year	940	822
Later than one year and not later than five years	842	60
	1,782	882

31. 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.

The PRC employees of the Group are members of a state-managed retirement benefit scheme operated by the local government. The Group is required to contribute a certain percentage of their payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

33. RELATED PARTY TRANSACTIONS

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

	2015 HK\$'000	2014 HK\$'000
Payroll expenses paid to related companies for the staffing service provided to the Group:		
— Tim EDPlatform Limited (“T.E.P.”) (Note)	—	41
— Excel Concept	—	120
	—	161
Building management fee, rent and rates received from other related companies:		
— Rainbow	798	582
— Dunn’s Education	1,525	1,173
— Sunshine	180	151
	2,503	1,906
Interest income from the Controlling Shareholder	—	135
Professional expense 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 as at the end of the reporting period	—	150
Management fee income received from:		
Joint ventures:		
— Mutual Bright	1,000	600
— Well Team	800	1,200
	1,800	1,800

Note: T.E.P. is 73.14% beneficially owned and controlled by the Controlling Shareholder.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

33. RELATED PARTY TRANSACTIONS (CONTINUED)

During the years ended 31 December 2015 and 2014, 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:

	2015 HK\$'000	2014 HK\$'000
Rainbow	252	–
Joy Flash Limited (“ Joy Flash ”) (Note i)	–	310
Sun Bright International Development Limited (“ Sun Bright ”) (Note ii)	–	92
Charm Wide Limited (“ Charm Wide ”) (Note i)	–	169
5 Dimensions Limited (“ 5 Dimensions ”) (Note iii)	–	169
Stand Kind Limited (“ Stand Kind ”) (Note i)	–	220
Fine Progress Limited (“ Fine Progress ”) (Note i)	–	53
Faith Emperior Limited (“ Faith Emperior ”) (Note i)	–	157
	252	1,170

Notes:

- (i) Joy Flash and 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) Sun Bright was 100% beneficially owned and controlled by Excel Concept during year ended 31 December 2014.
- (iii) 5 Dimensions is 95% and 5% beneficially owned by T.E.P. and the Controlling Shareholder respectively and is controlled by T.E.P..

Compensation of key management personnel

The remuneration of members of key management of the Group during the years ended 31 December 2015 and 2014 were as follows:

	2015 HK\$'000	2014 HK\$'000
Short-term benefits	780	195

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

34. 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, amount 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

35. FINANCIAL INFORMATION OF THE COMPANY

	2015 HK\$'000	2014 HK\$'000
Non-current assets		
Unlisted investments	27,000	26,610
Other receivables and prepayment	2,506	–
	29,506	26,610
Current assets		
Other receivables and prepayments	1,064	1,346
Amounts due from subsidiaries	36,193	32,445
Amounts due from joint ventures	360	–
Bank balances and cash	3,485	22,616
	41,102	56,407
Current liabilities		
Other payables and accrued charges	1,485	7,107
Amount due to Controlling Shareholder	126	279
Amounts due to subsidiaries	37,281	42,977
	38,892	50,363
Net current liabilities	2,210	6,044
Total assets less current liabilities	31,716	32,654
Capital and reserves		
Share capital	20,000	20,000
Reserves (Note)	11,716	12,654
	31,716	32,654

Particulars of the principal subsidiaries of the Company at 31 December 2015 are set out in note 36.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

35. FINANCIAL INFORMATION OF THE COMPANY (CONTINUED)

Note: **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
Loss and total comprehensive expense for the year	–	–	(938)	(938)
As at 31 December 2015	19,407	(1,685)	(6,006)	11,716

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For the year ended 31 December 2015

36. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries of the Group as at 31 December 2015 and 2014 are as follows:

Name of subsidiary	Place and date of incorporation/ establishment	Place of operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group as at 31 December		Principal activities
				2015 %	2014 %	
Brilliant Together	BVI 13 February 2014	Hong Kong	US\$1	100	100	Investment holding
Tycoon Together	BVI 13 February 2014	Hong Kong	US\$1	100	100	Investment holding
Fortune Apex Enterprises Limited	BVI 21 October 2014	Hong Kong	US\$1	100	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
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	Inactive
SDM Art Limited	BVI 21 September 2015	Hong Kong	US\$50,000	100	–	Investment holding

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

36. PARTICULARS OF PRINCIPAL SUBSIDIARIES (CONTINUED)

Particulars of the principal subsidiaries of the Group as at 31 December 2015 and 2014 are as follows: (Continued)

Name of subsidiary	Place and date of incorporation/ establishment	Place of operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group as at 31 December		Principal activities
				2015 %	2014 %	
Cool Kids International Limited	Hong Kong 27 February 2015	Hong Kong	HK\$10,000	75	–	pop dance academy
SDM HK (Shanghai) Limited	Hong Kong 23 July 2015	Hong Kong	HK\$10,000	90	–	Inactive
廣州樂動心弦文化發展有限公司 (「廣州樂動心弦」)	Guangzhou 15 September 2015	Guangzhou	RMB3,000,000*	100	–	Jazz and ballet academy

* No registered capital was paid as of 31 December 2015. In accordance with the memorandum and articles of association of 廣州樂動心弦, the shareholder of 廣州樂動心弦 is required to pay the registered capital up to RMB3,000,000 before 14 September 2035.

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

All of the non-controlling interests are not considered as individually material to the Group.

37. SUBSEQUENT EVENTS

On 31 December 2015 and 7 January 2016, the Company entered into a warrant placing agreement and a supplemental placing agreement respectively (collectively referred to as “**Warrant Placing Agreements**”) with a placing agent pursuant to which the placing agent agreed to place up to 40,000,000 warrants conferring rights at a warrant placing price of HK\$0.0574 for each warrant, subject to the fulfillment of the conditions precedent on or before 29 February 2016. The warrant allows the warrant placee(s) to subscribe for up to 40,000,000 warrants shares at the exercise price of HK\$1.5 per warrant share to the warrant placee(s), at any time during a period of 12 months commencing from the date immediately after the date of issue of the warrant. The Warrant Placing Agreements were approved by the extraordinary general meeting held on 15 February 2016 and the warrant placing was completed on 1 March 2016. The Directors of the Company are in the process of assessing the financial impact on the warranty placing.

On 14 March 2016, the Group entered into a conditional sale and purchase agreement with two independent third parties pursuant to which the Group will acquire 60% equity interest in Octopus Group Limited at an aggregate consideration of not more than HK\$6,000,000, which shall be satisfied by the issuance of convertible bonds by the Company. The acquisition has not been completed as at the date of issuance of these consolidated financial statements.

FINANCIAL SUMMARY

For the four years ended 31 December 2012, 2013, 2014 and 2015

RESULTS

	2012 HK\$'000	2013 HK\$'000	2014 HK\$'000	2015 HK\$'000
Revenue	40,293	43,567	56,195	56,254
Profit (loss) before taxation	13,512	12,485	(418)	(4,636)
Income tax expense	(2,267)	(2,317)	(1,899)	(42)
Profit (loss) for the year	11,245	10,168	(2,317)	(4,678)
Profit (loss) for the year attributable to:				
Owners of the Company	11,246	10,169	(2,317)	(4,528)
Non-controlling interests	(1)	(1)	–	(150)
	11,245	10,168	(2,317)	(4,678)

ASSETS AND LIABILITIES

	2012 HK\$'000	2013 HK\$'000	2014 HK\$'000	2015 HK\$'000
Total assets	48,801	66,123	84,238	70,862
Total liabilities	(36,375)	(43,529)	(45,751)	(37,194)
Total equity	12,426	22,594	38,487	33,668
Non-controlling interests	7	8	–	146
Equity attributable to owners of the Company	12,433	22,602	38,487	33,814

SDM Group Holdings Limited
