2017 SDM

THIRD QUARTERLY 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

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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 nine months ended 30 September 2017, unaudited operating results of the Group were as follows:

— loss for the period attributable to owners of the Company for the nine months ended 30 September 2017 amounted to approximately HK$3,243,000 (2016: HK$3,778,000); and

— basic loss per share for the nine months ended 30 September 2017 was approximately 1.03 HK cents (2016 (Restated): 1.55 HK cents).

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The board of Directors (the "**Board**") of the Company (together with its subsidiaries, the "**Group**") is pleased to announce the unaudited condensed consolidated results of the Group for the nine months ended 30 September 2017, together with comparative figures for the corresponding period in 2016, as follows:

CONDENSED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the nine months ended 30 September 2017 (Unaudited)

	Notes	For the three months ended 30 September		For the nine months ended 30 September	
		2017	2016	**2017**	2016
		HK$'000	HK$'000	**HK$'000**	HK$'000
Revenue	4	**19,171**	17,054	**49,690**	46,983
Other income		**3,467**	3,769	**7,433**	6,851
Changes in inventories of finished goods		**194**	28	**(10)**	(5)
Finished goods purchased		**(1,522)**	(550)	**(1,896)**	(1,242)
Advertising and promotion expenses		**(2,884)**	(2,587)	**(4,429)**	(3,883)
Depreciation and amortisation		**(675)**	(589)	**(1,806)**	(1,799)
Rental expenses		**(5,481)**	(5,467)	**(16,638)**	(16,067)
Staff costs		**(6,269)**	(6,651)	**(18,244)**	(18,186)
Other operating expenses		**(6,284)**	(6,216)	**(17,550)**	(16,595)
Finance costs		**–**	–	**–**	–
Loss before taxation		**(283)**	(1,209)	**(3,450)**	(3,943)
Income tax expense	5	**–**	–	**(2)**	–
Loss and total comprehensive expense for the period		**(283)**	(1,209)	**(3,452)**	(3,943)

	Notes	For the three months ended 30 September		For the nine months ended 30 September	
		2017	2016	**2017**	2016
		HK$'000	HK$'000	**HK$'000**	HK$'000
Loss and total comprehensive expense for the period attributable to:					
Owner of the Company		**(214)**	(1,161)	**(3,243)**	(3,778)
Non-controlling interests		**(69)**	(48)	**(209)**	(165)
		(283)	(1,209)	**(3,452)**	(3,943)
			(Restated)		(Restated)
		HK cents	HK cents	**HK cents**	HK cents
Loss per share:					
Basic	6	**0.07**	0.48	**1.03**	1.55

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended 30 September 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 nine months ended 30 September 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**").

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 in Hong Kong and 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 September		For the nine months ended 30 September	
	2017	2016	**2017**	2016
	HK$'000	HK$'000	**HK$'000**	HK$'000
Course fee income	**17,077**	16,531	**47,260**	44,619
Sales of dance uniforms, shoes and accessories	**2,094**	523	**2,430**	2,364
	19,171	17,054	**49,690**	46,983

Geographical Information

The Group's operations are located in 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 September		For the nine months ended 30 September	
	2017	2016	**2017**	2016
			(Unaudited)	(Unaudited)
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong	**18,522**	16,724	**48,334**	46,255
PRC	**649**	330	**1,356**	728
	19,171	17,054	**49,690**	46,983

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 September		For the nine months ended 30 September	
	2017	2016	**2017**	2016
	HK$'000	HK$'000	**HK$'000**	HK$'000
Current tax				
— Hong Kong Profits Tax	**–**	–	**2**	–

Hong Kong Profits Tax is calculated at 16.5% of 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 September 2017 and the loss for the nine months ended 30 September 2017 attributable to owners of the Company of approximately HK$214,000 and HK$3,243,000 respectively (2016: the loss for the three months ended 30 September 2016 and the loss for the nine months ended 30 September 2016 attributable to owners of the Company of approximately HK$1,161,000 and HK$3,778,000) 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 September 2017 and the loss for the nine months ended 30 September 2017 was the same as the basic loss per share.

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

7. DIVIDENDS

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

8. PROPERTY, PLANT AND EQUIPMENT

During the period under review, the Group acquired property, plant and equipment of approximately HK$2,092,000 (2016: HK$79,000).

9. RESERVES

	Share premium	Exchange reserve	Warrants reserve	Other reserve	Accumulated profits (losses)	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2016 (audited)	19,407	(145)	–	(1,675)	(3,773)	13,814
Loss for the period	–	–	–	–	(3,778)	(3,778)
Exchange differences arising on transaction to presentation currency	–	21	–	–	–	21
Loss and total comprehensive expenses for the period	–	21	–	–	(3,778)	(3,757)
Payment of dividends	(2,000)	–	–	–	–	(2,000)
Issue of warrants	–	–	816	–	–	816
At 30 September 2016 (unaudited)	17,407	(124)	816	(1,675)	(7,551)	8,873
At 1 January 2017 (audited)	**17,407**	**(299)**	**816**	**(1,675)**	**(14,202)**	**2,047**
Loss for the period	**–**	**–**	**–**	**–**	**(3,243)**	**(3,243)**
Exchange differences arising on transaction to presentation currency	**–**	**(24)**	**–**	**–**	**–**	**(24)**
Loss and total comprehensive expenses for the period	**–**	**(24)**	**–**	**–**	**(3,243)**	**(3,267)**
Issued consideration shares	**1,536**	**–**	**–**	**–**	**–**	**1,536**
Issued open offer shares	**29,279**	**–**	**–**	**–**	**–**	**29,279**
Placing shares	**18,670**	**–**	**–**	**–**	**–**	**18,670**
At 30 September 2017 (unaudited)	**66,892**	**(323)**	**816**	**(1,675)**	**(17,445)**	**48,265**

10. ACQUISITIONS, DISPOSALS AND SIGNIFICANT INVESTMENTS

(a) 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
		2,276
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)
		(2,205)
Non-controlling interests		882
		(1,323)
Goodwill arising on acquisition:		
Consideration transferred		2,276
Add: Net liabilities recognised		1,323
		3,599
Net cash outflow arising on acquisition:		
Cash consideration		(500)
Less: bank balances and cash acquired		162
		(338)

As at 30 September 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 nine months ended 30 September 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 September 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 nine months ended 30 September 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 fix the acquisition of Octopus Group Limited. Accordingly, the provisional values of the identifiable assets and liabilities are subject to the finalisation of valuation.

(b) On 1 September 2017, Prism International Pre-school Limited (the "Subsidiary"), an indirect wholly-own subsidiary of the Company agreed to allot and issue to the investors a total of 35% of the enlarged entire issued share capital of the Subsidiary at total investment amount of HK$10,500,000.

The Subsidiary is principally engaged in the operation of kindergarten business in Kowloon Tong. It is in the course of obtaining the necessary licences or approvals for the operation of the kindergarten, the kindergarten is opt to commerce business in this academic year. The investment amount received from the investors under the issue shall be mainly used and applied for set-up costs and future working capital.

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 nine months ended 30 September 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. Upon the tenancy agreements of Centres in Marina Square and Yuen Long were expired, the Group opened dance centres in One Island South and Yoho Mall during the nine months ended 30 September 2017, through these 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 and the new business segment of the Group, if the right opportunity should arise as the Group can immediately benefit from the existing clientele base and create synergistic values across the existing business segment of the Group. The Group also will continue developing new brand or offering wide range of dance courses for children, diversify its business scope and broaden its income stream.

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$49.7 million, representing an increase of approximately 5.8% compared with the revenue of approximately HK$42.0 million for the corresponding period in year 2016.

Other income of the Group increased by approximately HK$0.6 million or 8.5% from approximately HK$6.9 million for the corresponding period of the last year to approximately HK$7.4 million for the Reporting Period. The increase was mainly attributable to the increase in performance and show income from approximately HK$1.2 million respectively for the nine months ended 30 September 2016 to approximately HK$1.4 million respectively in Reporting Period.

Other income of the Group mainly comprises of the management fee income, examination handling fee income, performance and show income, management fee, rental income and gain on exchange difference.

Rental expense of the Group during the Reporting Period was approximately HK$16.6 million (2016: approximately HK$16.0 million), representing an increase in rental expenses of approximately 3.6% as compared to the corresponding period of last year. 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 centers and its head office.

Staff cost amounted to approximately HK$18.2 million during the Reporting Period (2016: approximately HK$18.2 million).

Other operating expenses of the Group was approximately HK$17.6 million during the Reporting Period (2016: approximately HK$16.6 million), representing an increase of approximately 5.8% as compared to the corresponding period of last year. The reason for increase was the increase in 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$3.2 million for the Reporting period while the Group recorded a loss attributable to owners of the Company amounted to approximately HK$3.8 million for the corresponding period of last year.

Although the Group is expected to record an increase of revenue of approximately 5.8% to approximately HK$49.7 million for the nine months ended 30 September 2017 as compared with the revenue of approximately HK$47.0 million for the corresponding period in 2016, our net loss was mainly due to additional operation costs of the new set-up centres opened in 2017, which were reflected in the increase in (i) rental expenses and (ii) other operating expenses. Such new centres are in the early stage of developing and expected to grow continually.

SHARE CAPITAL

As at 30 September 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.

CHARGES ON THE GROUP'S ASSETS

As at 30 September 2017, the Group did not pledge any bank deposit (2016: HK$0.3 million) as securities for bank guarantee.

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 September 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 September 2017 is set out below:

	Net proceeds from the placing HK$'000	Planned amount utilised up to 30 September 2017 HK$'000	Actual utilised amount as at 30 September 2017 HK$'000	Unutilised amount as at 30 September 2017 HK$'000
Expansion of network by opening and/or acquiring new centres close to populated residential areas in Hong Kong	10,073	(10,073)	(10,073)	–
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)	(25,373)	–

(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 September 2017, the Group did not have any significant contingent liabilities (2016: Nil).

OTHER INFORMATION

DISCLOSURE OF INTERESTS

(a) Interests of Directors and chief executives

As at 30 September 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 Limited ("**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 September 2017, the total issued share capital of the Company was 354,100,000.

Save as disclosed above, as at 30 September 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 September 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 Jiaxin	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 September 2017, the total issued share capital of the Company was 354,100,000.

Save as disclosed above, as at 30 September 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 September 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 nine months ended 30 September 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 the Directors have confirmed that 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 nine months ended 30 September 2017.

POTENTIAL ACQUISITION

On 18 September 2017, the Company entered into a sale and purchase agreement with the Venders to acquire 100% of the entire issued share capital of the target group at the consideration of HK$32 million which shall be satisfied by the way of issue of the Consideration Shares at the issue price of HK$0.4 per each share (the "**Acquisition**").

Following the Acquisition, the target group will be engaging in the operation of swallowing and speech developing treatments and photographic services for kids from 2 to 12 years old.

For further details, please refer to the announcement of the Company dated 18 September 2017.

As at the date of this report, the Acquisition is still not yet completed.

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 nine months ended 30 September 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 November 2017