



2017 SDM
INTERIM REPORT
SDM Group Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 8363

SDM | 爵士芭蕾舞學院
Jazz & Ballet Academie

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

Hong Kong Exchanges and Clearing Limited and the Stock Exchange take no responsibility for the contents of this report, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

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 2017, 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 2017 amounted to approximately HK\$3,029,000 (2016: 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); and
- basic loss per share for the six months ended 30 June 2017 was approximately 1.16 HK cents (2016 (Restated): basic loss per share for the six months ended 30 June 2016 was approximately 1.07 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 2017, together with the unaudited comparative figures for the corresponding period in 2016, 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	
		2017	2016	2017	2016
		(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Revenue	4	15,046	15,863	30,519	29,929
Other income		2,318	1,437	3,966	3,082
Changes in inventories of finished goods		(211)	(618)	(204)	(692)
Finished goods purchased		(98)	82	(374)	(33)
Advertising and promotion expenses		(884)	(701)	(1,545)	(1,296)
Depreciation and amortisation		(573)	(597)	(1,131)	(1,210)
Rental expenses		(5,551)	(5,256)	(11,157)	(10,600)
Staff costs		(6,484)	(5,962)	(11,975)	(11,535)
Other operating expenses		(5,958)	(5,971)	(11,266)	(10,379)
Finance costs		–	–	–	–
Loss before taxation		(2,395)	(1,723)	(3,167)	(2,734)
Income tax expense	5	(2)	–	(2)	–
Loss and total comprehensive expense for the period		(2,397)	(1,723)	(3,169)	(2,734)

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	
		2017	2016	2017	2016
		(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Loss and total comprehensive expense for the period attributable to:					
Owners of the Company		(2,339)	(1,665)	(3,029)	(2,617)
Non-controlling interests		(58)	(58)	(140)	(117)
		(2,397)	(1,723)	(3,169)	(2,734)
		HK cents	(Restated) HK cents	HK cents	(Restated) HK cents
Loss per share:					
Basic and diluted	6	(0.89)	(0.68)	(1.16)	(1.07)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	30 June 2017 (Unaudited) HK\$'000	31 December 2016 (Audited) HK\$'000
Non-current assets			
Property, plant and equipment	8	6,359	5,543
Goodwill		5,496	1,897
Intangible assets		222	267
Interests in joint ventures		156	156
Other receivables, deposits and prepayment		20,411	14,987
Deferred tax assets		331	331
		32,975	23,181
Current assets			
Inventories		743	947
Trade and other receivables, deposits and prepayments	9	18,138	11,121
Amounts due from related parties		8,047	7,030
Amounts due from non-controlling shareholders of subsidiaries		4	4
Held for trading investments		5,782	2,782
Tax recoverable		16	1,695
Bank balances and cash		77,393	22,295
		110,123	45,874
Current liabilities			
Other payables, accrued charges and deposits received		54,699	42,868
Amounts due to related parties		4,083	2,495
Provisions		1,029	1,129
		59,811	46,492

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Continued)

	30 June 2017 (Unaudited) HK\$'000	31 December 2016 (Audited) HK\$'000
Net current assets (liabilities)	50,312	(618)
Total assets less current liabilities	83,287	22,563
Non-current liabilities		
Provisions	918	916
Net assets	82,369	21,647
Capital and reserves		
Issued capital	35,410	20,000
Reserves	48,378	2,047
Equity attributable to owners of the Company	83,788	22,047
Non-controlling interests	(1,419)	(400)
	82,369	21,647

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the Company									
	Issued		Investment			Accumulated		Non-		Total
	share	Share	Exchange	revaluation	Warrants	Other	profits	controlling		
	capital	premium	reserve	reserve	reserve	reserve	(losses)	interests		
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000		
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
At 1 January 2017 (audited)	20,000	17,407	(299)	-	816	(1,675)	(14,202)	22,047	(400)	21,647
Loss for the period	-	-	-	-	-	-	(3,029)	(3,029)	(1,019)	(4,048)
Exchange differences arising on translation to presentation currency	-	-	(66)	-	-	-	-	(66)	-	(66)
Loss and total comprehensive expense for the period	-	-	(66)	-	-	-	(3,029)	(3,095)	(1,019)	(4,114)
Issued consideration shares	240	1,536	-	-	-	-	-	1,776	-	1,776
Issued open offer shares	10,120	29,220	-	-	-	-	-	39,340	-	39,340
Placing shares	5,050	18,670	-	-	-	-	-	23,720	-	23,720
At 30 June 2017 (unaudited)	35,410	66,833	(365)	-	816	(1,675)	(17,231)	83,788	(1,419)	82,369

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	For the six months ended	
	30 June	
	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000
Net cash used in operating activities	(881)	(2,588)
Net cash (used in) generated from investing activities	(10,443)	9,299
Net cash generated from (used in) financing activities	66,423	(1,406)
Net increase in cash and cash equivalents	55,099	5,305
Cash and cash equivalents at 1 January	22,294	29,367
Cash and cash equivalents at 30 June, represented by bank balances and cash	77,393	34,672
REPRESENTED BY:		
Bank balances and cash	77,393	34,672

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

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 2017 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 2016, 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 2017. 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	
	2017 (Unaudited)	2016 (Unaudited)	2017 (Unaudited)	2016 (Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Course fee income	14,883	14,186	30,150	28,088
Sales of dance uniforms, shoes and accessories	163	1,677	369	1,841
	15,046	15,863	30,519	29,929

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	
	2017 (Unaudited)	2016 (Unaudited)	2017 (Unaudited)	2016 (Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	14,717	15,601	29,812	29,531
PRC	329	262	707	398
	15,046	15,863	30,519	29,929

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	
	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000
Current tax				
— Hong Kong Profits Tax	2	—	2	—

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 PER SHARE

The calculation of basic loss per share attributable to owners of the Company is based on the loss for the three months ended 30 June 2017 and six months ended 30 June 2017 attributable to owners of the Company of approximately HK\$2,339,000 and HK\$3,029,000 respectively (2016: 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) and the weighted average number of ordinary shares of 354,100,000 (2016: 200,000,000) in issue during the period.

Diluted loss per share

Diluted loss per share for the three months ended 30 June 2017 and six months ended 30 June 2017 was the same as the basic loss per share.

As there were no dilutive potential shares during the three months ended 30 June 2016 and six months ended 30 June 2016, the diluted loss per share were the same as basic loss per share.

7. DIVIDENDS

No dividend was proposed during the six months ended 30 June 2017, nor has any dividend been proposed since the end of the reporting period (for the six months ended 30 June 2016: Nil).

8. PROPERTY, PLANT AND EQUIPMENT

During the period under review, the Group acquired property, plant and equipment of approximately HK\$1,954,000 (2016: HK\$357,000).

9. 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 2017 (Unaudited) HK\$'000	31 December 2016 (Audited) HK\$'000
0 to 30 days	1,973	811
31 to 60 days	–	–
	1,973	811

As at 30 June 2017 and 31 December 2016, there was no trade receivables from third parties which are past due at the end of the reporting period.

10. 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).


The warrants have been expired on 28 February 2017 and none of warrants have been exercised.

11. ACQUISITION OF SUBSIDIARIES

On 6 January 2017, the Group completed the acquisition of the 60% entire issued share capital of Octopus Group Limited which is principally engaged in providing extracurricular programs and English courses to kindergartens in Hong Kong and the PRC and running English training centre in the PRC currently, at an aggregate consideration of HK\$2,276,000 which was satisfied by (i) cash consideration of HK\$500,000 and (ii) issuance of 2,400,000 new shares of the Company with a fair value of HK\$1,776,000 at completion date. The acquisition was made to further expand the Group's global presence and strengthen its capability in the PRC.

The provisional fair value of identifiable assets and liabilities of Octopus Group Limited as at the date of acquisition were:

	Note	HK\$'000
Consideration transferred:		
Cash		500
Ordinary shares of the Company issued at fair value		1,776
		<hr/>
		2,276
		<hr/>
Assets acquired and liabilities recognised at the date of acquisition:		
Property, plant and equipment		334
Trade and other receivables, deposits and prepayments		2,020
Cash and cash equivalents		162
Trade and other payables		(4,721)
		<hr/>
		(2,205)
Non-controlling interests		882
		<hr/>
		(1,323)
		<hr/>
Goodwill arising on acquisition:		
Consideration transferred		2,276
Add: Net liabilities recognised		1,323
		<hr/>
		3,599
		<hr/>
Net cash outflow arising on acquisition:		
Cash consideration		(500)
Less: bank balances and cash acquired		162
		<hr/>
		(338)
		<hr/>



As at 30 June 2017, the Group has not finalised the fair value assessments for intangible assets acquired from the acquisition. The relevant fair value of net assets acquired stated above are on provisional basis.

Notes:

- (i) The fair value of trade and other receivables amounted to HK\$1,070,000. The gross amount of these receivables is HK\$1,070,000. None of these receivables have been impaired and it is expected that the full contractual amount can be collected.
- (ii) Goodwill of HK\$3,599,000 arose on this acquisition, which is not deductible for tax purposes, comprises the acquired workforce and the expected synergies arising from the combination of the existing operations of the Group.
- (iii) The acquisition-related costs of HK\$138,100 have been expensed and are included in administrative expenses for the six months ended 30 June 2017.
- (iv) Revenue of HK\$33,000 was contributed from the acquired business to the Group and a loss after tax of approximately HK\$17,000 was incurred for the period from 6 January 2017 to 30 June 2017.
- (v) Had the acquisition occurred on 6 January 2017, the Group's revenue and loss after tax would have been approximately HK\$18,623,000 and HK\$2,354,000 respectively for the six months ended 30 June 2017.
- (vi) This pro forma information is for illustrative purpose and is not necessarily an indication of revenue and the results of operations of the Group that actually would have been achieved had the acquisition been completed on 6 January 2017, nor is it intended to be a projection of future results.

The Directors are in the process of carrying out the purchase price allocation for the acquisition of Octopus Group Limited. Accordingly, the provisional values of the identifiable assets and liabilities are subject to the finalisation of valuation.

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 2017 (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 engaged in education business in PRC since January 2017, through the acquisition of the Octopus Group Limited. 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, offering wide range of dance courses for children or preparing the developing of the operation of day care centres, kindergartens and indoor theme-based kids clubs.

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\$30,519,000, representing an increase of approximately 2.0% compared with the revenue of approximately HK\$29,929,000 for the corresponding period in year 2016.

Other income of the Group increased by approximately HK\$884,000 or 28.7% from approximately HK\$3,082,000 for the corresponding period of last year to approximately HK\$3,966,000 for the Reporting Period. The increase in other income was mainly due to the increase in performance and show income, AF income and competition handling fee income from total approximately HK\$192,000 for the six months ended 30 June 2016 to approximately HK\$963,000 in 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\$11,157,000 (2016: approximately HK\$10,600,000), representing a significant increase in rental expenses of approximately 5.3% as compared to the corresponding period of last year. The primary reason for the increase was the renewal tenancy agreement of the self-operated dance centres and the expansion on setting up a new centre in Aberdeen. 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\$11,975,000 during the Reporting Period (2016: approximately HK\$11,535,000), representing an increase of approximately 3.8%. The increment was mainly due to the business expansion during the Reporting Period.

Other operating expenses of the Group was approximately HK\$11,266,000 during the Reporting Period (2016: approximately HK\$10,379,000), representing a significant increase of approximately 8.5% 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 travelling and consultancy fee for the business expansion during the Reporting Period.

The Group recorded a loss attributable to owners of the Company amounted to approximately HK\$3,029,000 for the Reporting Period while the Group recorded a loss attributable to owners of the Company amounted to approximately HK\$2,617,000 for the corresponding period of last year.

Although the Group recorded an increase of revenue of approximately 2.0% to approximately HK\$30,519,000 for the six months ended 30 June 2017 as compared with the revenue of approximately HK\$29,929,000 for the corresponding period in 2016, the net loss was mainly due to additional operation costs of the new centre opened in 2017, 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 2017, 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\$35,410,000, divided into 354,100,000 shares of HK\$0.1 each.

SIGNIFICANT INVESTMENTS

The Group did not have significant investments for the six months ended 30 June 2017.

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 2017, the total bank balances and cash of the Group amounted to approximately HK\$77.4 million (As at 31 December 2016: approximately HK\$22.3 million) excluding the pledged bank deposit with fixed term of 3 years amounted to approximately HK\$0.3 million (As at 31 December 2016: HK\$0.3 million).

As at 30 June 2017, the current ratio (defined as total current assets divided by total current liabilities) was approximately 1.8 times as compared to that 1.0 times as at 31 December 2016.

As at 30 June 2017, 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 4.9% (As at 31 December 2016: approximately 11.3%).

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 2017, 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 2017, the issued share capital of the Company was HK\$35,410,000 divided into 354,100,000 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\$55.9 million as at 30 June 2017 (As at 31 December 2016: approximately HK\$40.6 million).

As at 30 June 2017, the Group did not have any significant capital commitments (As at 31 December 2016: Nil).

CONTINGENT LIABILITIES

As at 30 June 2017, the Group did not have any significant contingent liabilities or guarantees (As at 31 December 2016: Nil).

FOREIGN EXCHANGE EXPOSURE

As at 30 June 2017, the Group have certain other receivables and deposits 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 denominated in RMB as mentions above are equivalent to approximately HK\$6.4 million (As at 31 December 2016: HK\$5.3 million).

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 2017, the Group pledged its bank deposit of HK\$0.3 million (As at 31 December 2016: 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 2018 and such bank deposit would be matured in year 2017.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2017, the Group employed a total of 139 full-time and 116 part-time employees (As at 31 December 2016: 132 full-time and 93 part-time employees), respectively. The staff costs, including Directors' emoluments, of the Group were approximately HK\$12.0 million for the six months ended 30 June 2017 (2016: approximately HK\$11.5 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 2017, the Group officially stepped foot on the mainstream education market in the overseas through its proposed acquisition of Raffles Early Learning Centre Pte Ltd ("**Proposed Acquisition**"). For further details, please refer to the announcements of the Company dated 18 April 2016 and 22 April 2016 respectively.

The Proposed Acquisition are in line with the business development plan and expansion plan of the Group. The Board believes that the Proposed Acquisition 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 overseas market and enhance the competitiveness of the Group. The Board believes that the Proposed Acquisition provide an excellent investment opportunity for the Group to further establish its position in targeting for kids from 2 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 2017 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 in 2015. The Group used HK\$4.7 million for operating two dance centres in PRC. The Group used HK\$2 million for operating a new centre in Aberdeen in the Reporting Period.

Brand building, marketing and promotion

The Group used HK\$2.5 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\$2.5 million for enhancement in which HK\$0.7 million used for existing centre facilities, HK\$1.2 million used for inventories, HK\$0.3 million used for IT services and HK\$0.3 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.

USE OF PROCEEDS

- (a) 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 2017 is set out below:

	Net proceeds from the placing HK\$'000	Planned amount utilised up to 30 June 2017 HK\$'000	Actual utilised amount as at 30 June 2017 HK\$'000	Unutilised amount as at 30 June 2017 HK\$'000
Expansion of network by opening and/or acquiring new centres close to populated residential areas in Hong Kong	10,073	(10,073)	(9,536)	537
Brand building, marketing and promotion	2,500	(2,500)	(2,500)	–
Enhancement of existing centre facilities, inventory, IT, logistic and administrative services	2,500	(2,500)	(2,500)	–
Repayment of bank loan	10,000	(10,000)	(10,000)	–
General working capital	300	(300)	(300)	–
Total	25,373	(25,373)	(24,836)	537

- 
- (b) In respect of the net proceeds of approximately HK\$39.5 million raised from the open offer in February 2017, up to the date of this report, (i) approximately HK\$0.6 million has been used for the professional fee of relevant compliance procedures in relation to the premise with the Building Department, Lands Department and Town Planning Board of the Hong Kong Government; (ii) approximately HK\$0.2 million has been used as general working capital for payment of rent; and (iii) approximately HK\$38.7 million is kept at bank for future use as project development costs as stated in the Prospectus.
- (c) In respect of the net proceeds of approximately HK\$23.7 million raised from the placing in June 2017, up to the date of this report, approximately HK\$23.7 million is kept at bank for future use as project development costs as stated in the announcements dated on 15 May and 14 June 2017.

CONTINGENT LIABILITIES

As at 30 June 2017, the Group did not have any significant contingent liabilities (2017: Nil).

OTHER INFORMATION

DISCLOSURE OF INTERESTS

(a) Interests of Directors and Chief executives

As at 30 June 2017, 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	198,750,000 (Note 1)	56.13% (Note 3)
Dr. Chun Chun	Family interest	198,750,000 (Note 2)	56.13% (Note 3)

Notes:

- (1) 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 198,750,000 Shares held by Wealthy Together by virtue of his 100% shareholding interest in Wealthy Together.
- (2) 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.
- (3) As at 30 June 2017, the total issued share capital of the Company was 354,100,000.

Save as disclosed above, as at 30 June 2017, 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 2017, 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	198,750,000 (Note 1)	56.13% (Note 2)
Hui Pui Cheung	Beneficial owner	34,514,000	9.75% (Note 2)
Chen Jiabin	Interest of a controlled corporation	28,000,000	7.91% (Note 2)
Tycoon Mind Limited	Beneficial owner	28,000,000	7.91% (Note 2)

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) As at 30 June 2017, the total issued share capital of the Company was 354,100,000.


Save as disclosed above, as at 30 June 2017, 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 2017 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 2016, 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 2017, 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 2017.

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 2017. 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 and Ms. Yeung Siu Foon, 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, 9 August 2017