

SDM Group Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

INTERIM REPORT 2016

Stock Code: 8363



SDM | 爵士芭蕾舞學院
Jazz & Ballet Academie

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

FINANCIAL HIGHLIGHTS

For the six months ended 30 June 2016, unaudited operating results of the Group were as follows:

- loss for the period attributable to owners of the Company for the six months ended 30 June 2016 amounted to approximately HK\$2,617,000 (2015: profit for the period attributable to owners of the Company for the six months ended 30 June 2015 amounted to approximately HK\$1,947,000); and
- basic loss per share for the six months ended 30 June 2016 was approximately 1.31 HK cents (2015: basic earnings per share for the six months ended 30 June 2015 was approximately 0.97 HK cents).

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The board of Directors (the “**Board**”) of the Company (together with its subsidiaries, the “**Group**”) is pleased to present the unaudited condensed consolidated results of the Group for the six months ended 30 June 2016, together with the unaudited comparative figures for the corresponding period in 2015, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	For the three months ended 30 June		For the six months ended 30 June	
		2016	2015	2016	2015
		(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Revenue	4	15,863	14,316	29,929	27,731
Other income		1,437	1,804	3,082	3,488
Changes in inventories of finished goods		(618)	(81)	(692)	(103)
Finished goods purchased		82	(464)	(33)	(570)
Advertising and promotion expenses		(701)	(612)	(1,296)	(1,101)
Depreciation and amortisation		(597)	(353)	(1,210)	(657)
Rental expenses		(5,256)	(4,124)	(10,600)	(8,155)
Staff costs		(5,962)	(5,141)	(11,535)	(9,887)
Other operating expenses		(5,971)	(5,051)	(10,379)	(8,438)
Finance costs		–	(4)	–	(7)
(Loss) profit before taxation		(1,723)	290	(2,734)	2,301
Income tax expense	5	–	(26)	–	(356)
(Loss) profit and total comprehensive (expense) income for the period		(1,723)	264	(2,734)	1,945

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (Continued)

	Note	For the three months ended 30 June		For the six months ended 30 June	
		2016	2015	2016	2015
		(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
(Loss) profit and total comprehensive (expense) income for the period attributable to:					
Owners of the Company		(1,665)	266	(2,617)	1,947
Non-controlling interests		(58)	(2)	(117)	(2)
		(1,723)	264	(2,734)	1,945
		HK cents	HK cents	HK cents	HK cents
(Loss) earnings per share:					
Basic and diluted	6	(0.83)	0.13	(1.31)	0.97

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	30 June 2016 (Unaudited) HK\$'000	31 December 2015 (Audited) HK\$'000
Non-current assets			
Property, plant and equipment		5,081	5,927
Goodwill		1,897	1,897
Intangible assets		311	356
Interests in joint ventures		156	156
Other receivables, deposits and prepayment		8,462	8,001
Pledged bank deposit		315	315
Deferred tax assets		351	351
		16,573	17,003
Current assets			
Inventories		824	857
Trade and other receivables, deposits and prepayments	8	16,240	5,828
Amounts due from related parties		5,715	5,859
Amounts due from non-controlling shareholders of subsidiaries		4	4
Available-for-sale investments		1,012	10,116
Tax recoverable		1,828	1,828
Bank balances and cash		34,672	29,367
		60,295	53,859
Current liabilities			
Other payables, accrued charges and deposits received		43,560	33,368
Amounts due to related parties		1,617	1,838
Provisions		1,102	500
		46,279	35,706

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION*(Continued)*

	30 June 2016 (Unaudited) HK\$'000	31 December 2015 (Audited) HK\$'000
Net current assets	14,016	18,153
Total assets less current liabilities	30,589	35,156
Non-current liabilities		
Provisions	886	1,488
Net assets	29,703	33,668
Capital and reserves		
Issued capital	20,000	20,000
Reserves	9,966	13,814
Equity attributable to owners of the Company	29,966	33,814
Non-controlling interests	(263)	(146)
	29,703	33,668

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the Company									
	Issued		Investment			Accumulated		Total	Non-controlling interests	Total
	share capital	Share premium	Exchange reserve	revaluation reserve	Warrants reserve	Other reserve	profits (losses)			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2015 (audited)	20,000	19,407	-	-	-	(1,675)	755	38,487	-	38,487
Fair value loss on available-for-sale investments	-	-	-	(127)	-	-	-	(127)	-	(127)
Capital contribution by non-controlling interests	-	-	-	-	-	-	-	-	2	2
Profit and total comprehensive income for the period	-	-	-	-	-	-	1,947	1,947	(2)	1,945
At 30 June 2015 (unaudited)	20,000	19,407	-	(127)	-	(1,675)	2,702	40,307	-	40,307
At 1 January 2016 (audited)	20,000	19,407	(145)	-	-	(1,675)	(3,773)	33,814	(146)	33,668
Loss for the period	-	-	-	-	-	-	(2,617)	(2,617)	(117)	(2,734)
Exchange differences arising on translation to presentation currency	-	-	(47)	-	-	-	-	(47)	-	(47)
Loss and total comprehensive expense for the period	-	-	(47)	-	-	-	(2,617)	(2,664)	(117)	(2,781)
Payment of dividends	-	(2,000)	-	-	-	-	-	(2,000)	-	(2,000)
Issue of warrants	-	-	-	-	816	-	-	816	-	816
At 30 June 2016 (unaudited)	20,000	17,407	(192)	-	816	(1,675)	(6,390)	29,966	(263)	29,703

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	For the six months ended	
	30 June	
	2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000
Net cash used in operating activities	(2,588)	(10,041)
Net cash generated from (used) in investing activities	9,299	(10,751)
Net cash used in financing activities	(1,406)	(2,247)
Net increase (decrease) in cash and cash equivalents	5,305	(23,039)
Cash and cash equivalents at 1 January	29,367	61,234
Cash and cash equivalents at 30 June, represented by bank balances and cash	34,672	38,195
REPRESENTED BY:		
Bank balances and cash	34,672	38,195

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

1. GENERAL INFORMATION

The Company was incorporated and registered as an exempted company with limited liability in the Cayman Islands under the Cayman Companies Law on 12 February 2014 and its shares are listed on GEM of the Stock Exchange on 14 October 2014. Its parent is Wealthy Together Limited (“**Wealthy Together**”) (incorporated in British Virgin Islands). Its ultimate controlling party is Mr. Chiu Ka Lok, who is also the Chairman and executive Director of the Company. The addresses of the Company’s registered office and 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, Kowloon, Hong Kong respectively.

The Company is an investment holding company and its principal subsidiaries are mainly engaged in the business of jazz and ballet and pop dance in Hong Kong and the People’s Republic of China (the “**PRC**”).

The unaudited condensed consolidated financial statements are presented in Hong Kong dollars (“**HK\$**”), which is the same as the functional currency of the Company.

2. BASIS OF PREPARATION

The unaudited condensed consolidated financial statement for the six months ended 30 June 2016 has been prepared in accordance with the Hong Kong Accounting Standards (“**HKAS**”) 34 “Interim financial reporting” issued by the Hong Kong Institute of Certificate Public Accountants (“**HKICPA**”) and the applicable disclosure requirements of the GEM Listing Rules. The unaudited condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2015, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”).

The unaudited condensed consolidated financial statement have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the ended of each reporting period. Historical cost is generally based on the fair value of the consideration given in exchange for good and services.

3. ADOPTION OF NEW AND REVISED HKFRSs

In the current period, the Group has adopted all the new and revised HKFRSs issued by the HKICPA that are relevant to its operations and effective for its accounting period beginning on 1 January 2016. HKFRSs comprise HKFRS and HKAS and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group’s accounting policies, presentation of the Group’s financial statements and amounts reported for the current period and prior years.

The Group has not applied the new HKFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a material impact on its results of operations and financial position.

4. 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 relevant periods. The Group's operation is solely derived from jazz and ballet academy and pop dance in Hong Kong and the PRC during the periods. For the purpose of resources allocation and performance assessment, the chief operating decision maker (i.e. the chief executive officer of the Group) reviews the overall results and financial position of the Group as a whole. Accordingly, the Group has only one single operating segment and no further analysis of this single segment is presented.

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

	For the three months ended 30 June		For the six months ended 30 June	
	2016 (Unaudited)	2015 (Unaudited)	2016 (Unaudited)	2015 (Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Course fee income	14,186	12,944	28,088	26,048
Sales of dance uniforms, shoes and accessories	1,677	1,372	1,841	1,683
	15,863	14,316	29,929	27,731

Geographical Information

The Group's operation 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.

	For the three months ended 30 June		For the six months ended 30 June	
	2016 (Unaudited)	2015 (Unaudited)	2016 (Unaudited)	2015 (Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	15,601	14,316	29,531	27,731
PRC	262	–	398	–
	15,863	14,316	29,929	27,731

Information about major customer

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

5. INCOME TAX EXPENSE

	For the three months ended 30 June		For the six months ended 30 June	
	2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000
Current tax				
— Hong Kong Profits Tax	–	26	–	356

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

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 profits for both periods.

6. (LOSS) EARNINGS PER SHARE

The calculation of basic (loss) earnings per share attributable to owners of the Company is based on the loss for the three months ended 30 June 2016 and six months ended 30 June 2016 attributable to owners of the Company of approximately HK\$1,665,000 and HK\$2,617,000 respectively (2015: the earnings for the three months ended 30 June 2015 and six months ended 30 June 2015 attributable to owners of the Company of approximately HK\$266,000 and HK\$1,947,000) and the weighted average number of ordinary shares of 200,000,000 (2015: 200,000,000) in issue during the period.

Diluted (loss) earnings per share

Diluted loss per share for the three months ended 30 June 2016 and six months ended 30 June 2016 was the same as the basic loss per share. The Company’s outstanding warrants were not included in the calculation of diluted loss per share because the effects of the Company’s outstanding warrants were anti-dilutive.

As there were no dilutive potential shares during the three months ended 30 June 2015 and six months ended 30 June 2015, the diluted earnings per share were the same as basic earnings per share.

7. DIVIDENDS

The 2015 final dividend of HK\$0.01 per ordinary share, totaling HK\$2,000,000 was recognised as distribution during the six months ended 30 June 2016.

No dividend was proposed during the six months ended 30 June 2016, nor has any dividend been proposed since the end of the reporting period (for the six months ended 30 June 2015: Nil).

8. TRADE RECEIVABLES

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:

	30 June 2016 (Unaudited) HK\$'000	31 December 2015 (Audited) HK\$'000
0 to 30 days	588	558
31 to 60 days	2,308	416
	2,896	974

As at 30 June 2016 and 31 December 2015, there was no trade receivables from third parties which are past due at the end of the reporting period.

9. WARRANTS

On 1 March 2016, 40,000,000 warrants were issued by the Company at a warrant placing price of HK\$0.0574 for each warrant in accordance to the terms of warrant placing agreement and the supplemental placing agreement on 31 December 2015 and 7 January 2016 respectively. The warrant allows the warrant placee to subscribe for up to 40,000,000 warrant shares at the exercise price of HK\$1.5 per warrant share to the warrant placee, at any time during the period of 12 months commencing from the date immediately after the issue of the warrant. The net proceeds received from the issue of the warrants of HK\$816,000 are credited to equity (warrants reserve).

No warrant was exercised during the six months ended 30 June 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

SDM Jazz & Ballet Academie (SDM爵士芭蕾舞學院)

The Group continues focusing on engaging in business of jazz and ballet and pop dance academy in Hong Kong and the PRC during the six months ended 30 June 2016 (the "Reporting Period").

In line with the Group's expansion plan, the Group had developed more resources to promote brand image and maintain quality services in order to consolidate our leading position in the industry. The Group had opened three dance centres in Hong Kong and two dance centres in the PRC in 2015 (the "New Centres"), 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. 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 also will continue developing new brand or offering wide range of dance courses for children.

Meanwhile, the Company will also expedite its expansion in the PRC and overseas market to diversify and further broaden the source of income.

FINANCIAL REVIEW

During the Reporting Period, the Group's revenue, comprising mainly of course fee income and sales of dance uniforms, shoes and accessories, recorded a total amount of approximately HK\$29,929,000, representing an increase of approximately 7.9% compared with the revenue of approximately HK\$27,731,000 for the corresponding period in year 2015.

Other income of the Group decreased by approximately HK\$406,000 or 11.6% from approximately HK\$3,488,000 for the corresponding period of last year to approximately HK\$3,082,000 for the Reporting Period. The decrease in other income was mainly due to the decrease in building management fee and rental income and interest income from approximately HK\$1,506,000 and HK\$497,000 respectively for the six months ended 30 June 2015 to approximately HK\$1,304,000 and HK\$161,000 respectively in Reporting Period which was partially offset by the increase in gain on redemption of available-for-sale investments of approximately HK\$245,000 during the Reporting Period. Other income of the Group mainly comprises of the management fee income, examination handling fee income, performance and show income, building management fee and rental income.

Rental expenses of the Group during the Reporting Period was approximately HK\$10,600,000 (2015: approximately HK\$8,155,000), representing a significant increase in rental expenses of approximately 30.0% as compared to the corresponding period of last year. The primary reason for the increase was the expansion in the number of the self-operated dance centre as disclosed in the paragraph headed “Business Review” above. The increase of the Group’s rental expenses incurred during the Reporting Period was also attributable to the increment in rental expenses of the Group’s leased dance centres and its head office.

Staff costs amounted to approximately HK\$11,535,000 during the Reporting Period (2015: approximately HK\$9,887,000), representing an increase of approximately 16.7%. The increment was mainly due to the business expansion during the Reporting Period.

Other operating expenses of the Group was approximately HK\$10,379,000 during the Reporting Period (2015: approximately HK\$8,438,000), representing a significant increase of approximately 23.0% as compared to the corresponding period of last year. The significant increase was mainly attributable to the professional fees incurred after the listing in compliance with the GEM Listing Rules. Another reason for such increase was the increase in building management fee.

The Group recorded a loss attributable to owners of the Company amounted to approximately HK\$2,617,000 for the Reporting Period while the Group recorded a profit attributable to owners of the Company amounted to approximately HK\$1,947,000 for the corresponding period of last year.

Although the Group recorded an increase of revenue of approximately 7.9% to approximately HK\$29,929,000 for the six months ended 30 June 2016 as compared with the revenue of approximately HK\$27,731,000 for the corresponding period in 2015, the net loss was mainly due to additional operation costs of the new centres opened in 2015, which were reflected in the increase in (i) rental expenses, (ii) staff costs and (iii) other operating expenses. Such new centres are in the early stage of developing and expected to grow continually.

SHARE CAPITAL

As at 30 June 2016, the authorised share capital of the Company was HK\$800,000,000, divided into 8,000,000,000 shares (the “Shares”) of HK\$0.1 each and the issued share capital of the Company was HK\$20,000,000, divided into 200,000,000 shares of HK\$0.1 each.

SIGNIFICANT INVESTMENTS

The Group did not have significant investments for the six months ended 30 June 2016.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operation through internally-generated cash flows and bank facilities provided by the banks during the period. As at 30 June 2016, the total bank balances and cash of the Group amounted to approximately HK\$34.7 million (As at 31 December 2015: approximately HK\$29.4 million) excluding the pledged bank deposit with fixed term of 3 years amounted to approximately HK\$0.3 million (As at 31 December 2015: HK\$0.3 million).

As at 30 June 2016, the current ratio (defined as total current assets divided by total current liabilities) was approximately 1.3 times as compared to that 1.5 times as at 31 December 2015.

As at 30 June 2016, the gearing ratio (calculating based on amounts due to related parties which is non-trade nature divided by total equity and multiplied by 100%) was approximately 5.4% (As at 31 December 2015: approximately 5.5%).

CAPITAL STRUCTURE

The shares of the Company were successfully listed on the GEM Board of the Stock Exchange on 14 October 2014 (the “**Listing**”). 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 30 June 2016, 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. As at 30 June 2016, 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 amounted to approximately HK\$40.6 million as at 30 June 2016 (As at 31 December 2015: approximately HK\$46.9 million).

As at 30 June 2016, the Group did not have any significant capital commitments (As at 31 December 2015: Nil).

CONTINGENT LIABILITIES

As at 30 June 2016, the Group did not have any significant contingent liabilities or guarantees (As at 31 December 2015: Nil).

FOREIGN EXCHANGE EXPOSURE

As at 30 June 2016, the Group have certain 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 other receivables and deposits and available-for-sale investments denominated in RMB as mentions above are equivalent to approximately HK\$2.6 million (As at 31 December 2015: HK\$0.4 million) and HK\$1.0 million (As at 31 December 2015: HK\$10.1 million) respectively.

TREASURY POLICIES

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

To manage liquidity risk, the Board closely monitors the Group’s liquidity position to ensure that the liquidity structure of the Group’s assets, liabilities and commitments can meet its funding requirements.

CHARGE ON GROUP’S ASSETS

As at 30 June 2016, the Group pledged its bank deposit of HK\$0.3 million (As at 31 December 2015: 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 bank deposit would be matured in year 2017.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2016, the Group employed a total of 122 full-time and 113 part-time employees (As at 31 December 2015: 120 full-time and 111 part-time employees), respectively. The staff costs, including Directors' emoluments, of the Group were approximately HK\$11.5 million for the six months ended 30 June 2016 (2015: approximately HK\$9.9 million). Remuneration is determined with reference to market terms and the performance, qualification and experience of individual employee. In addition to a basic salary, year-end discretionary bonuses were offered to those staff with outstanding performance to attract and retain eligible employees to contribute to the Group. Apart from basic remuneration, 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.

FUTURE PLANS 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.

The Group has been proactive in seeking appropriate investment opportunities to expand its business scope and to diversify its existing business. In 2016, the Group officially stepped foot on the mainstream education market in the PRC and overseas through its proposed acquisition of the Octopus Group Limited, UPC Pty Ltd, Raffles Early Learning Centre Pte Ltd, 上海婷可舞蹈工作室有限公司, 廣州普樂谷之家投資有限公司 and 東莞普樂谷之家教育投資有限公司 (collectively refer to the "**Proposed Acquisitions**"). For further details, please refer to the announcements of the Company dated 16 March 2016, 24 March 2016, 5 April 2016, 18 April 2016, 22 April 2016, 13 May 2016, 1 June 2016, 20 July 2016 and 26 July 2016 respectively. The Group anticipates funding those Proposed Acquisitions from its operating resources and through capital markets.

The Proposed Acquisitions are in line with the business development plan and expansion plan of the Group. The Board believes that the Proposed Acquisitions provides an excellent development platform and opportunity to expand its early childhood education business into international markets. The Group's core business — jazz and ballet and pop dance academy can generate synergies with mainstream education to expand its business into the PRC and overseas market and enhance the competitiveness of the Group. The Board believes that the Proposed Acquisitions provide an excellent investment opportunity for the Group to further establish its position in targeting for kids from 2 years to 12 years old.

The Group will continue searching for suitable opportunities to expand its business into Hong Kong, the PRC and oversea markets.

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 30 June 2016 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\$2.1 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\$2.1 million for enhancement in which HK\$0.7 million used for existing centre facilities, HK\$0.9 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 HK\$0.3 million for the general working capital requirements.

USE OF PROCEEDS

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

An analysis of the utilisation of the net proceeds from the placing and the unused amount as at 30 June 2016 is set out below:

	Net proceeds from the placing HK\$'000	Planned amount utilised up to 30 June 2016 HK\$'000	Actual utilised amount as at 30 June 2016 HK\$'000	Unutilised amount as at 30 June 2016 HK\$'000
Expansion of network by opening and/or acquiring new centres close to populated residential areas in Hong Kong	10,073	(4,800)	(2,864)	7,209
Brand building, marketing and promotion	2,500	(2,100)	(2,100)	400
Enhancement of existing centre facilities, inventory, IT, logistic and administrative services	2,500	(2,100)	(2,100)	400
Repayment of bank loan	10,000	(10,000)	(10,000)	–
General working capital	300	(300)	(300)	–
Total	25,373	(19,300)	(17,364)	8,009

OTHER INFORMATION

DISCLOSURE OF INTERESTS

(a) Interests of Directors and Chief executives

As at 30 June 2016, the interests or short positions of the Directors and chief executives of the Company in the Shares, underlying Shares and 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 Divisions 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) 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 interests in the Company's issued share capital
Mr. Chiu Ka Lok ("Mr. Chiu")	Interest of a controlled corporation	150,000,000 (Note 1)	75% (Note 3)
Dr. Chun Chun	Family interest	150,000,000 (Note 2)	75% (Note 3)

Notes:

- Wealthy Together is wholly and beneficially owned by Mr. Chiu, an executive Director and the Chairman of the Company. Mr. Chiu is deemed to be interested in 150,000,000 Shares held by Wealthy Together by virtue of his 100% shareholding interest in Wealthy Together.
- Dr. Chun Chun, a non-executive Director, is the spouse of Mr. Chiu and is therefore deemed to be interested in all the shares held/owned by Mr. Chiu (by himself or through Wealthy Together) by virtue of the SFO.
- As at 30 June 2016, the total issued share capital of the Company was 200,000,000.

Save as disclosed above, as at 30 June 2016, none of the Directors nor chief executives of the Company had or was deemed to have any other interests or short positions in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 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) 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.

(b) Interests of Substantial Shareholders of the Company

So far as is known to the Directors, as at 30 June 2016, 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 or underlying Shares of the Company

Name of Shareholder	Nature of interest/ holding capacity	Number of Shares/ underlying Shares	Percentage of interests in the Company's issued share capital
Wealthy Together	Beneficial owner	150,000,000 (Note 1)	75% (Note 3)
Little Prince Kingdom Limited ("Little Prince Kingdom")	Beneficial owner	40,000,000 (Note 2)	20% (Note 3)
Mr. Yue Wai Leung Stan ("Mr. Yue")	Interest of a controlled corporation	40,000,000 (Note 2)	20% (Note 3)

Notes:

- (1) Wealthy Together is beneficially and wholly owned by Mr. Chiu, an executive Director and the Chairman of the Company. By virtue of the SFO, Mr. Chiu is deemed to be interested in the shares held by Wealthy Together.
- (2) Little Prince Kingdom owns 40,000,000 warrants, which will be converted into 40,000,000 Shares upon full conversion of 40,000,000 warrants at the exercise price of HK\$1.5. The entire issued capital of Little Prince Kingdom is held by Mr. Yue. Mr. Yue is deemed to be interested in 40,000,000 underlying Shares held by Little Prince Kingdom by virtue of his 100% shareholding interest in Little Prince Kingdom.
- (3) As at 30 June 2016, the total issued share capital of the Company was 200,000,000.

Save as disclosed above, as at 30 June 2016, the Directors were not aware of any other persons (other than the Directors and the chief executive of the Company) who had, or was deemed to have, interests or short positions in the Shares or underlying Shares of the Company which 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.

SHARE OPTION SCHEME

The Company's share option scheme (the "**Scheme**") was conditionally adopted by a written resolutions 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, other employees and other eligible participants who have made valuable contribution to the Group.

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 the 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.

The Company may renew the Scheme Limit at any time subject to prior shareholders' approval but in any event, the total number of shares which may be issued upon exercise of all share options to be granted under the Scheme under the limit as refreshed must not exceed 10% of the shares in issue as at the date of the shareholders' approval of the renewed limit.

There was no share option granted or agreed to be granted under the Scheme from the Date of Adoption to 30 June 2016 and up till the date of this report.

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 interest which any such person has or may have with the Group during the Reporting Period.

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.

CODE OF CORPORATE GOVERNANCE PRACTICES

The Company endeavors to adopt prevailing best corporate governance practices. For the six months ended 30 June 2016, the Company had complied with all the code provisions set out in the Corporate Governance Code as contained in Appendix 15 of the GEM Listing Rules and there has been no deviation in relation thereto.

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 standard 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 during the Reporting Period. Further, the Company was not aware of any non-compliance with the required standard of dealings regarding securities transactions by the Directors for the six months ended 30 June 2016.

INTERESTS OF THE COMPLIANCE ADVISER

As notified by the compliance adviser of the Company, Innovax Capital Limited, as at 30 June 2016, save for the compliance adviser agreement dated 8 June 2015 entered into between the Company and Innovax Capital Limited, neither Innovax Capital Limited, its directors, employees 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.

EVENTS AFTER THE REPORTING PERIOD

- (i) On 20 July 2016, the Company, its wholly-owned subsidiary, Mr. Chiu Kung Ting and Mr. Leung Wing Lok entered into a supplemental agreement to amend certain terms of the agreement dated 14 March 2016 in relation to the acquisition of 60% of the entire issued share capital of Octopus Group Limited (the "**Acquisition**").

Following the Acquisition, the revised target group will be engaging in the operation of day care centers, kindergartens and indoor theme-based kids clubs in Shenzhen, PRC that provide branded education programs and a series of entertainment services for both children and parents.

For further details, please refer to the announcement of the Company dated 20 July 2016.

- (ii) On 26 July 2016, the Company and Goh Tser Puan and Wong Kai Ming (the “**Vendors**”) mutually agreed to extend the exclusivity period to 30 September 2016 mentioned in the memorandum of understanding signed on 18 April 2016 in which the Company intends to acquire and the Vendors intend to sell 80% of the entire share capital of the Raffles Early Learning Centre Pte Ltd.

For further details, please refer to the announcement of the Company dated 26 July 2016.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company during the Reporting Period.

AUDIT COMMITTEE

The Company’s Audit Committee, comprising Mr. Lau Sik Yuen, Dr. Yuen Man Chun Royce and Mr. Lee Kwok Ho David, as the independent non-executive Directors, has reviewed with the Company’s management the accounting principles and practices adopted by the Group and financial reporting matters including a review of the unaudited consolidated results of the Group for the six months ended 30 June 2016. There were no disagreements within the Audit Committee in relation to the accounting treatment adopted by the Company.

BOARD OF DIRECTORS

As at the date of this report, the Board comprises Mr. Chiu Ka Lok (Chairman) and Mr. Chun Chi Ngon Richard (Chief Executive Officer), as the executive Directors, Dr. Chun Chun, Ms. Yeung Siu Foon and Ms. Yip Sze Pui Fione, as the non-executive Directors and Mr. Lau Sik Yuen, Dr. Yuen Man Chun Royce and Mr. Lee Kwok Ho David, as the independent non-executive Directors.

By Order of the Board
SDM Group Holdings Limited
Mr. Chiu Ka Lok
Chairman

Hong Kong, 11 August 2016