2017 SDM
ANNUAL REPORT 年報
SDM Group Holdings Limited

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

Stock Code 股份代號：8363

SDM 爵士芭蕾舞學院 Jazz & Ballet Academie

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

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

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Non-executive Directors

Dr. Chun Chun
Ms. Yeung Siu Foon
Ms. Yip Sze Pui Fione (resigned on 10 April 2017)

Independent Non-executive Directors

Mr. Lau Sik Yuen
Dr. Yuen Man Chun Royce
Mr. Lee Kwok Ho David

COMPANY SECRETARY

Mr. Au Wai Keung

COMPLIANCE OFFICER

Mr. Chiu Ka Lok

AUTHORISED REPRESENTATIVES

Mr. Chiu Ka Lok
Mr. Chun Chi Ngon Richard

AUDIT COMMITTEE

Mr. Lau Sik Yuen *(Chairman of Audit Committee)*
Dr. Yuen Man Chun Royce
Mr. Lee Kwok Ho David

REMUNERATION COMMITTEE

Mr. Lee Kwok Ho David
(Chairman of Remuneration Committee)
Dr. Yuen Man Chun Royce
Mr. Chiu Ka Lok

NOMINATION COMMITTEE

Dr. Yuen Man Chun Royce
(Chairman of Nomination Committee)
Mr. Lee Kwok Ho David
Mr. Chun Chi Ngon Richard

AUDITORS

Deloitte Touche Tohmatsu

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Suites 3301–4, 33/F.,
Two Chinachem Exchange Square,
338 King's Road, North Point
Hong Kong

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
Hang Seng Bank Limited

WEBSITE ADDRESS

www.sdm.hk

STOCK CODE

8363

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the Board of Directors (the "**Board**") of SDM Group Holdings Limited (the "**Company**"), it is my pleasure to present the audited consolidated financial statements of the Company and its subsidiaries (the "**Group**") for the year ended 31 December 2017.

BUSINESS REVIEW

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

To cope with the intense competition and economy unsteadiness in 2017, the Group had developed more resources to promote brand image and maintain quality services in order to consolidate our leading position in the industry. During the year 2017, the Group had twenty-one dance centres in Hong Kong and two dance centres in the PRC (the "**Centres**"). Through the centres developed, the Group further enhanced the competitive strengths of the Group by increasing the geographical coverage of our centres in Hong Kong and the PRC.

The shares of the Company were successfully listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited on 14 October 2014. It was a milestone for the Group which also boosted the confidence of the customers and the suppliers in efficiency of the operation and the provision of the quality services by the Group. Facing to economic downturn the Group would therefore continue to adopt its previously stated strategy in diverting its attention to the development of the operation of day care centres, kingdergarten and indoor theme-based kid clubs which can generate a stable return for the Group.

Under the development of kindergartens business, the Group cooperated with Chatsworth being operated international kindergartens, primary and secondary schools under the brand "Chatsworth" for over 20 years to establish its kindergartens business in Singapore.

FORWARD

The Group has been actively seeking new business opportunities from time to time in order to diversify its business and enhance the long-term growth potential of the Group and the Shareholder's value.

The Group will continue enhancing the geographical coverage by opening and/or acquiring more centres in the future to strengthen our leading position in the industry. Opening and/or acquiring more centres will be located near populated residential areas in Hong Kong, in particular, in private house estates in areas close to a network of schools or which are currently without the presence of the Group's dance centres. In implementing the expansion plan, the Group will also consider to acquire existing dance centres, if the right opportunity should arise as the Group can immediately benefit from the existing clientele base.

Going forward, the Group will implement a strategy to enhance the Group's current operation, which is to engage in the operation of day care centres, kindergartens and indoor theme-based kid clubs through acquisition.

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

A NOTE OF APPRECIATION

On behalf of the Board, I wish to take this opportunity to express my appreciation for our shareholders, business partners, suppliers, students and the parents for their continuous support and trust to the Group. I would also like to express our sincere thanks to the management and staff for their commitment and contribution throughout the years. I look forward to a productive year in 2018.

SDM GROUP HOLDINGS LIMITED
CHIU KA LOK
Chairman

Hong Kong, 27 March 2018

MANAGEMENT DISCUSSION AND ANALYSIS

INTRODUCTION

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

As at 31 December 2017, the Group had 19 self-operated dance centres in Hong Kong, 2 self-operated dance centres in the People's Republic of China (the "**PRC**") and 3 joint venture dance centres in Hong Kong offering wide range of dance courses for children generally between the age of 1 and 16 consisting of elementary courses, RAD ballet courses, CSTD jazz courses and other dance courses. The vision of the Group is to provide social and life experience to children at a young age through their participation in dance and thereby nurturing their social interaction skills and confidence. "Let's be a star leader" is the slogan promoting the Group's vision to develop children being a positive, influential and contributive individual.

BUSINESS REVIEW

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

During the 2017 under review, competition in the dance institution industry for children in Hong Kong is intense, the Group continues to maintain and attract the students to enroll in the Group's courses by developing new courses and enhancing courses to respond to changes in market trends so as to expand the Group's coverage and effectively market the courses to a broader base of students.

The Group decides to implement a strategy to enhance the Group's current operation, which is to engage in the kindergarten business in Hong Kong by cooperating with Chatsworth being operated international kindergartens, primary and secondary schools under the brand "Chatsworth" in Singapore for over 20 years.

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

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue was mainly contributed by the self-operated dance centres in respect of the provision of elementary courses, CSTD jazz courses, RAD ballet courses etc. to the students. For the year under review, the Group recorded a revenue of approximately HK$64.3 million, presenting an increase of approximately 4.3% compared with the revenue of approximately HK$61.7 million for corresponding year. There was no significant change for the total revenue as compared to the year ended 31 December 2016.

During the year under review, the revenue from the provision of elementary courses was the main source of revenue which amounted to approximately HK$30.4 million (2016: approximately HK$29.7 million), representing approximately 47.2% (2016: approximately 48.1%) of the Group's total revenue. Revenue generating from the provision of CSTD jazz courses and RAD ballet courses during the year ended 31 December 2017 were approximately HK$21.1 million (2016: approximately HK$19.4 million) and HK$3.7 million (2016: approximately HK$3.7 million) respectively, representing approximately 32.8% (2016: approximately 31.4%) and approximately 5.8% (2016: approximately 6.0%) respectively. There was no significant changes as compared to year ended 31 December 2016.

Other income of the Group increased by approximately 23.8% from approximately HK$8.4 million for the year ended 31 December 2016 to approximately HK$10.4 million for the year ended 31 December 2017.

Rental expenses of the Group increased by approximately 15% from approximately HK$22.1 million for the year ended 31 December 2016 to HK$25.4 million for the year ended 31 December 2017 was due to the increment in rental expenses of the Group's leased dance centres and its head office. All Group's dance centres and its head office are under lease.

Staff costs mainly comprise salaries, performance bonuses and retirement benefits scheme contributions paid to the directors, instructors, teaching assistants, sales and marketing staff, operating staff and administrative staff. Staff costs increased by approximately 6.1% from approximately HK$24.7 million for the year ended 31 December 2016 to approximately HK$26.2 million for the year ended 31 December 2017.

Other operating expenses of the Group increased by approximately 17.3%, from approximately HK$23.8 million for the year ended 31 December 2016 to approximately HK$27.9 million for the year ended 31 December 2017, which was mainly attributable to additional professional fees incurred for continuing obligations consultancy fee and credit card charges.

The Group recorded a loss attributable to owners of the Company amounted to approximately HK$25.7 million for the year ended 31 December 2017 while the Group recorded a loss attributable to owners of the Company amounted to approximately HK$10.4 million for the year ended 31 December 2016. Such increase in loss was mainly due to the one-off non-operation costs in 2017, which were included (i) loss on disposal of subsidiaries; and (ii) impairment losses on goodwill, other receivable and amount due from joint ventures for the year.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operation through internally-generated cash flows and bank facilities provided by the banks during the year. As at 31 December 2017, the total bank balances and cash of the Group amounted to approximately HK$133.8 million (2016: approximately HK$22.3 million).

There was no bank borrowings of the Group as at 31 December 2017 and 2016.

As at 31 December 2017, the current ratio (defined as total current assets divided by total current liabilities) was approximately 3.3 times as compared to that 0.99 times as at 31 December 2016.

As at 31 December 2017, the gearing ratio (calculating based on total bank borrowings and obligation arising from put options written to non-controlling shareholders of subsidiary and other payables, divided by total equity and multiplied by 100%) was approximately 122.1% (2016: approximately 4.2%).

CAPITAL STRUCTURE

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

As at 31 December 2016 and 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 ("**Share(s)**"). As at 31 December 2017, the issued share capital of the Company was HK$35,410,000 divided into 354,100,000 Shares. Details of the movement in share capital are set out in Note 26 to the consolidated financial statement.

As at 31 December 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 are approximately HK$50.5 million as at 31 December 2017 (2016: approximately HK$50.3 million).

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

MATERIAL ACQUISITIONS AND DISPOSALS

Details of material acquisitions and disposals are set out in Note 30 to the consolidated financial statement.

SIGNIFICANT INVESTMENTS

During the year under review, the Group did not have any significant investments.

FUTURE PLAN FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

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

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.

CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 31 December 2017 (2016: Nil).

FOREIGN EXCHANGE EXPOSURE

As at 31 December 2017, the Group have certain bank deposits, other receivables and deposits and available-for-sale investments which has exchanged to foreign currency denominated in Renminbi ("**RMB**"), which may expose the Group to foreign currency risk. The Group was exposed to certain foreign currency exchange risks but it does not anticipate future currency fluctuations to cause material operational difficulties or liquidity problems. The Group currently had no foreign currency hedging policy. However, the management will monitor foreign exchange position and will consider appropriate action should the circumstances change. The bank deposits, other receivables and deposits and available-for-sale investments denominated in RMB as mentions above are equivalent to approximately HK$43.4 million (2016: Nil), HK$2.5 million (2016: HK$5.5 million) and HK$5.8 million (2016: Nil) 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, pledged bank deposit and bank balances. In the view of the business nature of the Group, the Directors considered that the credit risks of trade receivables are immaterial after considering the credit quality and financial ability of the relevant financial institutions and there is no history of delay or default in settlement by them. The management of the Group considered that the credit risks of rental deposits are insignificant after considering the financial ability of the counterparties. The management considered there was no recoverability problem from the related parties of the Group. The pledged bank deposit and the bank balances are deposited with banks which have good reputation.

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

CHARGE ON GROUP'S ASSETS

As at 31 December 2017, the Group did not pledge its bank deposit (2016: Nil) as securities for bank guarantee to the landlord of one of its dance centres over the lease term. The respective lease agreement was expired in the year 2017.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2017, the Group employed a total of 123 full-time and 91 part-time employees (2016: 132 full-time and 93 part-time employees) respectively. Staff costs of the Group, including Directors' emoluments, were approximately HK$26.2 million for the year ended 31 December 2017 (2016: approximately HK$24.7 million). Remuneration is determined with reference to market terms and the performance, qualification and experience of individual employee. In addition to basic salaries, year-end discretionary bonuses were offered to those staff with outstanding performance to attract and retain eligible employees to contribute to the Group. Apart from basic remuneration, the Company has adopted a share option scheme and share options may be granted to eligible employees by reference to the Group's performance as well as individual contribution.

MATERIAL EVENTS AFTER THE REPORTING DATE

Details of events after the reporting period of the Group are set out in Note 38 to the consolidated financial statement.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

An analysis comparing the business objectives as set out in the prospectus of the Company dated on 30 September 2014 (the "**Prospectus**") to 31 December 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 in 2016. The Group used HK$2 million for operating a new centre in Aberdeen in 2017.
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 31 December 2017 is set out below:

	Net proceeds from the placing HK$'000	Planned amount utilised up to 31 December 2017 HK$'000	Actual utilised amount as at 31 December 2017 HK$'000	Unutilised amount as at 31 December 2017 HK$'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 dated on 25 January 2017.

(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.

CORPORATE GOVERNANCE REPORT

The Group is committed in achieving high standard of corporate governance that is essential for effective management, successful business growth and a health corporate culture in return to the benefits of the Company's stakeholders as a whole.

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

The Board considers that the Company was in compliance with all applicable code provisions set out in the CG Code.

DIRECTORS' SECURITIES TRANSACTIONS

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

THE BOARD OF DIRECTORS

As at 31 December 2017, the Board comprised seven Directors, including two executive Directors, namely Mr. Chiu Ka Lok and Mr. Chun Chi Ngon Richard, the two non-executive Directors are Dr. Chun Chun and Ms. Yeung Siu Foon, and the three independent non-executive Directors are Mr. Lau Sik Yuen, Dr. Yuen Man Chun Royce and Mr. Lee Kwok Ho David.

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

RESPONSIBILITIES OF THE BOARD

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

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

The biographical details of the Directors are set out in the section headed with "**Biographical Details of Directors and Senior Management**" on pages from 25 to 28 of this annual report.

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

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

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Pursuant to the code provision A.2.1 of the CG Code, the roles of Chairman and CEO should be separate and should not be performed by the same individual. During the year ended 31 December 2017, the roles of the Chairman and the CEO are segregated and was held by Mr. Chiu Ka Lok and Mr. Chun Chi Ngon Richard respectively. There is clear division of responsibilities between the Chairman and CEO which provides a balance of power and authority.

BOARD DIVERSITY POLICY

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

Summary of the Board Diversity Policy

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

Measurable Objectives

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

Implementation and Monitoring

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

The Nomination Committee of the Board has reviewed the Board Diversity Policy to ensure its effectiveness and considered that the Group achieved the Board Diversity Policy during the year.

BOARD MEETING

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

The Company Secretary assists in preparing the meeting agenda, and each Director may request the inclusion of items in the agenda. At least 14 days' notice of regular Board meetings is given to all Directors and they can include matters for discussion in the agenda as they think fit. The agenda accompanying Board papers are sent to all the Directors at least 3 days before the date of every Board meeting in order to allow sufficient time for the Directors to review the documents.

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

Our chairman has hold meeting with non-executive Directors without the presence of the executive Directors.

Monthly updates have been sent to the Directors by the management of the Company.

Participation of individual Directors at Board meetings in 2017 is as follows:

Name of Directors	Number of attendance/ number of Board meetings since respective appointment date
Number of meetings	9
Executive Directors:	
Mr. Chiu Ka Lok	9/9
Mr. Chun Chi Ngon Richard	9/9
Non-executive Directors:	
Dr. Chun Chun	7/9
Ms. Yeung Siu Foon	9/9
Ms. Yip Sze Pui Fione (resigned on 10 April 2017)	0/3
Independent non-executive Directors:	
Mr. Lau Sik Yuen	8/9
Dr. Yuen Man Chun Royce	6/9
Mr. Lee Kwok Ho David	8/9

GENERAL MEETING

For the year ended 31 December 2017, the attendance record of each Director at general meetings is as follow:

Name of Directors	Number of attendance/number of general meeting since respective appointment date Annual general meeting
Mr. Chiu Ka Lok	1/1
Mr. Chun Chi Ngon Richard	1/1
Dr. Chun Chun	0/1
Ms. Yeung Siu Foon	0/1
Ms. Yip Sze Pui Fione (resigned on 10 April 2017)	0/0
Mr. Lau Sik Yuen	1/1
Dr. Yuen Man Chun Royce	1/1
Mr. Lee Kwok Ho David	1/1

Our chairman has attended the annual general meeting in 2017. The Notice of general meeting has been sent to the shareholders at least 20 clear business days before the annual general meeting.

BOARD COMMITTEES & CORPORATE GOVERNANCE FUNCTIONS

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

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

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

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

Audit Committee

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

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

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

The Audit Committee held four meeting during the year. The Group's unaudited quarterly results for the three months ended 31 March 2017 and the nine months ended 30 September 2017, unaudited interim results for the six months ended 30 June 2017 and audited annual results for the year ended 31 December 2017 have been reviewed by the Audit Committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

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

	Number of attendance/number of meetings since respective appointment date		
Name of Directors	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**
Number of meetings	4	1	1
Mr. Lau Sik Yuen	4/4	N/A	N/A
Dr. Yuen Man Chun Royce	4/4	1/1	1/1
Mr. Chiu Ka Lok	N/A	1/1	N/A
Mr. Chun Chi Ngon Richard	N/A	N/A	1/1
Mr. Lee Kwok Ho David	4/4	1/1	1/1

The Directors acknowledge their responsibility for the preparation of consolidated financial statement that give a true and fair view in accordance with Hong Kong Financial Reporting Standard issued by Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Company Ordinance and the GEM Listing Rules. The Directors have selected appropriate account policies and applied them consistently; made judgment and estimate that are prudent and reasonable. As at 31 December 2017, the Board was not aware of any material uncertainties relating to events or conditions that might cast significant doubt upon the Group's ability to continue as a going concern. The Directors' responsibilities in the preparation of the consolidated financial statements and the auditors' responsibilities are set out in the Independent Auditor's Report from pages 39 to 43 of this annual report.

Remuneration Committee

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

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

Details of the Directors' emolument are set out in Note 9 to the consolidated financial statements.

Nomination Committee

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

The primary duties of the Nomination Committee are mainly to review and monitor the structure, size and composition of the Board to complement the Company's corporate strategy; identify suitable candidates for appointment as directors; make recommendations to the Board on appointment or re-appointment of a succession planning for directors; and assess the independence of independent non-executive Directors.

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

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

The Company has arranged appropriate insurance coverage in respect of legal action against Directors and senior management of the Group in the course of execution of their duties on good faith.

TERMS OF APPOINTMENT AND RE-ELECTION OF DIRECTORS

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

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

CONTINUOUS PROFESSIONAL DEVELOPMENT

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

All our Directors are encouraged to participate in continuing professional development seminars and/or courses to update their skills and knowledge on the latest development or changes in the relevant statutes, GEM Listing Rules and corporate governance practices. The Company provides continuing briefings and professional development to Directors to update on the latest development in relation to the GEM Listing Rules and other applicable regulatory requirements as well as the Group's business and governance. The relevant materials were also sent to the Directors who were not available to attend the briefing session for their information. A summary of the continuous professional developments in relation to regulatory update, the duties and responsibilities of the Directors and the business of the Group received by the Directors for the year ended 31 December 2017 is as follows:

Name of Directors	Training on corporate governance, regulatory development and Directors other relevant topics
Executive Directors:	
Mr. Chiu Ka Lok	✓
Mr. Chun Chi Ngon Richard	✓
Non-executive Directors:	
Dr. Chun Chun	✓
Ms. Yeung Siu Foon	✓
Ms. Yip Sze Pui Fione (resigned on 10 April 2017)	✓
Independent non-executive Directors:	
Mr. Lau Sik Yuen	✓
Dr. Yuen Man Chun Royce	✓
Mr. Lee Kwok Ho David	✓

INTERNAL CONTROL

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

The Board has conducted a review of the implemented system and procedures, covering financial, operational and legal compliance controls and risk management functions. The Board has concluded that:

(a) the Group has an internal audit function;

(b) the risk management and internal control systems are reviewed annually; and

(c) a review of the effectiveness of the risk management and internal control systems has been conducted and the Group considers them effective and adequate.

The Directors consider that the Group has implemented appropriate procedures safeguarding the Group's assets against unauthorised use or misappropriation, maintaining proper accounting records, execution with appropriate authority and compliance of the relevant laws and regulations. The system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. Controls are monitored by management review and by a programme of internal audits.

AUDITORS' REMUNERATION

The fees in respect of audit services provided by the independent auditors to the Group for the year ended 31 December 2017 amounted approximately HK$1,100,000 (2016: HK$800,000). Non-audit services incurred during the year amounted approximately HK$68,000 (2016: HK$100,000).

COMPANY SECRETARY

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

Mr. Au Wai Keung ("**Mr. Au**") is the Company Secretary who is an external service provider and its primary corporate contact person at the Company is Mr. Chiu Ka Lok, Chairman of the Company. Mr. Au has taken no less than 15 hours of relevant professional training for the year ended 31 December 2017.

SHAREHOLDERS' RIGHTS

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

Right to Convene Extraordinary General Meeting

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

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

(b) eligible Shareholders who wish to convene an EGM must deposit a written requisition (the "**Requisition**") signed by the Eligible Shareholder(s) concerned to the head office and principal place of business of the Company in Hong Kong at Room 202B, 2/F, Liven House, 61–63 King Yip Street, Kwun Tong, Hong Kong or Hong Kong branch share registrar and transfer office of the Company, Union Registrars Limited, Suites 3301–4, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong for the attention of the Board and/or the Company Secretary;

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

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

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

Right to Put Forward Proposals at General Meetings

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

Right for Raising Enquiries to the Board

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

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

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

INVESTORS RELATIONS

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

CONSTITUTIONAL DOCUMENTS

During the year under review, there has no change in the Company's constitutional documents.

ENVIRONMENT, SOCIAL AND GOVERNANCE REPORT

SDM Group Holdings Limited (the "**Company**") (Stock Code: 8363) and its subsidiaries (collectively the "**Group**" or "**We**") is pleased to present the Environmental, Social and Governance ("**ESG**") Report in accordance with the Environment, Social and Governance Reporting Guide ("**ESG Guide**") set out in Appendix 20 to the GEM Listing Rules published by the Stock Exchange of Hong Kong Limited. For the information of our corporate governance, please refer to the "Corporate Governance Report" on pages 12 to 21.

This ESG report mainly covers the major activities of the Group in Hong Kong presenting our sustainability approach and performance in environmental and social aspects of our business for the reporting period from 1 January 2017 to 31 December 2017 ("**This year**"). The Key Performance Indicators ("**KPI**") disclosure of this year will be focused on our head office and gradually expanded to the dance centres in the future. The Group continues strengthening information collection in order to enhance our performance in environmental realm and to disclose relative information of sustainable development.

ENVIRONMENTAL PROTECTION

The Group keeps on strictly complying with the laws and regulations relating to the environmental protection. As the Group principally engages in the business of jazz and ballet and pop dance academy, the major emission is from the vehicles, which emitted 0.09 kg nitrogen oxides ("**NOx**"), 0.003 kg sulphur oxides ("**SOx**") and 0.007 kg particulate matter ("**PM**") in this year. To mitigate the emission of vehicles, regular checks and maintenance will be carried out to ensure the efficiency of the vehicles. The non-hazardous waste of the Group is mainly general waste from office operation, which is handled by the building management. The non-hazardous waste generated in head office of this year was 3 tonnes in total, with each employee producing 0.0176 tonnes of non-hazardous waste. The hazardous waste is mainly toner cartridge, which is recycled by the supplier after use, and no other significant hazardous waste was generated. In this year, the hazardous waste was amounted to 14 kg in total, with each employee producing 0.08 kg of hazardous waste.

To protect the environment, the Group encourages our employees to use e-statement and conduct customers' surveys through electronic forms to collect customer's comments or responses, so as to minimize the toner usage and paper consumption. We also encourage our employees to use both sides of paper and reuse paper, so as to reduce the waste disposal. Apart from the measures taken in reducing waste, we utilize the packaging materials used for the sales of dance uniform, shoes and accessories to the greatest extent. The total packaging material used in this year was 35 kg of plastic.

This year, the Group kept on using eco-friendly paper for printing promotional leaflets to further reduce greenhouse gases emission, as well as preserve trees and forests. During this year, the total greenhouse gas emissions, including the operation of head office and the use of electricity in dance centres, was 279 tonnes CO_2, in which each employee emitted 1.48 tonnes CO_2.

Also, we have improved energy efficiency and raised environmental awareness of our employees. The Group has implemented an all-round energy-saving policy to reduce consumption of electricity. We use fluorescent lamps to replace broken light pipes, encourage our employees to switch off the computers, air conditioners and other electronic equipments at the end of each working day, so as to increase the environmental awareness of the employees. During this year, the total energy consumption, which 2 MWh was from fuel consumption and 429 MWh was from the purchased electricity of head office and dance centres, was 431 MWh, with each employee consumed 2.28 MWh. As for reducing the water consumption, employees are reminded to turn off the faucet tight after use. In this year, the water consumption was 63 m^3, which included the water usage from the dance centres with separate water bills from the building management fee. As the head office and some of the dance centres are rented, which their water consumptions are unable to obtain, the water consumption intensity is not applicable.

EMPLOYMENT PRACTICES

The Group believes that satisfaction and loyalty of employees are keys to business success. With the aim of creating an interactive and motivative environment for employees to enhance their loyalty and dedication, besides abiding by the laws and regulation in relation to employment and health and safety, the Group provides competitive benefits and comprehensive training programs. At the same time, it is also aimed for encouraging employees to enhance their ability. By putting the right person at the right position, it is hoped that our employees can achieve their potential.

All employment procedures and decisions are committed to upholding the principle of equal opportunity, diversity, anti-discrimination and complied with relevant laws and regulations. The Group makes every effort to prevent and eliminate any kind of discrimination on the grounds of sex, marital status, pregnancy, disability, family status and race, for the sake of striving to create an anti-discrimination environment for our employees. To prevent child labour, identifications of employees are checked when they first join the Group, and copies of employees' identification will be collected at the time our job offer is being accepted. And they are required to work in accordance to the position indicated in the employment contract, for the purpose of avoiding forced labour. Employees are also required to work under the laws and regulations related to working hours and given sufficient rest. For example, full-time teachers are given competitive remuneration packages while part-time instructors are paid on an hourly basis. If employees are required to work in office during weekend or work in dance centres overtime, compensation or overtime pay will be provided based on the internal guidelines.

The Group provides our employees with competitive packages, consisting of different types of compensation and benefits, such as annual leave, sick leave, maternity/paternity leave, occupational accident compensation, Mandatory Provident Fund Schemes (MPFs) and Staff Award Program, etc. The Group continues advocating work-life balance. We provide annual travel for employees to the PRC in order to create the environment for team building and enhance better communication. This year, the annual travel took place in Korea.

Professional Training

To encourage employees' development and continuous training, the Group provides various training programs to our employees for long-term development, and updates their knowledge and skills to maintain their professional competence and enrich the quality of services. For example, orientation and trainings related to team building and sales skills were held this year. We also provide the annual oversea retreat for our teachers for their professional development. This year, they visited the famous dancing academy in Thailand again.

Health and Safety

To safeguard employees' occupational health and safety, the Group continues focusing on providing a safe, healthy and comfortable environment for our employees to avoid any accident, and complies with the relevant laws and regulations. As this, we endeavor to keep our workplaces clean to maintain safe work environment for our employees. Besides, we put the safety of our customers as our first priority since the age of our target customers are between 1 to 16.

This year, no serious accident happened in our business operation that gives rise to any claims or compensation paid to our employees.

OPERATING PRACTICES

Being one of the leading dance academies in Hong Kong, the Group is committed to providing high quality services and the best learning environment to our students. To keep on providing high quality services, evaluation, selection and continuous measurement are included in our procurement procedure to choose reliable supplier. In addition, the Group employs qualified teachers with excellent experience in choreography and set up performance appraisal system to evaluate teachers' teaching quality, so as to ensure the services we provide are above standards.

To encourage teamwork and bottom-up communication in our dance centres, regular meetings are conducted with our teachers to discuss various matters regarding our services. Through regular meetings, we communicate with our employees and get their direct feedbacks, as well as spur them to provide the best services with our well-honed skills.

The Group places great attention on our customers' opinions. We have maintained a customer service hotline to handle enquiries and complaints. All complaints and comments are documented for record and some notable cases are selected for training purpose, so as to prevent re-occurrence in the future.

Protecting Customer's Information Privacy

The Group makes our best effort to keep students' data confidential and complies with all relevant laws and regulations. Parents of our students are required to agree the use of information in the application form according to the rules and regulations. Any disclosure of students' information to third party organization will obtain consent from parents. We always ensure our students' information in hard copies will be shredded after the required retention period.

Anti-corruption

For managing our business in dealing with students, parents and business partners, the Group emphasizes integrity and prevents unethical pursuit from occurring in complying with relevant laws and regulations. Thus, whistle-blowing channels are implemented for this purpose. We encourage reporting suspected wrongdoings and business irregularities, e.g. breach of duty, abusing the power or receiving bribes. Once we receive such reporting, we will report to the regulator and take the law enforcement when necessary.

COMMUNITY INVOLVEMENT

Through jazz and ballet, pop dance and dancing show, the Group is committed to influencing the children to build up positive energy, achieve their potential and share their passion for dancing with the others in the society.

This year, we continued to encourage our employees to join Green Monday for promoting low-carbon and sustainable lifestyle. We participated in Charity Challenge Race by Tung Wah Group of Hospitals and "Go Green & Art" Carnival by Fu Hong Society, in order to support the charities. Also, donations were made to different charities, including Hong Kong Red Cross,Hong Kong St. John Ambulance, Pok Oi Hospital, and ShineTak Charity Hiking 2017. We kept on working closely in various charitable activities with The Boys' & Girls' Clubs Association of Hong Kong (BGCA), Child Psychological Development Association (CPDA), and Women Service Association for organization of events this year. Over 1,000 students participated in dance marathon held by CPDA once again.

In addition, we do not focus on individual activities only, but are also keen on all-rounded community engagement services, from community services to environmental protection activities. Our students have chances to be involved in these meaningful events and for promotion of the positive message.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Chiu Ka Lok (趙家樂) ("Mr. Chiu"), aged 42, is our chairman and executive Director. He was appointed as our Director on 12 February 2014 and was re-designated as an executive Director on 24 March 2014. Mr. Chiu is also the member of the remuneration committee of the Company. Mr. Chiu founded our Group in May 2006. Mr. Chiu is primarily responsible for the overall corporate strategies, management and business development of our Group. Prior to establishing Shelly De Mozz, Mr. Chiu was engaged in the production and sales of education software to primary and secondary school teachers. Mr. Chiu was awarded the "Quality Education Fund" from the Government of Hong Kong in 1997 for a "Teachers Learning Programme" project. Since then, Mr. Chiu continued to develop his career and team in the education industry. Mr. Chiu has approximately ten years of experience in children education and management. Mr. Chiu is the chief executive officer of the Hong Kong Speech and Swallowing Therapy Centre, a company principally engaged in providing swallowing and speech treatment, responsible for business development. He is also a director of Pok Oi Hospital, a charitable organisation providing various services to the local community including child care and education. Mr. Chiu graduated from The University of Science & Technology, Hong Kong, in November 1998, with a bachelor's degree in computer engineering.

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

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

Mr. Chun Chi Ngon Richard (秦志昂) ("Mr. Chun"), aged 70, is our chief executive officer and executive Director. Mr. Chun was appointed as our Director on 12 February 2014 and was redesignated as an executive Director on 24 March 2014. Mr. Chun is also the member of the nomination committee of the Company. Mr. Chun joined our Group in May 2006. Mr. Chun is primarily responsible for procurement, administration and inventory management. Mr. Chun has over 20 years of experience in procurement. Prior to joining our Group, Mr. Chun was the general manager of Mandarin Fashions Limited, a company principally engaged in clothing, from January 1984 to April 1998, and was responsible for the overall management of our Company, meeting customers, purchase order negotiation and finalisation, purchase of raw materials, production supervision, sale of products and exports management.

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

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

NON-EXECUTIVE DIRECTORS

Dr. Chun Chun (秦蓁) ("Dr. Chun"), aged 42, was appointed as our non-executive Director on 24 March 2014. Dr. Chun has approximately 13 years of experience in speech & swallowing therapy. Dr. Chun has worked as a consultant of Hong Kong Speech & Swallowing Therapy Centre, a company principally engaged in providing swallowing and speech treatment. She was responsible for the provision of assessment and treatment for patients and training for internal staff since June 2006. Dr. Chun also worked in various hospitals or bureau. From August 2003 to December 2004, she was the speech and language consultant of the Hong Kong Education Department. From December 2001 to December 2002 and November 1999 to October 2001, Dr. Chun was the speech therapist of Tung Wah Eastern Hospital and Pamela Youde Nethersole Eastern Hospital, respectively. Dr. Chun obtained a bachelor's degree and doctorate's degree in Speech and Hearing Sciences from The University of Hong Kong, Hong Kong, in December 1999 and December 2007, respectively. Dr. Chun is a certified VitalStim Therapy Provider, Deep Pharyngeal Neuromuscular Stimulation Provider and an administrator of the Lee Silverman Voice Treatment.

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

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

Ms. Yeung Siu Foon (楊少寬) (Ms. Yeung"), aged 67, was appointed as our non-executive Director on 24 March 2014. Ms. Yeung has approximately 16 years of experience in education sector as a teacher. From July 1968 to January 1970, Ms. Yeung worked as a panel teacher in Chiu Kwong Kindergarten. From January 1970 to August 1985, Ms. Yeung worked as a panel teacher and kindergarten officer in Rainbow Middle School. Ms. Yeung graduated from Macao Saint Joseph's Kindergarten College, Macao, in June 1967, with a secondary certificate in kindergarten teacher.

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

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lau Sik Yuen (劉錫源) ("Mr. Lau"), aged 50, was appointed as our independent non-executive Director on 26 September 2014. Mr. Lau has over 21 years of experience in auditing and financial accounting. Mr. Lau currently is the company secretary and chief financial officer of Xinyi Glass Holdings Limited, a company listed on the Main Board of the Stock Exchange (Stock code: 00868), responsible for their financial, management and cost accounting, taxation, treasury and investor relations strategy and operation. Currently, Mr. Lau also serves as an independent non-executive director of China Qinfa Group Ltd. (Stock code: 00866) and Dragon Crown Group Holdings Limited (Stock code: 00935), both of which are companies listed on the Main Board of the Stock Exchange. Mr. Lau had worked with PricewaterhouseCoopers over five years, responsible for auditing. Mr. Lau was the financial controller of a subsidiary of NWS Holdings Limited for over three years, a company listed on the Stock Exchange (Stock code: 00659). Mr. Lau graduated from Oregon State University, United States, with Bachelor of Science in business administration. Mr. Lau is a fellow member of the Hong Kong Institute of Certified Public Accountants and a member of the American Institute of Certified Public Accountants.

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

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Dr. Yuen Man Chun Royce (袁文俊) ("Dr. Yuen"), aged 53, was appointed as our independent non-executive Director on 26 September 2014. Dr. Yuen is also the chairman of the nomination committee of the Company and the member of the audit committee and remuneration committee of the Company. Dr. Yuen has over 25 years of experiences in brand-building and marketing management. Dr. Yuen has been the chief executive officer of New Brand New Limited, a company principally engaged in marketing and brand consulting, since August 2013. Dr. Yuen was the chairman of Ogilvy & Mather Advertising, a company principally engaged in offering integrated marketing communications solutions, from April 2003 to January 2010, he was responsible for the management of the operation and profit and loss of Ogilvy's Group. From January 2010 to June 2011, Dr. Yuen was an executive director of Fantastic Natural Cosmetics Limited (FANCL), a company principally engaged in the sale of skincare and health supplements, he was responsible for leading its global strategic planning and brand development. Dr. Yuen is also the chairman of The Association of Accredited Advertising Agencies of Hong Kong, from December 2005 to December 2009, an association that deals with issues concerning the future of the advertising industry and the business of member agencies. Dr. Yuen obtained an Honour Diploma in Communications from Hong Kong Baptist University, Hong Kong, in December 1987, a master's degree in Marketing from Macquarie University, Australia, in September 1996 and a doctorate's degree in business administration from Hong Kong Polytechnic University, Hong Kong, in November 2000. Dr. Yuen is a visiting associate professor of The University of Hong Kong and a professor of The Hong Kong Polytechnic University. Dr. Yuen is council member of the Hong Kong Trade Development Council and the Hong Kong Academy for Performing Arts, and an advisory board member for many not-for-profit and government bodies, including the Hong Kong Museum of History.

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

Mr. Lee Kwok Ho, David (李國豪) ("Mr. Lee"), aged 42, was appointed as our independent non-executive Director on 16 May 2016. Mr Lee has over 15 years of experiences in merchandising, industrial manufacturing, logistics, property development and management. Mr. Lee graduated from The Hong Kong University with Bachelor of Economics and Philosophy and Monash University with Master of Practicing Accounting. Mr. Lee is a director of Hip Shing Fat Company Limited since 2000, responsible for overseeing company operations and development. Mr. Lee also is a director of Sky Kids which is a teenage consulting company connects United Kingdom, Hong Kong and the World. Sky Kids projects have been established to develop local and overseas sports, travel, education and training programs for young people. He is currently the deputy chairman of Building Healthy Kowloon City Association Limited (建設健康九龍城協會) and honorary secretary of Hong Kong Real Property Federation Limited (香港房地產協會).

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

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Ms. Chan Yuen Hong (陳遠航) ("Ms. Chan"), aged 44, joined our Group in April 2007 as marketing officer and was promoted as our general manager and dean of SDM Jazz & Ballet on July 2007. She is primarily responsible for overall school operation including strategic planning, development of curriculum, marketing and general business operation of SDM Jazz & Ballet Academie. Ms. Chan has approximately 15 years of experience in management and marketing. From June 2005 to February 2006, she was the development executive of MV Destination Limited, a company principally engaged in providing event management services, responsible for marketing, promotion and event co-ordination. From July 1998 to July 2003, she was the senior marketing manager of Gold Royal International Enterprise Ltd., a company principally engaged in providing healthcare and beauty services, responsible for product development and training, brand building and marketing. From October 1996 to June 1998, Ms. Chan was a management trainee of The Marco Polo Hong Kong Hotel, responsible for providing assistance to various departments including human resources, marketing, food and beverage, housekeeping, front office and accounts. Ms. Chan graduated from Hong Kong Polytechnic University in November 1996, Hong Kong, with a bachelor's degree in hotel and catering management. Ms. Chan is currently the chairman of the Hong Kong Children Dance Promotion Association.

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

Ms. Yu Sze Wan (余思韻) ("Ms. Yu"), aged 40, was appointed as assistant to general manager in July 2007, as administration and human resources manager in February 2008 and was promoted as head of administrations and deputy manager in July 2013. Ms. Yu is responsible for coordinating the operation of various departments, human resources planning, and personnel recruitment. Ms. Yu has over 15 years of experience in management. Prior to joining us, Ms. Yu worked as administration assistant in Manulife (International) Limited, a company principally engaged in insurance, investment, asset management and financial planning, responsible for administrative matters, from April 1997 to November 1997. She was a consultant in World Sky International Limited, a company principally engaged in trading and marketing of health products, where she was responsible for providing assistance to improve the workflow, training memo, policies and practices, analyzing training needs, designing employee development programme and conducting product training, from November 1997 to February 2007. Ms. Yu obtained a certificate in secretarial studies from Sacred Heart Canossian Commercial School, Hong Kong, in June 1996. Ms. Yu is the administrative officer of the Hong Kong Children Dance Promotion Association. Ms. Yu obtained certificates in personnel administration and operations as well as in human resources management from the Hong Kong Management Association in 2011.

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

DIRECTORS' REPORT

The Directors hereby present their report and the audited financial statements of SDM Group Holdings Limited (the "**Company**") and the audited consolidated financial statements of the Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES

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

SEGMENTAL INFORMATION

An analysis of the Group's revenue and contribution to the loss from operations by principal activities and geographical area of operations for the year ended 31 December 2017 is set out in Note 5 to the consolidated financial statements.

RESULTS AND DIVIDENDS

The Group's results for the year ended 31 December 2017 are set out in the consolidated statement of profit or loss and other comprehensive income on page 44.

No final dividend for the year ended 31 December 2017 is proposed by the Board (2016: Nil).

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

FINANCIAL SUMMARY

The summary of the results and of the assets and liabilities of the Group is set out on page 112 of this annual report.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements during the year in the property, plant and equipment of the Group are set out in Note 13 to the consolidated financial statements.

SHARE CAPITAL

Details of the movements during the year in the share capital of the Company are set out in Note 26 to the consolidated financial statements.

SHARE OPTION SCHEME

The Company's share option scheme (the "**Scheme**") was conditionally adopted by a written resolution of the shareholders of the Company on 26 September 2014 (the "**Date of Adoption**"), and is a share incentive scheme prepared in accordance with Chapter 23 of the GEM Listing Rules and is established to recognize and acknowledge the contribution of the Directors and other employees who have made valuable contribution to the Group. There was no share option granted or agreed to be granted under the Scheme from the Date of the Adoption to 31 December 2017 and up till the date of this report.

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

(a) Purpose

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

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

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

(b) The Participants of the Scheme

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

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

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

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

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

(c) Maximum number of shares

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

(d) Maximum number of options to any one individual

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

(e) Price of Shares

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

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

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

(iii) the nominal value of a share.

(f) Time of exercise of option and duration of the Scheme

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

PRE-EMPTIVE RIGHTS

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

RESERVES

Details of movements in the reserves of the Company and of the Group during the year are set out in Note 39 to the consolidated financial statements and page 47 in the consolidated statement of changes in equity respectively.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2017, the Company had distributable reserves of approximately HK$22.9 million (2016: HK$9.9 million) calculated in accordance with the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, due to nature of our business, sales to the Group's five largest customers accounted for approximately 0.5% (2016: approximately 0.5%) of the total sales for the year ended 31 December 2017, which is less than 30% of total revenue and the sales to the largest customer included therein amounted to approximately 0.2% (2016: approximately 0.2%) of the total sales for the year ended 31 December 2017.

Due to our business nature being a dance institution, the landlords of our leased properties are essential to the Group's operations. During the year ended 31 December 2017, the rental expenses accounted for approximately 39.5% (2016: approximately 35.8%) of the total revenue.

None of the Directors, or any of their close associate(s) or any shareholders of the Company (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's 5 largest customers and 5 largest landlords during the year ended 31 December 2017.

DIRECTORS

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

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

Non-executive Directors
Dr. Chun Chun
Ms. Yeung Siu Foon
Ms. Yip Sze Pui Fione (resigned on 10 April 2017)

Independent non-executive Directors
Mr. Lau Sik Yuen
Dr. Yuen Man Chun Royce
Mr. Lee Kwok Ho David

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

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

BIOGRAPHICAL DETAILS OF DIRECTORS

Brief biographical details of the Directors of the Group are set out on pages from 25 to 28 of this annual report.

DIRECTORS' SERVICE CONTRACTS

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

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

DIRECTORS' INTERESTS IN CONTRACTS

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

CONTROLLING SHAREHOLDER'S INTEREST IN CONTRACTS

Save as disclosed in Related Party Transactions in note 35, no contract of significance, to which the company, its holding company or subsidiaries was a party and in which a controlling shareholder of the company had a material interest, whether directly or in directly, subsisted at the end of the year or at any time during the year.

EMOLUMENT POLICY

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

COMPETING INTERESTS

The Directors are not aware of any business or interest of the Directors or the controlling shareholder of the Company or any of their respective associates (as defined in the GEM Listing Rules) that compete or may compete with the business of the Group and any other conflicts of interests which any such person has or may have with the Group during the year.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES

As at 31 December 2017, the interests or short positions of the Directors and chief executives of the Company in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the "**SFO**")), which are required (a) to be notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) have to be notified to the Company and the Stock Exchange pursuant to the required standards of dealing by directors as referred to in Rule 5.46 of the GEM Listing Rules were as follows:

Long positions in the Shares of the Company

Name of Directors and chief executive	Nature of interest/ Holding capacity	Number of ordinary shares held	Percentage of issued share capital (Note 1)
Mr. Chiu Ka Lok	Interest of a controlled corporation	198,750,000 (Note 2)	56.13%
Dr. Chun Chun	Family interest	198,750,000 (Note 3)	56.13%

Notes:

(1) As at 31 December 2017, the Company's issued ordinary share capital was HK$35,410,000 divided into 354,100,000 Shares of HK$0.1 each.

(2) Wealthy Together Limited ("**Wealthy Together**"), is wholly and beneficially owned by Mr. Chiu Ka Lok, an executive Director and the Chairman of the Company. Mr. Chiu Ka Lok is deemed to be interested in 198,750,000 Shares held by Wealthy Together by virtue of his 100% shareholding interest in Wealthy Together.

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

Save as disclosed above, as at 31 December 2017, none of the Directors and chief executive of the Company had any other interests or short positions in any shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of listed issuer referred to rule 5.46 of the GEM Listing Rules.

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

So far as is known to the Directors, as at 31 December 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 of the Company

Name of Shareholder	Nature of interest/ holding capacity	Number of shares	Percentage of interests in the Company's issued share capital (Note 1)
Wealthy Together	Beneficial owner	198,750,000 (Note 2)	56.13%
Hui Pui Cheung	Beneficial owner	34,514,000	9.75%
Chen Jiaxin	Interest of a controlled corporation	28,000,000	7.91%
Tycoon Mind Limited	Beneficial owner	28,000,000	7.91%

Notes:

(1) As at 31 December 2017, the Company's issued ordinary share capital was HK$35,410,000 divided into 354,100,000 Shares of HK$0.1 each.

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

Save as disclosed above, the Directors were not aware of any other persons, other than the Directors or the chief executive of the Company who held an interest or short positions in the shares and underlying shares of the Company as at 31 December 2017 which required to be recorded pursuant to Section 336 of SFO.

RELATED PARTY TRANSACTIONS

Details of related party transactions of the Group during the year ended 31 December 2017 are set out in note 35 to the consolidated financial statements. Save as the building management fees, rent and rates received from other related companies, which constitute continuing connected transactions and are exempted from the reporting, announcement and independent shareholders' approval requirements under Chapter 20 of the GEM Listing Rules, none of these related party transactions constitute connected transactions as defined under the GEM Listing Rules.

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

CONTINUING CONNECTED TRANSACTIONS

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

For the years ended 31 December 2016 and 2017 the total rental and fees paid to our Group by Dunn's Education Limited under the Sub-lease Agreements amounted to approximately HK$1,558,000 and HK$575,000, respectively, of which approximately HK$627,000 and HK$583,000, respectively, were in relation to the sub-leasing of the Taikoo Centre.

For the years ended 31 December 2016 and 2017 the total rental and fees paid to our Group by Rainbow Creative Arts Limited under the Sub-lease Agreements amounted to approximately HK$816,000 and HK$830,000, respectively, of which approximately HK$286,000 and HK$267,000, respectively, were in relation to the sub-leasing of the Taikoo Centre.

For the years ended 31 December 2016 and 2017 the total rental and fees paid to our Group by Sunshine Chinese Painting under the Sub-lease Agreements amounted to approximately HK$180,000 and HK$180,000, respectively.

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

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

AUDIT COMMITTEE

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

Currently the audit committee comprises three independent non-executive directors, who have reviewed the consolidated financial statements for the year ended 31 December 2017.

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 2017, the Company has received an annual written confirmation from each controlling shareholder of the Company in respect of its/his and its/his associates' compliance with the Deed of Non-Competition. The independent non-executive Directors have also reviewed and were satisfied that each of the controlling shareholders of the Company had complied with the Deed of Non-Competition.

CORPORATE GOVERNANCE

During the year ended 31 December 2017, the Company has complied with the code provisions set out in the Corporate Governance Code and Corporate Governance Report contained in Appendix 15 of the GEM Listing Rules.

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

SUFFICIENCY OF PUBLIC FLOAT

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

WARRANT PLACING

On 31 December 2015 and 7 January 2016, the Company entered into a warrant placing agreement and a supplemental placing agreement respectively (collectively referred to as "**Warrant Placing Agreements**") with a placing agent pursuant to which the placing agent agreed to place up to 40,000,000 warrants conferring rights at a warrant placing price of HK$0.0574 for each warrant, subject to the fulfillment of the conditions precedent on or before 29 February 2016. The warrant allows the warrant placee(s) to subscribe for up to 40,000,000 warrants shares at the exercise price of HK$1.5 per warrant share to the warrant placee(s), at any time during a period of 12 months commencing from the date immediately after the date of issue of the warrant. The Warrant Placing Agreements were approved by the extraordinary general meeting held on 15 February 2016 and the warrant placing was completed on 1 March 2016. The warrants have been expired on 28 February 2017 and none of warrants have been exercised.

MATERIAL EVENTS AFTER THE REPORTING PERIOD

On 18 September 2017, the Group entered into a conditional sale and purchase agreement with the Vendors pursuant to which the Group will acquire 100% of the entire issued capital of Target Group at consideration HK$32,000,000 which shall be satisfied by the issuance of consideration shares of 80,000,000 new shares @HK$0.4 each by the Company. The class of equity issued for consideration shares are the same class of ordinary shares. The acquisition has not completed as at the date of issuance of this annual report. Details refer to the announcements of SDM Group Holdings Limited dated 18 September 2017, 16 October 2017, 23 November 2017 and 29 December 2017.

On 11 December 2017, the Company entered into the placing agreement with the placing agent pursuant to which the placing agent agreed to procure not less than six placees for subscription of the bonds with an aggregate principal amount of up to HK$80,000,000 in two tranches during the placing period. The placing has completed on 11 March 2018. Details refer to the announcements of SDM Group Holdings Limited dated 11 December 2017 and 14 March 2018.

AUDITOR

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

By order of the Board
Mr. Chiu Ka Lok
Chairman

Hong Kong, 27 March 2018

Deloitte. 德勤

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

Opinion

We have audited the consolidated financial statements of SDM Group Holdings Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") set out on pages 44 to 111, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("**HKSAs**") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("**the Code**"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Recognition of deferred income	
We identified the recognition of deferred income as a key audit matter due to revenue being one of the key performance indicators of the Group and there is an inherent risk of the deferred income being recorded in the wrong period. Deferred income represents the course fees received in advance and amounted to HK$39,256,000 as at 31 December 2017 as disclosed in note 23 to the consolidated financial statements.	Our procedures in relation to recognition of course fee income and the related deferred income included: • Understanding the revenue recognition policy of the Group, including student enrollments, maintaining students and school records, processing cash receipts and calculation of the deferred income; • Evaluating and testing the key controls over the revenue business process; • Reviewing the revenue recognition policy of the Group to ensure that the course fee income is recognised in accordance with Hong Kong Accounting Standards 18 "Revenue"; and • Performing substantive procedures on the calculation of deferred income.
Impairment of goodwill	
We identified the impairment of goodwill as a key audit matter due to the inherent subjectivity involved in impairment assessment of the goodwill by the management as disclosed in note 14 to the consolidated financial statements. Goodwill of HK$1,897,000 was resulted from the acquisition of four dancing schools together with the relevant assets and liabilities (the "**Acquired Business**") in previous years. For the purpose of impairment testing, goodwill has been allocated to the relevant cash generating units ("**CGUs**") of the Acquired Business. The impairment test requires significant management judgment and key estimates in preparing cash flow projections for the calculation of recoverable amount of the relevant CGUs of the Acquired Business, including applying an appropriate discount rate as well as growth rate. During the year, the amount of goodwill was fully impaired.	Our audit procedures in relation to the impairment assessment of goodwill by the management included: • evaluating the assumptions and estimates used to determine the recoverable amounts of goodwill, including: — validating the discount rates used; — analysing the underlying cash flows used in the models; — comparing the underlying cash flows against historical performance to test the accuracy of management's projections; — evaluating the sensitivity analysis performed by management; and • considering the adequacy of the disclosures in relation to impairment testing.

Key audit matter	How our audit addressed the key audit matter
Fair value measurement of obligation arising from put options written to non-controlling shareholders of a subsidiary	
We identified the fair value measurement of obligation arising from put options written to non-controlling shareholders of a subsidiary as a key audit matter due to its significance to the consolidated financial statements and significant judgment exercised by the directors of the Company on the fair value measurement. As disclosed in note 25 to the consolidated financial statements, for the purpose of the fair value measurement, the obligation arising from put options written to non-controlling shareholders of a subsidiary was stated at fair value of HK$8,630,000. Such obligation requires using appropriate valuation techniques with estimation of various key inputs, the details of which are disclosed in notes 4, 25 and 33 to the consolidated financial statements.	Our procedures in respect of the fair value measurement of obligation arising from put options written to non-controlling shareholders of a subsidiary included: • Understanding the directors' fair value measurement process, including the valuation techniques and key inputs used, and the involvement of independent qualified valuer engaged by the Company; • Assessing the competence, capabilities and objectivity of the independent qualified valuer; • Evaluating the appropriateness of the valuation techniques and key inputs used in the calculation of the fair values with the involvement of our valuation expert; and • Evaluating whether the disclosures of the fair value measurement in the consolidated financial statements are sufficient and appropriate.

Other Information

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of the report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is K.W. Yim.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

27 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
Revenue	5	**64,326**	61,663
Other income	6	**10,378**	8,380
Other gains and losses	6	**(3,240)**	60
Changes in inventories of finished goods		**338**	90
Finished goods purchased		**(2,538)**	(1,476)
Advertising and promotion expenses		**(4,703)**	(6,230)
Depreciation		**(2,347)**	(2,295)
Amortisation		**(89)**	(89)
Rental expenses	8	**(25,406)**	(22,079)
Staff costs	8	**(26,237)**	(24,702)
Other expenses		**(27,925)**	(23,762)
Loss on disposal of subsidiaries	30	**(727)**	–
Impairment loss on goodwill	14	**(1,897)**	–
Impairment loss recognised on an other receivable	18	**(4,087)**	(200)
Share of losses of joint ventures		**(2,829)**	–
Loss before taxation		**(26,983)**	(10,640)
Income tax credit (expense)	7	**42**	(43)
Loss for the year	8	**(26,941)**	(10,683)
Other comprehensive expense			
Item that may be reclassified to profit or loss:			
Exchange differences arising on translation of foreign operations		**(194)**	(154)
Total comprehensive expense for the year		**(27,135)**	(10,837)
Loss for the year attributable to:			
Owners of the Company		**(25,702)**	(10,429)
Non-controlling interests		**(1,239)**	(254)
		(26,941)	(10,683)
Total comprehensive expense attributable to:			
Owners of the Company		**(25,896)**	(10,583)
Non-controlling interests		**(1,239)**	(254)
		(27,135)	(10,837)
Loss per share (HK cents)	12		
Basic		**(7.94)**	(4.28)
Diluted		**(7.94)**	(4.28)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
Non-current assets			
Property, plant and equipment	13	**6,913**	5,543
Goodwill	14	**–**	1,897
Intangible assets	15	**178**	267
Interests in joint ventures	16	**156**	156
Loans to joint ventures	16	**1,720**	–
Other receivables, deposits and prepayments	18	**11,597**	14,987
Deferred tax assets	27	**331**	331
		20,895	23,181
Current assets			
Inventories	17	**1,285**	947
Trade and other receivables, deposits and prepayments	18	**18,503**	11,121
Amounts due from related parties	19	**4,831**	7,030
Amounts due from non-controlling shareholders of subsidiaries	20	**4**	4
Held for trading investments	21	**7,423**	2,782
Tax recoverable		**15**	1,695
Bank balances and cash	22	**133,822**	22,295
		165,883	45,874
Current liabilities			
Trade and other payables, accrued charges, deferred income and deposits received	23	**46,330**	42,868
Amounts due to related parties	19	**459**	2,495
Provisions	24	**737**	1,129
		47,526	46,492
Net current assets (liabilities)		**118,357**	(618)
Total assets less current liabilities		**139,252**	22,563

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
Capital and reserves			
Share capital	26	**35,410**	20,000
Reserves		**28,005**	2,047
Equity attributable to owners of the Company		**63,415**	22,047
Non-controlling interests		**(1,585)**	(400)
Total equity		**61,830**	21,647
Non-current liabilities			
Provisions	24	**1,342**	916
Obligation arising from put options written to non-controlling shareholders of a subsidiary	25	**8,630**	–
Other payables	23	**67,450**	–
		77,422	916
		139,252	22,563

The consolidated financial statements on pages 44 to 111 were approved and authorised for issue by the Board of Directors on 27 March 2018 and are signed on its behalf by:

Chiu Ka Lok
DIRECTOR

Chun Chi Ngon Richard
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Attributable to owners of the Company								
	Share capital HK$'000	Share premium HK$'000	Exchange reserve HK$'000	Warrant reserve HK$'000	Other reserve HK$'000 (Note)	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2016	20,000	19,407	(145)	–	(1,675)	(3,773)	33,814	(146)	33,668
Loss for the year	–	–	–	–	–	(10,429)	(10,429)	(254)	(10,683)
Exchange differences arising on translation to presentation currency	–	–	(154)	–	–	–	(154)	–	(154)
Loss and total comprehensive expense for the year	–	–	(154)	–	–	(10,429)	(10,583)	(254)	(10,837)
Dividends paid	–	(2,000)	–	–	–	–	(2,000)	–	(2,000)
Issue of warrants (Note 28)	–	–	–	2,296	–	–	2,296	–	2,296
Transaction costs attributable to issue of warrants	–	–	–	(1,480)	–	–	(1,480)	–	(1,480)
At 31 December 2016	**20,000**	**17,407**	**(299)**	**816**	**(1,675)**	**(14,202)**	**22,047**	**(400)**	**21,647**
Loss for the year	**–**	**–**	**–**	**–**	**–**	**(25,702)**	**(25,702)**	**(1,239)**	**(26,941)**
Exchange differences arising on translation to presentation currency	**–**	**–**	**(194)**	**–**	**–**	**–**	**(194)**	**–**	**(194)**
Loss and total comprehensive expense for the year	**–**	**–**	**(194)**	**–**	**–**	**(25,702)**	**(25,896)**	**(1,239)**	**(27,135)**
Acquisition of subsidiaries by issuing shares (Note 26(a) and Note 30)	**240**	**1,536**	**–**	**–**	**–**	**–**	**1,776**	**(882)**	**894**
Issue of shares by open offer (Note 26(b))	**10,120**	**29,279**	**–**	**–**	**–**	**–**	**39,399**	**–**	**39,399**
Placement of shares (Note 26(c))	**5,050**	**18,670**	**–**	**–**	**–**	**–**	**23,720**	**–**	**23,720**
Gain on deemed partial disposal of a subsidiary without loss of control	**–**	**–**	**–**	**–**	**2,369**	**–**	**2,369**	**(2,369)**	**–**
Capital contribution from minority shareholders	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**6,566**	**6,566**
Obligation arising from issuance of put options (Note 25)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(4,203)**	**(4,203)**
Disposal of subsidiaries (Note 30)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**942**	**942**
Transfer to accumulated losses	**–**	**–**	**–**	**(816)**	**–**	**816**	**–**	**–**	**–**
At 31 December 2017	**35,410**	**66,892**	**(493)**	**–**	**694**	**(39,088)**	**63,415**	**(1,585)**	**61,830**

Note: The other reserve represents: (i) the difference between the nominal value of the share capital of SDM Jazz & Ballet Academie Co. Limited ("**SDM Jazz & Ballet**"), SDM Academie Limited ("**SDM Academie**"), SDM Group Limited ("**SDM Group**"), SDM Management Limited ("**SDM Management**") and Metro Noble Limited ("**Metro Noble**") at the dates on which they were acquired by Brilliant Together Limited ("**Brilliant Together**") and Tycoon Together Limited ("**Tycoon Together**") by issuance of 3 shares by the Company and the cash consideration of HK$20,000 pursuant to the reorganisation underwent in preparation for the listing of the shares of SDM Group Holdings Limited (the "**Company**") on GEM of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"); and (ii) gain on deemed partial disposal of Prism International Pre-school Limited ("**Prism**", a subsidiary of the Company) without loss of control.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	Note	2017 HK$'000	2016 HK$'000
OPERATING ACTIVITIES			
Loss before taxation		**(26,983)**	(10,640)
Adjustments for:			
Depreciation of property, plant and equipment		**2,347**	2,295
Amortisation of intangible assets		**89**	89
Loss on change in fair value held for trading investments		**3,619**	185
Gain on disposal of available-for-sale investments		**–**	(245)
Foreign exchange gain, net		**(359)**	–
Impairment loss on an other receivable		**4,087**	200
Interest income		**(105)**	(273)
Provision for a rental deposit		**400**	–
Impairment loss on goodwill		**1,897**	–
Share of losses of joint ventures		**2,829**	–
Loss on disposal of subsidiaries		**727**	–
Loss on disposal of property, plant and equipment		**10**	–
Loss on change in fair value of obligation arising from put options written to non-controlling shareholders of a subsidiary		**493**	–
Operating cash flows before movements in working capital		**(10,949)**	(8,389)
Increase in inventories		**(338)**	(90)
Increase in trade and other receivables, deposits and prepayments		**(3,279)**	(3,631)
Increase in amounts due from related parties		**(1,069)**	(1,800)
Increase in held for trading investments		**(8,260)**	(2,967)
Increase in trade and other payables, accrued charges, deferred income and deposits received		**3,444**	8,797
Increase in provisions		**31**	–
Cash used in operations		**(20,420)**	(8,080)
Income tax refunded		**1,722**	110
NET CASH USED IN OPERATING ACTIVITIES		**(18,698)**	(7,970)
INVESTING ACTIVITIES			
Interest received		**105**	310
Withdrawal of pledged bank deposits		**–**	315
Purchase of property, plant and equipment		**(3,476)**	(537)
Proceeds form disposal of available-for-sale investments		**–**	10,361
Deposits paid for acquisition of companies		**(5,771)**	(5,518)
Advance to an independent third party		**–**	(2,895)
Net cash outflow from acquisition of a subsidiary	30	**(88)**	(1,220)
Net cash inflow from disposal of a subsidiary	30	**446**	–
Advances to related parties/joint ventures		**(3,972)**	(7,342)
Repayment from related parties/joint ventures		**3,920**	7,971
NET CASH (USED IN) FROM INVESTING ACTIVITIES		**(8,836)**	1,445

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	2017 HK$'000	2016 HK$'000
FINANCING ACTIVITIES		
Dividends paid	–	(2,000)
Proceed from issue of warrants	–	2,296
Transaction costs attributable to issue of warrants	–	(1,480)
Advances from related parties	5	4,165
Repayment to related parties	(2,041)	(3,508)
Proceed from issue of bonds	71,000	–
Transaction costs attributable to issue of bonds	(3,550)	–
Proceed from deemed partial disposal of a subsidiary	10,500	–
Proceed from issue of new ordinary shares	64,720	–
Transaction costs attributable to issue of new ordinary shares	(1,601)	–
NET CASH FROM (USED IN) FINANCING ACTIVITIES	139,033	(527)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	111,499	(7,052)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	22,295	29,367
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	28	(20)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	133,822	22,295

1. GENERAL

The Company was incorporated and registered as an exempted company with limited liability in the Cayman Islands under the Cayman Companies Law on 12 February 2014 and its shares have been listed on the GEM of The Stock Exchange of Hong Kong Limited since 14 October 2014. Its parent is Wealthy Together Limited ("**Wealthy Together**") (incorporated in the British Virgin Islands ("**BVI**")). Its ultimate controlling party is Mr. Chiu Ka Lok (the "**Controlling Shareholder**"), who is also the Chairman and Executive Director of the Company. The addresses of the Company's registered office and the principal place of business are Clifton House, 75 Fort Street, P.O. Box 1350, Grand Cayman, KY1-1108, Cayman Islands and Room 202B, 2/F, Liven House, 61–63 King Yip Street, Kwun Tong, Hong Kong respectively.

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

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

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

Amendments to HKFRSs that are mandatorily effective for the current year

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

Amendments to HKAS 7	Disclosure initiative
Amendments to HKAS 12	Recognition of deferred tax assets for unrealised losses
Amendments to HKFRS 12	As part of the annual improvements to HKFRSs 2014–2016 cycle

Amendments to HKAS 7 Disclosure initiative

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

A reconciliation between the opening and closing balances of these items is provided in note 34. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure in note 34, the application of these amendments has had no impact on the Group's consolidated financial statements.

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

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

New and revised HKFRSs in issue but not yet effective

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

HKFRS 9	Financial instruments[1]
HKFRS 15	Revenue from contracts with customers and the related amendments[1]
HKFRS 16	Leases[2]
HKFRS 17	Insurance contracts[4]
HK(IFRIC)-Int 22	Foreign currency transactions and advance consideration[1]
HK(IFRIC)-Int 23	Uncertainty over income tax treatments[2]
Amendments to HKFRS 2	Classification and measurement of share-based payment transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 Financial instruments with HKFRS 4 Insurance contracts[1]
Amendments to HKFRS 9	Prepayment features with negative compensation[2]
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture[3]
Amendments to HKAS 28	Long-term interests in associates and joint ventures[2]
Amendments to HKAS 28	As part of the annual improvements to HKFRS 2014–2016 cycle[1]
Amendments to HKAS 40	Transfers of investment property[1]
Amendments to HKFRSs	Annual improvements to HKFRSs 2015–2017 cycle[2]

1 Effective for annual periods beginning on or after 1 January 2018.
2 Effective for annual periods beginning on or after 1 January 2019.
3 Effective for annual periods beginning on or after a date to be determined.
4 Effective for annual periods beginning on or after 1 January 2021.

Except for the new HKFRSs below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs and Interpretations will have no material impact on the consolidated financial statements in the foreseeable future.

HKFRS 9 "Financial Instruments"

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of HKFRS 9 which are relevant to the Group are:

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

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

HKFRS 9 "Financial Instruments" (Continued)

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

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

Based on the Group's financial instruments and risk management policies as at 31 December 2017, the directors of the Company anticipate the following potential impact on initial application of HKFRS 9:

Classification and measurement:

All financial assets and financial liabilities will continue to be measured on the same bases as are currently measured under HKAS 39.

Impairment:

In general, the directors of the Company anticipate that the application of the expected credit loss model of HKFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised costs and other items that subject to the impairment provisions upon application of HKFRS 9 by the Group.

Based on the assessment by the directors of the Company, if the expected credit loss model were to be applied by the Group, the accumulated amount of impairment loss to be recognised by the Group as at 1 January 2018 would be increased as compared to the accumulated amount recognised under HKAS 39 mainly attributable to expected credit losses provision on trade and other receivables. Such further impairment recognised under expected credit loss model would reduce the opening retained profits and increase the deferred tax assets at 1 January 2018.

Except for the early recognition of credit losses based on the expected loss model in relation to the Group's financial assets measured at amortised cost, the directors of the Company anticipate that the adoption of HKFRS 9 may not have other significant impact on amounts reported in respect of the Group's financial assets and financial liabilities based on an analysis of the Group's financial instruments as at 31 December 2017.

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

HKFRS 15 "Revenue from Contracts with Customers"

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

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

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

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

In 2016, the HKICPA issued clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The directors of the Company have assessed on application of HKFRS 15 and consider that certain course fees received from customers in relation to courses with period longer than 12 months have significant financing component that would require recognition of contract liabilities when the course fees are received and recognition of interest expense to accrete the contract liabilities over the course period at prevailing market interest rates. Revenue is recognised by debiting the contract liabilities over the course period.

Besides, the directors of the Company consider that certain course fees received from customers represent two separate performance obligations from the sale of dancing courses and products including dance uniforms, shoes and accessories. Accordingly, revenue will be recognised for each of these performance obligations when control over the corresponding services and goods is transferred to the customer under HKFRS 15 that requires the transaction price to be allocated to different performance obligations on a relative stand-alone selling price basis. As a result, revenue will be recognised separately as course fees income and sales of goods in accordance with the Group's relevant accounting policies.

In addition, the application of HKFRS 15 in the future may result in more disclosures in the consolidated financial statements.

The directors of the Company intend to apply the limited retrospective method with cumulative effect of initial application recognised in opening balance of equity at 1 January 2018.

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

HKFRS 16 "Leases"

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 Leases and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents operating lease payments as operating cash flows. Upon the application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group.

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2017, the Group has non-cancellable operating lease commitments of HK$50,495,000 as disclosed in note 31. A preliminary assessment indicates that these arrangements will meet the definition of a lease upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposits paid of HK$14,355,000 and refundable rental deposits received of HK$648,000 as rights and obligations under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost and such adjustments are considered as additional lease payments. Adjustments to refundable rental deposits paid would be included in the carrying amount of right-of-use assets. Adjustments to refundable rental deposits received would be considered as advance lease payments.

Furthermore, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the GEM of The Stock Exchange of Hong Kong Limited ("**Listing Rules**") and by the Hong Kong Companies Ordinance.

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

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

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

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

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

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

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

The principal accounting policies are set out below.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of consolidation

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

— has the power over the investee;

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

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

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

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

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

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policy.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of entity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling proportionate interests.

Any difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognised. A gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consolidation received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets and liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs).

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations

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

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

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

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

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

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

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation are initially measured either at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets or at fair value. The choice of measurement basis is made on a transaction-by-transaction basis.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Goodwill

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

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units ("**CGUs**") (or groups of CGUs) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A CGU (or group of CGUs) to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the CGU to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the CGU (or group of CGUs) is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit (or group of CGUs).

On disposal of the relevant CGU unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal (or any of the cash generating unit within group of CGUs in which the Group monitors goodwill).

Investments in joint ventures

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

The results and assets and liabilities of joint ventures are incorporated in the consolidated financial statements using the equity method of accounting. The financial statements of joint ventures used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, investments in joint ventures are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the joint ventures. Changes in net assets of the joint venture other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of joint ventures equals or exceeds its interest in that joint venture (which includes any long-term interests that, in substance, form part of the Group's net interest in the joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that joint venture.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments in joint ventures (Continued)

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

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

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

Revenue recognition

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

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

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

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

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

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Dividend income from investments is recognised when the Group's rights to receive payment have been established.

The Group's accounting policy for recognition of revenue from operating leases is described in the accounting policy for leasing below.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment

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

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

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

Leasing

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

The Group as lessor

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

The Group as lessee

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies

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

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

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. HK$) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of exchange reserve.

Borrowing costs

All borrowing costs not directly attributable to the acquisition, construction or production of qualified assets are recognised in profit or loss in the period in which they are incurred.

Retirement benefit costs and termination benefits

Payments to state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme ("**MPF Scheme**") are recognised as an expense when employees have rendered service entitling them to the contributions.

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation

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

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

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

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

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

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss, except when relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity, respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the account for the business combination.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets acquired in a business combination

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

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

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

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss, if any.

When it is not possible to estimate the recoverable amount of an individual asset individually, the Group estimates the recoverable amount of the CGU to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

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

If the recoverable amount of an asset (or a CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or a CGU) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories

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

Provisions

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

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

Financial instruments

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

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at FVTPL are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified as financial assets at FVTPL and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is held for trading.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets and is shown as "Other gains and losses" line item. Fair value is determined in the manner described in note 33.

Loans and receivables

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

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, other than those at FVTPL, of the Group are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For financial assets, objective evidence of impairment could include:

— significant financial difficulty of the issuer or counterparty; or

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

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

Objective evidence of impairment for a portfolio of receivables could include the Group’s past experience of collecting payments, an increase in the number of delayed payments and observable changes in national or local economic conditions that correlate with default on receivables.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

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

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flow discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

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

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

Financial liabilities and equity instruments

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

Equity instruments

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

Warrants

Warrants issued by the Company that will be settled by a fixed amount of cash for a fixed number of the Company's own equity instruments are equity instruments. The fair value of warrants at initial recognition are recognised in equity (warrants reserve). The warrants reserve will be transferred to share capital and share premium accounts upon the exercise of the warrants. When the warrants are still not exercised at the expiry date, the amount previously recognised in the warrants reserve will be transferred to retained earnings/accumulated losses.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial liabilities and equity instruments (Continued)

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liabilities are held for trading.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near team; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-making; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss included any interest paid on the financial liabilities and is included in the "other gains and losses" line item. Fair value is determined in the manner described in note 25.

Financial liabilities at amortised cost

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

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial liabilities and equity instruments (Continued)

Obligation arising from put options written to non-controlling shareholders of a subsidiary

Obligation arising from put options written to non-controlling shareholders of a subsidiary, which will be settled other than by exchange of fixed amount of cash for a fixed number of shares in a subsidiary is treated as derivative and is recognised at fair value upon initial recognition. Any changes of fair value in subsequent reporting dates are recognised in profit or loss. The gross financial liabilities arising from the put options is recognised when contractual obligation to repurchase the shares in a subsidiary is established even if the obligation is conditional on the counterparty exercising a right to sell back the shares to the Group. The liability for the share redemption amount is initially recognised and measured at present value of the estimated repurchase price with the corresponding debit to the non-controlling interests. In subsequent periods, the remeasurement of the present value of the estimated gross obligation under the written put option to the non-controlling shareholders is recognised in profit or loss.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

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

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Fair value measurement of obligation arising from put options written to non-controlling shareholders of a subsidiary

The directors of the Company use their judgment in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. The inputs to those valuation pricing models are taken from observable markets where possible, but where this is not feasible, a degree of estimate is required. The details of key inputs are set out in notes 25 and 33. Changes in assumptions about these inputs could affect the carrying amount of the obligation arising from put options written to non-controlling shareholders of a subsidiary.

As at 31 December 2017, the carrying amount of the Group's obligation arising from put options written to non-controlling shareholders of a subsidiary is approximately HK$8,630,000 (2016: Nil).

Estimated impairment of property, plant and equipment

Property, plant and equipment are stated at costs less accumulated depreciation and impairment, as appropriate. The directors of the Company review for their impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of an asset (or a CGU) exceeds its recoverable amount. The recoverable amount is the higher of fair value less costs of disposal and value in use.

In determining whether an asset is impaired or the event previously causing the impairment no longer exists, the Group has to exercise judgment and make estimation, particularly in assessing: (1) whether an event has occurred or any indicators that may affect the asset value; (2) whether the carrying value of an asset can be supported by the fair value less costs of disposal or the value in use, i.e. the net present value of future cash flows which are estimated based upon the continued use of the asset; and (3) the appropriate key assumptions to be applied in estimating the recoverable amounts including cash flow projections and an appropriate discount rate. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the CGU to which the assets belongs.

Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test. As at 31 December 2017, the carrying amount of the Group's property, plant and equipment is approximately HK$6,913,000 (2016: HK$5,543,000).

Impairment of trade and other receivables

The Group records impairment of receivables based on an assessment made by management on the recoverability of trade and other receivables. When there is objective evidence of impairment loss, the Group takes into consideration of default risk associated with the debtors, ageing analysis, historical collection trends and subsequent settlements for the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Impairment assessment requires the use of judgment and estimates. When the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2017, the carrying amount of the Group's trade and other receivables is approximately HK$10,873,000 (2016: HK$11,705,000).

5. REVENUE AND SEGMENT INFORMATION

Revenue represents the fair value of amounts received and receivable for goods sold and services provided by the Group to outside customers, less discount during the year. The following is an analysis of the Group's revenue:

	2017 HK$'000	2016 HK$'000
Course fee income	**61,545**	58,877
Sales of dance uniforms, shoes and accessories	**2,781**	2,786
	64,326	61,663

The Group's operation is solely derived from jazz and ballet and pop dance academy in Hong Kong and the PRC during the year. For the purpose of resources allocation and performance assessment, the chief operating decision maker (i.e. the chief executive officer of the Group) reviews the overall results and financial position of the Group as a whole prepared based on same accounting policies set out in note 3. Accordingly, the Group has only one single operating segment and no further analysis of this single segment is presented.

Geographical information

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

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

	Revenue from external customers for the year ended 31 December		**Non-current assets as at 31 December**	
	2017 HK$'000	2016 HK$'000	**2017 HK$'000**	2016 HK$'000
Hong Kong	**62,633**	60,862	**16,298**	19,509
The PRC	**1,693**	801	**1,658**	1,934
	64,326	61,663	**17,956**	21,443

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

Information about major customers

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

6. OTHER INCOME/OTHER GAINS AND LOSSES

	2017 HK$'000	2016 HK$'000
Other income		
Management fee income	2,420	1,800
Examination handling fee income	1,894	1,392
Performance and show income	772	1,319
Rental income	3,422	2,980
Interest income	105	273
Others	1,765	616
	10,378	8,380
Other gains and losses		
Net exchange gains	1,282	–
Loss on change in fair value held for trading investments	(3,619)	(185)
Loss on change in fair value of obligation arising from put options written to non-controlling shareholders of a subsidiary (Note 25)	(493)	–
Gain on disposal of available-for-sale investments	–	245
Provision for a rental deposit (Note 37)	(400)	–
Loss on disposal of property, plant and equipment	(10)	–
	(3,240)	60

7. INCOME TAX (CREDIT) EXPENSE

	2017 HK$'000	2016 HK$'000
Hong Kong Profits Tax		
— (Over) under provision in prior years	(42)	23
	(42)	23
Deferred tax (Note 27)	–	20
	(42)	43

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

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

7. INCOME TAX (CREDIT) EXPENSE (CONTINUED)

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

	2017 HK$'000	2016 HK$'000
Loss before taxation	**(26,983)**	(10,640)
Tax at Hong Kong profits tax rate of 16.5%	**(4,452)**	(1,756)
Tax effect of expenses not deductible for tax purpose	**762**	118
Tax effect of income not taxable for tax purpose	**(284)**	(41)
(Over) under provision in prior years	**(42)**	23
Effect of share of losses of joint ventures	**467**	–
Tax effect of tax losses not recognised	**2,650**	1,502
Tax effect of deductible temporary differences not recognised	**857**	197
Income tax (credit) expense for the year	**(42)**	43

8. LOSS FOR THE YEAR

	2017 HK$'000	2016 HK$'000
Loss for the year has been arrived at after charging (crediting):		
Auditor's remuneration	**1,100**	800
Directors' remuneration (Note 9)	**636**	754
Instructor costs	**4,276**	4,086
Other staff costs	**20,276**	18,770
Retirement benefits scheme contributions	**1,049**	1,092
Total staff costs (excluding directors' remuneration)	**25,601**	23,948
Consultants service costs	**6,599**	5,483
Cost of inventories recognised as expenses	**2,200**	1,386
Loss on disposal of property, plant and equipment	**10**	–
Net exchange (gains) losses	**(1,282)**	369
Operating lease payments in respect of tenancy agreements of rented premises entered into:		
By the Group for minimum lease payment	**25,255**	21,917
Contingent rents	**151**	162
	25,406	22,079

9. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

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

	Directors' fees HK$'000	Salaries and other benefits HK$'000	Retirement benefits scheme contributions HK$'000	Total HK$'000
2017				
Executive Directors				
Mr. Chiu Ka Lok	–	–	–	–
Mr. Chun Chi Ngon Richard ("**Mr. Chun**") (Note i)	240	–	–	240
Non-executive Directors				
Ms. Yeung Siu Foon ("**Ms. Yeung**")	–	–	–	–
Dr. Chun Chun	–	–	–	–
Ms. Yip Sze Pui Fione (Note ii)	–	–	–	–
Independent non-executive Directors				
Mr. Lau Sik Yuen	180	–	–	180
Dr. Yuen Man Chun Royce	180	–	–	180
Mr. Lee Kwok Ho David	36	–	–	36
Total	636	–	–	636

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

Notes:

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

(ii) Ms. Yip Sze Pui Fione was resigned as non-executive director on 10 April 2017.

9. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS (CONTINUED)

	Directors' fees HK$'000	Salaries and other benefits HK$'000	Retirement benefits scheme contributions HK$'000	Total HK$'000
2016				
Executive Directors				
Mr. Chiu Ka Lok	–	–	–	–
Mr. Chun Chi Ngon Richard (Note i)	240	64	–	304
Non-executive Directors				
Ms. Yeung Siu Foon	–	–	–	–
Dr. Chun Chun	–	–	–	–
Ms. Yip Sze Pui Fione	–	–	–	–
Independent non-executive Directors				
Mr. Lau Sik Yuen	180	–	–	180
Dr. Yuen Man Chun Royce	180	–	–	180
Mr. Lee Kwok Ho David (Note ii)	22	–	–	22
Ms. Chiu Wing Kwan Winnie (Note iii)	68	–	–	68
Total	690	64	–	754

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

Notes:

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

(ii) Mr. Lee Kwok Ho David was appointed as independent non-executive director on 16 May 2016.

(iii) Ms. Chiu Wing Kwan Winnie resigned as independent non-executive director on 16 May 2016.

No remuneration was paid by the Group to the directors of the Company as an inducement to join or upon joining the Group or as compensation for loss of office for both years. None of the directors of the Company has waived or agreed to waived any remuneration during the year.

10. FIVE HIGHEST PAID EMPLOYEES

None of the five highest paid individuals are directors of the Company or chief executive of the Group. The non-director employees' emoluments, which was individually less than HK$1,000,000, were as follows:

	2017 HK$'000	2016 HK$'000
Salaries and other benefits	**3,640**	2,398
Contributions to retirement benefit scheme	**86**	89
	3,726	2,487

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

11. DIVIDEND

	2017 HK$'000	2016 HK$'000
Dividends for ordinary shareholders of the Company recognised as distribution during the year:		
2016 final dividend of HK$Nil (2015 final dividend: HK$ 0.01) per ordinary share	**–**	2,000

The directors do not recommend the payment of any dividend for the year ended 31 December 2017.

12. LOSS PER SHARE

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

	2017 **HK$'000**	2016 HK$'000
Loss:		
Loss for the purpose of calculating basic loss per share (loss for the year attributable to owners of the Company)	**(25,702)**	(10,429)

	2017 **'000**	2016 '000
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic and diluted loss per share	**323,596**	243,925

The weighted average number of ordinary shares for the purposes of calculation of the basic and diluted loss per share for the year ended 31 December 2017 and 2016 have been adjusted for the effect of bonus element in connection with the open offer completed during the year.

The computation of diluted loss per share for the year ended 31 December 2017 and 2016 did not assume the exercise of Company's outstanding warrants since assuming the exercise would result in a decrease in loss per share.

13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicle HK$'000	Total HK$'000
COST				
At 1 January 2016	9,499	3,335	–	12,834
Additions through acquisition of a subsidiary	1,271	230	–	1,501
Additions	186	351	–	537
Exchange realignment	(138)	(13)	–	(151)
At 31 December 2016	10,818	3,903	–	14,721
Additions through acquisition of subsidiaries	334	–	–	334
Additions	3,068	301	107	3,476
Disposal	–	(27)	–	(27)
Disposal through disposal of subsidiaries	(334)	–	–	(334)
Exchange realignment	174	17	–	191
At 31 December 2017	14,060	4,194	107	18,361
DEPRECIATION				
At 1 January 2016	5,129	1,778	–	6,907
Provided for the year	1,474	821	–	2,295
Exchange realignment	(20)	(4)	–	(24)
At 31 December 2016	6,583	2,595	–	9,178
Provided for the year	1,623	721	3	2,347
Disposal	–	(17)	–	(17)
Disposal through disposal of subsidiaries	(111)	–	–	(111)
Exchange realignment	42	9	–	51
At 31 December 2017	8,137	3,308	3	11,448
CARRYING VALUES				
At 31 December 2017	**5,923**	**886**	**104**	**6,913**
At 31 December 2016	4,235	1,308	–	5,543

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

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

14. GOODWILL

	HK$'000
COST	
As at 1 January 2016 and 31 December 2016	1,897
Acquisition of subsidiaries (Note 30)	3,599
Disposal of subsidiaries (Note 30)	(3,599)
At 31 December 2017	1,897
IMPAIRMENT	
At 1 January 2016 and 31 December 2016	–
Impairment loss recognised during the year	1,897
At 31 December 2017	1,897
CARRYING VALUES	
At 31 December 2017	–
At 31 December 2016	1,897

The Group acquired four dancing schools together with the relevant assets and liabilities (the "**Acquired Business**") in previous years which further expands and provides synergies to the Group's jazz and ballet academy business. For the purpose of impairment testing, goodwill has been allocated to the relevant CGUs of the Acquired Business. During the year ended 31 December 2017, the Group recognised an impairment loss of the goodwill of HK$1,897,000 (2016: Nil) because the management in the view that the growth of the Acquired Business has been slowed down that resulting in the carrying amount of the CGUs to exceed their recoverable amounts.

The recoverable amount of the CGUs of the Acquired Business is insignificant and has been determined on the basis of value in use calculation. The recoverable amount is based on certain key assumptions. The calculations use cash flow projections based on financial budgets approved by management covering a 5-year period, and at a discount rate of 15.30% (2016: 15.40%) as at 31 December 2017. The CGUs' cash flows beyond the 5-year period are extrapolated using a growth rate of 0% (2016: 3%) as at 31 December 2017 that is with reference to the historical performance of the Acquired Business and the relevant industry growth forecasts that do not exceed the average long-term growth rate for the relevant industry. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted revenue and gross margin, such estimation is based on the CGUs' past performance and management's expectations for the market development.

15. INTANGIBLE ASSETS

	Customer relationship HK$'000
As at 1 January 2016	356
Charge for the year	(89)
As at 31 December 2016	267
Charge for the year	(89)
As at 31 December 2017	**178**

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

16. INTERESTS IN JOINT VENTURES

	2017 HK$'000	2016 HK$'000
Interests in joint ventures		
Cost of unlisted investment in joint ventures	**156**	156
Share of post-acquisition losses	**–**	–
	156	156
Loans to joint ventures		
Loan to Well Team	**2,194**	–
Share of post-acquisition losses	**(2,191)**	–
	3	–
Loan to Guangzhou Delilong	**2,355**	–
Share of post-acquisition losses	**(638)**	–
	1,717	–
	1,720	–

The loans to Well Team and Guangzhou Delilong are unsecured, non-interest bearing and financed to them for their business development.

16. INTERESTS IN JOINT VENTURES (CONTINUED)

Name of joint venture	Place and date of incorporation	Place of operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group as at 31 December 2017 %	2016 %	Principal activities
廣州德理隆商務服務有限公司 ("**Guangzhou Delilong**")	PRC 5 June 2017	PRC	–	**66**	–	Operating of Kindergartens
Milang and Rainbow Limited ("**Milang and Rainbow**")	BVI 21 September 2015	Hong Kong	US$40,000	**50**	50	Inactive
Mutual Bright Corporation Limited ("**Mutual Bright**")	Hong Kong 5 January 2012	Hong Kong	HK$2	**50**	50	Jazz and ballet academy
Well Team International Development Limited ("**Well Team**")	Hong Kong 11 January 2012	Hong Kong	HK$2	**50**	50	Jazz and ballet academy

Summarised financial information of the joint ventures

Summarised financial information in respect of the Group's significant joint ventures is set out below. The summarised financial information below represents amounts shown in the joint venture's financial statements prepared in accordance with HKFRSs.

The joint ventures are accounted for using the equity method in these consolidated financial statements.

16. INTERESTS IN JOINT VENTURES (CONTINUED)

Summarised financial information of the joint ventures (Continued)

Guangzhou Delilong

	2017 HK$'000
Current assets	**2,601**
Current liabilities	**(3,568)**
Net liabilities	**(967)**
The above amounts of assets and liabilities include the following:	
Cash and cash equivalents	**–**
Current financial liabilities (excluding trade and other payables and provision)	**–**

	2017 HK$'000
Revenue	**–**
Loss and total comprehensive expense for the year	**(967)**

	2017 HK$'000
Net liabilities of Guangzhou Delilong	**(967)**
Proportion of the Group's ownership interest in Guangzhou Delilong	**66%**
	(638)
Loan to Guangzhou Delilong	**2,355**
Carrying amount of the Group's interest in Guangzhou Delilong	**1,717**

16. INTERESTS IN JOINT VENTURES (CONTINUED)

Summarised financial information of the joint ventures (Continued)

Well Team

	2017 HK$'000	2016 HK$'000
Current assets	**5,186**	2,273
Non-current assets	**481**	413
Current liabilities	**(10,050)**	(7,042)
Net liabilities	**(4,383)**	(4,356)
The above amounts of assets and liabilities include the following:		
Cash and cash equivalents	**1,812**	834
Current financial liabilities (excluding trade and other payables and provision)	**–**	–

	2017 HK$'000	2016 HK$'000
Revenue	**3,983**	3,606
Loss and total Comprehensive expense for the year	**(27)**	(114)
The above loss for the year include the following:		
Depreciation and amortisation	**273**	219

16. INTERESTS IN JOINT VENTURES (CONTINUED)

Summarised financial information of the joint ventures (Continued)

Well Team (Continued)

Reconciliation of the above summarised financial information to the carrying amount of the interest in Well Team recognised in the consolidated financial statements:

	2017 HK$'000	2016 HK$'000
Net liabilities of Well Team	**(4,383)**	(Note)
Proportion of the Group's ownership interest in Well Team	**50%**	50%
	(2,191)	–
Loan to Well Team	**2,194**	–
Carrying amount of the Group's interest in Well Team	**3**	–

Note: Prior to 2017, the Group did not provide Well Team with financial support and therefore, the Group shared its losses up to the Group's investment and share of accumulated losses not recognised was HK$2,178,000.

Other joint ventures are considered as individually material and therefore no summarised financial information on joint ventures are presented.

17. INVENTORIES

	2017 HK$'000	2016 HK$'000
Finished goods — dance uniform, shoes and accessories	**1,285**	947

18. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2017 HK$'000	2016 HK$'000
Trade receivables from third parties	**673**	811
Rental deposits	**14,355**	11,909
Deposits paid for acquisition of companies (Note i)	**5,771**	5,518
Staff loans (Note ii)	**1,379**	1,927
Advance to an independent third party	**–**	2,895
Consideration receivable from disposal of subsidiaries (Note 30)	**960**	–
Other deposits, receivables and prepayments	**6,962**	3,048
Total trade and other receivables, deposits and prepayments	**30,100**	26,108
Analysed as		
Current	**18,503**	11,121
Non-current	**11,597**	14,987
	30,100	26,108

Notes:

(i) As at 31 December 2017, the amounts include: (a) a deposit of Singaporean Dollars ("**S$**") 1,000,000 (equivalent to HK$5,771,000) paid for acquisition of certain interests in a Singaporean company in education sector. The acquisition was ceased and the deposit was subsequently refunded to the Company in February 2018; and (b) deposits of HK$4,087,000 paid to an independent third party for setting up an entity which would be engaged in property management of education centres in the PRC (the "**PRC Education Project**") that was fully impaired during the year because, based on the latest development of the PRC Education Project, the establishment of the relevant business in the PRC has not yet been succeeded and the future viability of the PRC Education Project is doubtful. Management has negotiated with the independent third party for the refund of the deposits without success and the Group has commenced legal action to recover the deposits. Based on the management's understanding of the current financial background of the independent third party, the recoverability of the deposits is uncertain and, thus, full impairment of the deposits has been made.

As at 31 December 2016, the amounts include (a) a deposit of HK$250,000 paid for acquisition of 60% equity interest in Octopus Group Limited ("**Octopus**") and its subsidiaries (collectively referred to as the "**Octopus Group**") pursuant to the sale and purchase agreement and supplementary agreement dated 14 March 2016 and 20 July 2016 respectively (collectively referred to as the "**S&P Agreements**"); (b) deposits of HK$1,229,000 paid to an independent third party pursuant to a cooperative agreement entered into on 5 October 2016 for setting up kindergarten business in Guangzhou; and (c) deposits of HK$4,039,000 for the PRC Education Project.

(ii) In 2015, staff loans with aggregate principal amount of HK$2,600,000 were granted to two senior staff and are required to be repaid during the years 2016 to 2020. The amount is unsecured and interest bearing at 4.65% per annum. In accordance with the repayment schedules, staff loans amounted to HK$491,000 (2016: HK$520,000) are required to be repaid within one year and HK$888,000 (2016: HK$1,407,000) are required to be repaid after one year. Accordingly, staff loans of HK$491,000 (2016: HK$520,000) are classified as current assets and staff loans of HK$888,000 (2016: HK$1,407,000) are classified as non-current assets.

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.

18. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS (CONTINUED)

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:

	2017 HK$'000	2016 HK$'000
0 to 30 days	**673**	811
	673	811

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

19. AMOUNTS DUE FROM/TO RELATED PARTIES

Amounts due from related parties

	2017 HK$'000	2016 HK$'000
Amounts due from joint ventures:		
Mutual Bright	**–**	2,822
Well Team	**2,000**	2,446
	2,000	5,268
Amounts due from other related parties:		
Rainbow Creative Arts Limited ("**Rainbow**") (Note i)	**2,236**	1,462
Dunn's Education Limited ("**Dunn's Education**") (Note ii)	**220**	111
E.L.S.A. EDU. Limited ("**E.L.S.A.**") (Note ii)	**375**	164
Sunshine Chinese Painting ("**Sunshine**") (Note iii)	**–**	14
Stage Photography Company Limited ("**Stage Photography**") (Note iv)	**–**	11
	2,831	1,762
Total amounts due from related parties	**4,831**	7,030

Notes:

(i) Rainbow is 100% beneficially owned and controlled by the Controlling Shareholder.

(ii) The Controlling Shareholder holds 33.33% interest in Dunn's Education and E.L.S.A. is 75% beneficially owned and controlled by Dunn's Education.

(iii) Sunshine is 100% beneficially owned and controlled by Ms. Yeung.

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

All balances as at 31 December 2017 and 2016 are unsecured, non-interest bearing and repayable on demand which are classified as current as they are expected to be recovered within twelve months from the end of reporting period. The amounts due from joint ventures are non-trade nature while the amounts due from other related parties mainly arose from rental income (see note 35 for details).

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

Amount due from related parties (Continued)

Maximum amount of the amounts due from related parties outstanding during the respective year:

	2017 HK$'000	2016 HK$'000
Amounts due from joint ventures:		
Mutual Bright	**3,586**	2,822
Well Team	**4,527**	3,932
Amounts due from other related parties:		
Rainbow	**2,269**	1,471
Dunn's Education	**379**	606
E.L.S.A.	**376**	164
Sunshine	**14**	31
Stage Photography	**11**	11

Amounts due to related parties

	2017 HK$'000	2016 HK$'000
Amounts due to joint ventures:		
Mutual Bright	**171**	1,761
Well Team	**–**	440
Milang & Rainbow	**146**	156
	317	2,357
Amount due to other related parties:		
Rainbow	**113**	113
Hong Kong Association of Children Dance Promotion Co. Ltd ("**Hong Kong Association**") (Note i)	**24**	25
Stage Photography	**5**	–
	142	138
Total amounts due to related parties	**459**	2,495

Note:

(i) Hong Kong Association is 100% beneficially owned and controlled by Ms. Yeung.

All balances as at 31 December 2017 and 2016 are unsecured, non-interest bearing and repayable on demand. The amounts due to joint ventures and other related parties are trade nature.

20. AMOUNTS DUE FROM NON-CONTROLLING SHAREHOLDERS OF SUBSIDIARIES

All balances are unsecured, non-interest bearing and repayable on demand. The year end balances at the end of each reporting period also represents the maximum amount of the balances outstanding during the respective year.

21. HELD FOR TRADING INVESTMENTS

	2017 HK$'000	2016 HK$'000
Listed securities:		
Equity securities listed in the PRC, at fair value	**5,829**	–
Equity securities listed in Hong Kong, at fair value	**1,594**	2,782
	7,423	2,782

22. BANK BALANCES AND CASH

The bank balances carried interest at average market rates of 0.02% (2016: 0.02%) per annum as at 31 December 2017 and 2016.

23. TRADE AND OTHER PAYABLES, ACCRUED CHARGES, DEFERRED INCOME AND DEPOSITS RECEIVED

	2017 HK$'000	2016 HK$'000
Accrued rental expenses	**1,792**	1,359
Accrued staff costs	**508**	2,083
Deferred income (Note i)	**39,256**	35,865
Trade and other payables and accrued charges	**4,774**	3,561
Proceeds from issuing two-year bonds received in advance (Note ii)	**67,450**	–
	113,780	42,868
Less: Non-current portion	**(67,450)**	–
Current portion	**46,330**	42,868

Notes:

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

(ii) The amount represents proceeds for issuing two-year bonds (after deduction of related commission of HK$3,550,000) received in advance. The bonds were subsequently issued on 9 January 2018. Further details are set out in note 38.

24. PROVISIONS

	Provision for reinstatement cost HK$'000
As at 1 January 2016	1,988
Additions through acquisition of a subsidiary	60
Exchange realignment	(3)
As at 31 December 2016	2,045
Additions	131
Utilised during the year	(100)
Exchange realignment	3
As at 31 December 2017	**2,079**

	2017 HK$'000	2016 HK$'000
Analysed as		
Current	**737**	1,129
Non-current	**1,342**	916
	2,079	2,045

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

25. OBLIGATION ARISING FROM PUT OPTIONS WRITTEN TO NON-CONTROLLING SHAREHOLDERS OF A SUBSIDIARY

On 1 September 2017, Prism entered into "**Investment Agreements**" and supplemental agreements on 25 September 2017 and 28 September 2017, respectively, with three individual independent investors (the "**Investors**"). Pursuant to the Investment Agreements and supplemental agreements, the Investors agreed to subscribe for and Prism agreed to allot and issue to the Investors new ordinary shares of Prism, representing a total of 35% of the enlarged entire issued ordinary share capital of Prism with a total cash consideration of HK$10,500,000. In addition, put options were granted to the Investors in the transaction. Each of the Investors has the right pursuant to the put options, during the period of six months or such other period to be mutually agreed by the parties to the respective Investment Agreements and supplemental agreements commencing from the issue date of the audited financial statements of Prism for the financial year ending 31 December 2022, to require Prism to purchase all (but not part) of the outstanding ordinary shares of Prism held by the Investors at an option price to be determined based on five times of the actual net profit after tax of Prism under the financial year ending 31 December 2022 while the total maximum amount payable by Prism to the Investors for the put options shall be an aggregate amount of HK$12,250,000.

The movement of the obligation arising from put options written to non-controlling shareholders of a subsidiary is set out below:

	Share redemption amount HK$'000	Put options HK$'000	Total HK$'000
Initial recognition on 1 September 2017	4,203	3,934	8,137
Change in fair value charged (credit) to other gains or losses (Note 6)	1,029	(536)	493
At 31 December 2017	**5,232**	**3,398**	**8,630**

At inception, the share redemption amount at discount rate of approximately 13.1% on 1 September 2017 amounting to HK$4,203,000, which has been recognised in the consolidated statement of financial position with a corresponding debit to the non-controlling interests.

As at 31 December 2017, the share redemption amount at discount rate of approximately 9.6% on 31 December 2017 amounting to HK$5,232,000 which has been recognised in the consolidated statement of financial position with the fair value change for the period from inception to the end of the reporting period charged to profit or loss.

In addition, the put options which will be settled other than by exchange of fixed amount of cash for a fixed number of shares of Prism is treated as derivative financial instruments and is recognised at fair value in accordance with HKAS 39.

25. OBLIGATION ARISING FROM PUT OPTIONS WRITTEN TO NON-CONTROLLING SHAREHOLDERS OF A SUBSIDIARY (Continued)

The fair value of the put options were determined using binominal option pricing model with the following key inputs:

	At 31 December 2017	At 1 September 2017
Volatility (Note a)	**43.07%**	43.30%
Time-to-maturity (Note b)	**5.75 years**	6.08 years
Risk-free rate (Note c)	**1.61%**	1.17%

Notes:

a. Volatility is based on the average of the implied volatility of the daily return of comparable stock.

b. Time-to-maturity is estimated based on the life of put options of 73 months from 1 September 2017.

c. Risk-free rate is referenced to the yield of Hong Kong Government Bond with similar maturities.

The fair value of the redemption amounts were determined using discounted cash flow based on estimated redemption amounts with the following discount rates:

	At 31 December 2017	At 1 September 2017
Discount rate	**9.6%**	13.1%

As at 31 December 2017, as the Investors have no right to exercise the put options and demand for the redemption amounts before 1 January 2019 pursuant to the Investment Agreement, the obligation arising from put options written to non-controlling shareholders of a subsidiary were classified as non-current liabilities as at 31 December 2017.

26. SHARE CAPITAL

	Number of shares	Share capital HK$'000
Ordinary shares of HK$0.1 each		
Authorised:		
As at 1 January 2016, 31 December 2016 and 2017	8,000,000,000	800,000
Issued:		
As at 1 January 2016 and 31 December 2016	200,000,000	20,000
Issued as consideration for the acquisition of subsidiaries (Note a) (Note 30)	2,400,000	240
Issued of shares by open offer (Note b)	101,200,000	10,120
Placement of shares (Note c)	50,500,000	5,050
As at 31 December 2017	354,100,000	35,410

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

(a) On 6 January 2017, pursuant to the S&P Agreements, the Company issued 2,400,000 new ordinary shares of HK$0.1 each of the Company as part of the consideration for acquisition of 60% of the issued share capital of Octopus. The fair value of the 2,400,000 new ordinary shares was HK$1,776,000 which was determined based on the price of the Company's ordinary shares quoted on the GEM of The Stock Exchange of Hong Kong Limited of HK$0.74 each on that day. HK$240,000 representing the par value of the ordinary shares of the Company was credited to the Company's ordinary share capital. The remaining of HK$1,536,000 was credited to the Company's share premium.

(b) On 17 February 2017, pursuant to an open offer of the Company, the Company issued 101,200,000 new ordinary shares of HK$0.1 each of the Company at a price of HK$0.4 each. The proceeds of HK$10,120,000 representing the par value of the ordinary shares of the Company was credited to the Company's ordinary share capital. The remaining proceeds of HK$30,360,000, before issuing expenses of HK$1,081,000, was credited to the Company's share premium.

(c) On 14 June 2017, the Company completed placement of a total of 50,500,000 new ordinary shares of HK$0.1 each of the Company at a price of HK$0.48 each. The proceeds of HK$5,050,000 representing the par value of the ordinary shares of the Company was credited to the Company's ordinary share capital. The remaining proceeds of HK$19,190,000, before issuing expenses of HK$520,000, was credited to the Company's share premium.

27. DEFERRED TAX ASSETS

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

	HK$'000
As at 1 January 2016	351
Debit to profit or loss (Note 7)	(20)
As at 31 December 2016	**331**
Debit to profit or loss (Note 7)	–
	331

At 31 December 2017, the Group had estimated unused tax losses of HK$28,897,000 (2016: HK$12,836,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams. Included in unrecognised tax losses are loss of HK$10,861,000 (2016: HK$7,317,000) that will expire in five years from the year of origin. All other tax losses may be carried forward indefinitely.

At 31 December 2017, the Group has deductible temporary differences of HK$6,388,000 (2016: HK$1,194,000). No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

28. WARRANTS

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

No warrant was exercised and the 40,000,000 warrants lapsed during the year.

29. RETIREMENT BENEFITS SCHEME

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

There are no forfeited contribution to MPF Scheme used by the Group to reduce the existing level of contributions for both years.

29. RETIREMENT BENEFITS SCHEME (CONTINUED)

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

30. ACQUISITION AND DISPOSAL OF SUBSIDIARIES

(a) Acquisition of Octopus

On 6 January 2017, the Group acquired 60% of the issued share capital of Octopus and the consideration was settled by cash of HK$500,000 and issue of 2,400,000 new ordinary shares of the Company (with a fair value of HK$1,776,000 at the completion date). This acquisition has been accounted for using the acquisition method. Octopus Group is engaged in providing extracurricular programs and English courses to kindergartens in Hong Kong and the PRC and running English training centre in the PRC.

	HK$'000
Consideration transferred	
Cash	500
Ordinary shares of the Company issued at fair value	1,776
	2,276

Acquisition-related costs amounting to HK$46,000 have been excluded from the consideration transferred and have been recognised and included in expense in the current year in the consolidated statement of profit or loss and other comprehensive income.

30. ACQUISITION AND DISPOSAL OF SUBSIDIARIES (CONTINUED)

(a) Acquisition of Octopus (Continued)

Fair value of assets acquired and liabilities assumed of the Octopus Group at the completion date of the acquisition were as follows:

	HK$'000
Property, plant and equipment	334
Trade and other receivables	2,020
Cash and cash equivalents	162
Trade and other payables	(4,721)
	(2,205)
Non controlling interests	882
Net liabilities recognised	(1,323)
Goodwill arising on acquisition:	
Consideration transferred	2,276
Less: Net liabilities recognised	1,323
	3,599
Net cash outflow arising on acquisition:	
Cash consideration	(500)
Less: deposit already paid in 2016	250
Less: bank balances and cash acquired	162
	(88)

The fair value of trade and other receivables at the date of acquisition amounted to HK$2,020,000, which represented the best estimation of the contractual cash flow expected to be collected at the acquisition date.

No significant profit or revenue is contributed by the Octopus Group to the Group from the acquisition date up to 31 December 2017.

(b) Disposal of Octopus

On 27 December 2017, the Group disposed of 60% of the equity interest in Octopus for cash consideration of HK$1,460,000.

30. ACQUISITION AND DISPOSAL OF SUBSIDIARIES (CONTINUED)

(b) Disposal of Octopus (Continued)

The completion of the disposal of the Octopus Group took place on 27 December 2017.

	HK$'000
Consideration received:	
Cash received	500
Consideration receivable included in other receivables (Note 18)	960
	1,460
Analysis of assets and liabilities over which control was lost:	
Property, plant and equipment	223
Trade and other receivables, deposits and prepayments	2,072
Cash and cash equivalents	54
Trade and other payables	(4,703)
Net liabilities disposed of	(2,354)
Non-controlling interest	942
Net liabilities attributable to the Group disposed of	(1,412)
Loss on disposal of subsidiaries	
Consideration received or receivable	1,460
Net liabilities attributable to the Group disposed of	1,412
Goodwill arising on acquisition	(3,599)
Loss on disposal	(727)
Net cash inflow arising from disposal	
Cash consideration received	500
Less: Cash and cash equivalents disposed of	(54)
	446

(c) Acquisition of Prism

On 29 December 2016, the Group acquired 100% of the issued share capital of Prism for cash consideration of HK$1,220,000. This acquisition has been accounted for using the acquisition method. Prism is engaged in the provision of educational services in Hong Kong.

Consideration transferred

	HK$'000
Cash	1,220

30. ACQUISITION AND DISPOSAL OF SUBSIDIARIES (CONTINUED)

(c) Acquisition of Prism (Continued)

Acquisition-related costs amounting to HK$3,000 have been excluded from the consideration transferred and have been recognised and included in expense in the current year in the consolidated statement of profit or loss and other comprehensive income.

Fair value of assets acquired and liabilities assumed of Prism at the completion date of acquisition were as follows:

	HK$'000
Property, plant and equipment	1,501
Trade and other receivables	508
Other payables and accrued charges	(729)
Provisions	(60)
Net assets acquired	1,220

The fair value of trade and other receivables at the date of acquisition amounted to HK$508,000, which represented the best estimation of the contractual cash flow expected to be collected at the acquisition date.

No significant profit or revenue is contributed by Prism to the Group from the acquisition date up to 31 December 2016.

31. COMMITMENTS

Operating Lease Commitments

The Group as lessee

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

	2017 HK$'000	2016 HK$'000
Within one year	**22,521**	20,315
In the second to fifth year inclusive	**27,340**	26,529
After five years	**634**	3,477
	50,495	50,321

31. COMMITMENTS (CONTINUED)

Operating Lease Commitments (Continued)

The Group as lessee (Continued)

The Group leases its office premises and dancing schools under operating lease arrangements. Leases for office premises and dancing schools are negotiated for terms ranged from 1 to 7 years. Most of the Group's rental agreements contain rent-free period and one of which contains contingency rent that the relevant rental is payable based on the relevant revenue derived from the leased premise.

The Group as lessor

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

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

	2017 **HK$'000**	2016 HK$'000
Not later than one year	**1,598**	857
Later than one year and not later than five years	**176**	65
	1,774	922

Other commitments

(i) The Group has commitment to contribute registered capital of RMB3,000,000 (2016: Nil) to Guangzhou Delilong as at 31 December 2017.

(ii) Pursuant to the sales and purchase agreement ("**S&P agreement**") dated 27 September 2017 entered into by the Company and an executive director, Mr. Chiu Ka Lok, and a non-executive director, Dr. Chun Chun, (collectively referred to as the "**Vendors**"), the Company agreed to purchase the entire issued share capital of Hong Kong Speech & Swallowing Therapy Co. Limited and Stage Photography Company Limited (collectively referred to as "**Target Companies**"), with total consideration of HK$32,000,000 by issuing 80,000,000 new ordinary shares of the Company to each of the Vendors in proportion to their respective shareholdings in the Target Companies. As at 31 December 2017, the transaction is still in process and not completed.

32. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of equity of the Group, comprising issued capital and reserves.

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

33. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2017 HK$'000	2016 HK$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**151,250**	41,034
Held for trading investments	**7,423**	2,782
Financial liabilities		
Financial liabilities at fair value through profit or loss		
— Obligation arising from put options written to non-controlling shareholders of a subsidiary	**8,630**	–
Amortised cost	**72,683**	6,056

Financial risk management objectives and policies

The Group's financial instruments include trade and other receivables, held for trading investments, amounts due from related parties, bank balances and cash trade and other payables and accrued charges, amounts due to related parties and obligation arising from put options written to non-controlling shareholders of a subsidiary. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Interest rate risk

The Group's cash flow interest rate risk primarily relates to the bank balances (Note 22).

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

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

33. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (Continued)

Market risk (Continued)

Foreign currency risk

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

	Bank balances and cash		Other receivables and deposits	
	2017	2016	**2017**	2016
	HK$'000	HK$'000	**HK$'000**	HK$'000
Renminbi ("**RMB**")	**1,022**	34	**6,613**	5,477
HK$	**–**	–	**291**	453
S$	**–**	–	**5,771**	–

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

Foreign currency sensitivity analysis

The following table details the Group's sensitivity to a 5% increase in the exchange rate of HK$ against RMB and S$. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 5% change in HK$ against RMB and S$. A (negative) positive number below indicates (increase) decrease in post-tax loss for the year, respectively, where the HK$ strengthen 5% against RMB and S$. For a 5% weakening of the HK$ against RMB and S$, there would be an equal and opposite impact on the post-tax profit for the year.

	2017	2016
	HK$'000	HK$'000
Profit or loss		
RMB	**(382)**	(276)
S$	**(289)**	–

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

33. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (Continued)

Credit risk

The Group's credit risk is primarily attributable to trade receivables, rental deposits, staff loans, amounts due from related parties and bank balances.

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

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

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

The management of the Group considered that the credit risks of staff loans are insignificant after considering the timely repayment from the staff.

The management of the Group considered that the credit risks of amounts due from related parties (including joint ventures) is insignificant after considering the subsequent settlement and financial ability of the counterparties.

The Group also has concentration of credit risk on bank balances are deposited with banks with good reputation.

Liquidity risk

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

The following tables detail the Group's remaining contractual maturity for its financial liabilities based on the agreed repayment terms. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

In addition, the following table details the Group's liquidity analysis of its derivative financial instruments. The tables have been drawn up based on the undiscounted contractual net cash (inflow) and outflows on derivative instruments that settle on a net basis, and the undiscounted gross (inflows) and outflows on those derivatives that require gross settlement. The liquidity analysis for the Group's derivative financial instruments are prepared based on the contractual maturities as the management consider that the contractual maturities are essential for an understanding of the timing of the cash flows of derivatives.

33. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

	Less than 3 months and on demand RMB'000	4 months to 1 year RMB'000	1 to 2 years RMB'000	More than 2 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amounts RMB'000
At 31 December 2017						
Non-derivative liabilities						
Trade and other payables	**5,741**	**–**	**–**	**78,100**	**83,841**	**73,191**
Derivatives — gross settlement						
Obligation arising from put options written to non-controlling shareholders of a subsidiary	–	–	–	8,906	8,906	8,630
At 31 December 2016						
Non-derivative liabilities						
Trade and other payables	8,139	–	–	–	8,139	8,139

33. FINANCIAL INSTRUMENTS (CONTINUED)

Fair value measurements of financial instruments

Fair value of the Group's financial assets that are measured at fair value on a recurring basis

The Group's held for trading investments and obligation arising from put options written to non-controlling shareholders of a subsidiary are measured at fair value at the end of the reporting period. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

Financial assets/ Financial liabilities	Fair value as at 31 December 2017	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs
Financial assets				
Held for trading investments — listed securities in Hong Kong and the PRC	HK$7,423,000 (2016: HK$2,782,000)	Level 1	Quoted share prices in an active market	N/A
Financial liabilities				
Obligation arising from put options written to non-controlling shareholders of a subsidiary	Share redemption amounts — HK$5,232,000 (2016: Nil)	Level 3	Discounted cash flows	Credit risk of comparable companies (Note 1)
	Put options — HK$3,398,000 (2016: Nil)	Level 3	Binominal option pricing model	Volatility of the daily return of comparable stock (Note 2)

Notes:

1. An increase in the credit risk would increase the discount rate used in the fair value measurement of the share redemption amounts and vice versa. Should the discount rate be increased by 1% due to the increase in credit risk, holding all other variables constant, it would decrease the carrying amount of the share redemption amounts by approximately HK$267,000 (2016: Nil).

2. An increase in the expected volatility used in isolation would result in an increase in the fair value measurement of the put options and vice versa. A 5% increase in the volatility, holding all other variables constant would increase the carrying amount of the put options by approximately HK$139,000 (2016: Nil).

There is no transfer between different levels of the fair value hierarchy for the year ended 31 December 2017.

33. FINANCIAL INSTRUMENTS (CONTINUED)

Fair value measurements of financial instruments (Continued)

Reconciliation of Level 3 fair value measurements of obligation arising from put options written to non-controlling shareholders of a subsidiary

	Share redemption amount HK$'000	Put options HK$'000	Total HK$'000
Initial recognition on 1 September 2017	4,203	3,934	8,137
Change in fair value — unrealised	1,029	(536)	493
At 31 December 2017	**5,232**	**3,398**	**8,630**

Fair value measurements and valuation processes

In estimating the fair value of an asset or a liability, where Level 1 inputs are not available, the management of the Group work closely with the independent qualified valuer to establish the appropriate valuation techniques and inputs to the model.

The independent qualified valuer were engaged to perform the valuations of the obligation arising from put options written to non-controlling shareholders of a subsidiary required for financial reporting purposes, including Level 3 fair value measurements of the obligation arising from put options written to non-controlling shareholders of a subsidiary. Information about the valuation techniques and inputs used in determining the fair value of the obligation arising from put options written to non-controlling shareholders of a subsidiary are disclosed above and in note 25.

Fair value of the Group's financial assets and financial liabilities that are not measured at fair value on a recurring basis

The management of the Group estimates the fair value of the Group's financial assets and financial liabilities measured at amortised cost using the discounted cash flows analysis.

The management of the Group considers that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated statement of financial position approximate their fair values.

34. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or futures cash flow will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Amounts due to related parties	Other payables	Obligation arising from put options written to non-controlling shareholders of a subsidiary	Total
At 1 January 2017	**2,495**	**–**	**–**	**2,495**
Financing cash flow	**(2,036)**	**67,450**	**10,500**	**75,914**
Initial recognition of redemption amount and put options	**–**	**–**	**(2,363)**	**(2,363)**
Fair value changes	**–**	**–**	**493**	**493**
At 31 December 2017	**459**	**67,450**	**8,630**	**76,539**

35. RELATED PARTY TRANSACTIONS

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

	2017 HK$'000	2016 HK$'000
Rental income from related companies:		
— Rainbow	**830**	816
— Dunn's Education	**1,569**	1,558
— Sunshine	**180**	180
	2,579	2,554

35. RELATED PARTY TRANSACTIONS (CONTINUED)

	2017 HK$'000	2016 HK$'000
Management fee income received from:		
Joint ventures:		
— Mutual Bright	**1,620**	1,000
— Well Team	**800**	800
	2,420	1,800

Compensation of key management personnel

The remuneration of directors and other members of key management of the Group during the years ended 31 December 2017 and 2016 were as follows:

	2017 HK$'000	2016 HK$'000
Short-term benefits	**2,024**	1,260
Post-employment benefits	**36**	35
	2,060	1,295

36. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries of the Group as at 31 December 2017 and 2016 are as follows:

Name of subsidiary	Place of incorporation/ establishment	Place of operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group as at 31 December 2017 %	2016 %	Principal activities
Brilliant Together	BVI	Hong Kong	US$1	**100**	100	Investment holding
Cool Kids International Limited ("**Cool Kids**")	Hong Kong	Hong Kong	HK$10,000	**75**	75	pop dance academy
Fortune Apex Enterprises Limited	BVI	Hong Kong	US$1	**100**	100	Investment holding
廣州樂動心弦文化發展有限公司（「**廣州樂動心弦**」）	Guangzhou	Guangzhou	RMB3,000,000*	**100**	100	Jazz and ballet academy
Prism	Hong Kong	Hong Kong	HK$6,576,384	**65**	100	Provision of educational services
SDM Academie	Hong Kong	Hong Kong	HK$10,000	**100**	100	Jazz and ballet academy
SDM Art Limited	BVI	Hong Kong	US$50,000	**100**	100	Investment holding
SDM Group	Hong Kong	Hong Kong	HK$10,000	**100**	100	Provision of management services to group entities
SDM Jazz & Ballet	Hong Kong	Hong Kong	HK$100	**100**	100	Provision of management services to group entities and joint ventures
SDM Management	Hong Kong	Hong Kong	HK$10,000	**100**	100	Investment holding
Tycoon Together	BVI	Hong Kong	US$1	**100**	100	Investment holding

* No registered capital was paid as of 31 December 2017. In accordance with the memorandum and articles of association of 廣州樂動心弦, the shareholder of 廣州樂動心弦 is required to pay the registered capital up to RMB3,000,000 before 14 September 2035.

Except for Prism which incurred obligation arising from put options written to non-controlling shareholders of a subsidiary, none of the subsidiaries had issued any debt securities at the end of the reporting period.

At the end of the reporting period, the Company has six subsidiaries that are not material to the Group. All of these subsidiaries operate in Hong Kong and are inactive during the year ended 31 December 2017 and 2016.

36. PARTICULARS OF PRINCIPAL SUBSIDIARIES (CONTINUED)

Changes in ownership interest in subsidiaries

During the year, the Group has the following changes in ownership interest in subsidiaries:

1 In January 2017, the Group acquired 60% of shareholding of Octopus Group from an independent third party at a total consideration of HK$2,276,000 and in December 2017, the 60% of shareholding of Octopus Group was disposed of to the independent third party at a total consideration of HK$1,460,000. Further details of which are set out in note 30.

2. In September 2017, the Group disposed of 35% of shareholding of Prism to independent third parties for a total cash consideration of HK$10,500,000 and issued put options to each of them. Further details of the put options are set out in note 25.

The table below shows details of non-wholly owned subsidiaries of the Company that have non-controlling interests:

Name of subsidiary	Proportion ownership interest held by non-controlling interests **2017** **%**	 2016 %	Profit allocated to non-controlling interests **2017** **HK$'000**	 2016 HK$'000	Accumulated non-controlling interests **2017** **HK$'000**	 2016 HK$'000
Prism (Note 2)	**35**	–	**(961)**	–	**(967)**	–
Individually immaterial subsidiaries with non-controlling interests			**(278)**	(254)	**(618)**	(400)
			(1,239)	(254)	**(1,585)**	(400)

36. PARTICULARS OF PRINCIPAL SUBSIDIARIES (CONTINUED)

Changes in ownership interest in subsidiaries (Continued)

Summarised financial information (prepared in accordance with HKFRSs) in respect of Prism that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intra-group eliminations.

	2017 HK$'000	2016 HK$'000
Current assets	**7,877**	508
Non-current assets	**3,260**	1,706
Current liabilities	**(5,210)**	(729)
Non-current liabilities	**(8,690)**	–
Equity attributable to owners of the Company	**(1,796)**	1,485
Non-controlling interests	**(967)**	–

	2017 HK$'000	2016 HK$'000 (Note)
Revenue	**443**	–
Expenses	**(7,054)**	–
Loss for the year	**(6,611)**	–
Loss and total comprehensive expense attributable to owners of the Company	**(5,650)**	–
Loss and total comprehensive expense attributable to non-controlling interests	**(961)**	–
Capital contribution by non-controlling interests	**6,566**	–
Net cash outflow from operating activities	**(9,010)**	–
Net cash outflow from investing activities	**(2,255)**	–
Net cash inflow from financing activities	**15,454**	–
Net cash inflow	**4,189**	–

Note: The 100% shareholding of Prism was acquired by the Group on 29 December 2016 and did not have contribution of significant revenue and expenses to the Group.

37. LITIGATION

During 2017, a subsidiary of the Group was sued for failure to deliver vacant possession of a premise, where the Company used to lease it for its dancing school, to the landlord which claimed against the Company for damages.

As at 31 December 2017, the Company has a rental deposit of approximately HK$400,000 with the landlord. Based on legal opinion, the directors of the Company consider that the rental deposit is sufficient to cover the aforesaid damages but may not be fully recovered and, therefore, a provision of HK$400,000 was made.

38. SUBSEQUENT EVENT

On 11 December 2017, the Company as the issuer entered into the Placing Agreement with the Pacific Foundation Securities Limited, the Placing Agent, which is an independent third party, pursuant to which the Placing Agent agreed to act as a placing agent, for the purpose of procuring, on the best effort basis, of not less than six independent placees for the subscription of the Company's bonds with an aggregate principal amount of up to HK$80,000,000. The bonds (with face value of HK$1,000,000 for each of the bonds) carry interest at 5% per annum and will mature on the day falling on the second anniversary of the date of issue. The Company may redeem any bonds and cancel any or all outstanding bonds at any time by giving a 15 business days prior notice to the holders of the bonds at face value of the bonds together with any accrued interest up to the redemption date. The repayment of the bonds is guaranteed by Wealthy Together.

Placing proceeds amounted to HK$67,450,000 (after the deduction of the relevant commission of HK$3,550,000) were received on 27 December 2017 for issuing 71 bonds and recognised as non-current liabilities at the end of the reporting period. The bonds were issued on 9 January 2018.

39. FINANCIAL INFORMATION OF THE COMPANY

	2017 HK$'000	2016 HK$'000
Non-current assets		
Investments in subsidiaries	–	27,000
Other receivables and prepayments	888	1,408
	888	28,408
Current assets		
Other receivables, deposit and prepayments	6,506	2,902
Amounts due from subsidiaries	49,487	25,704
Amounts due from related parties	360	240
Held for trading investments	7,423	2,782
Bank balances and cash	68,031	6,249
	131,807	37,877
Current liabilities		
Other payables and accrued charges	883	1,572
Amount due to related parties	200	440
Amounts due to subsidiaries	5,867	34,396
	6,950	36,408
Net current assets	124,857	1,469
Total assets less current liabilities	125,745	29,877
Capital and reserves		
Share capital	35,410	20,000
Reserves (Note)	22,885	9,877
Total equity	58,295	29,877
Non-current liabilities		
Other payables	67,450	–
	125,745	29,877

Particulars of the principal subsidiaries of the Company at 31 December 2017 and 2016 are set out in note 36.

39. FINANCIAL INFORMATION OF THE COMPANY (CONTINUED)

Note: **RESERVES OF THE COMPANY**

	Share premium HK$'000	Warrant reserve HK$'000	Other reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
As at 1 January 2016	19,407	–	(1,685)	(6,006)	11,716
Loss and total comprehensive expanse for the year	–	–	–	(655)	(655)
Dividend paid	(2,000)	–	–	–	(2,000)
Issue of warrants	–	2,296	–	–	2,296
Transaction costs attributable to issue of warrants	–	(1,480)	–	–	(1,480)
As at 31 December 2016	**17,407**	**816**	**(1,685)**	**(6,661)**	**9,877**
Loss and total comprehensive expanse for the year	**–**	**–**	**–**	**(36,477)**	**(36,477)**
Acquisition of subsidiaries by issuing shares	**1,536**	**–**	**–**	**–**	**1,536**
Issue of shares by open offer	**29,279**	**–**	**–**	**–**	**29,279**
Placement of shares	**18,670**	**–**	**–**	**–**	**18,670**
Transfer to accumulated losses	**–**	**(816)**	**–**	**816**	**–**
As at 31 December 2017	**66,892**	**–**	**(1,685)**	**(42,322)**	**22,885**

FINANCIAL SUMMARY

For the five years ended 31 December 2013, 2014, 2015, 2016 and 2017

RESULTS

	2013 HK$'000	2014 HK$'000	2015 HK$'000	2016 HK$'000	**2017** **HK$'000**
Revenue	43,567	56,195	56,254	61,663	**64,326**
Profit (loss) before taxation	12,485	(418)	(4,636)	(10,640)	**(26,983)**
Income tax expense	(2,317)	(1,899)	(42)	(43)	**42**
Profit (loss) for the year	10,168	(2,317)	(4,678)	(10,683)	**(26,941)**
Profit (loss) for the year attributable to:					
Owners of the Company	10,169	(2,317)	(4,528)	(10,429)	**(25,702)**
Non-controlling interests	(1)	–	(150)	(254)	**(1,239)**
	10,168	(2,317)	(4,678)	(10,683)	**(26,941)**

ASSETS AND LIABILITIES

	2013 HK$'000	2014 HK$'000	2015 HK$'000	2016 HK$'000	**2017** **HK$'000**
Total assets	66,123	84,238	70,862	69,055	**186,778**
Total liabilities	(43,529)	(45,751)	(37,194)	(47,408)	**(124,948)**
Net assets	22,594	38,487	33,668	21,647	**61,830**
Equity attributable to owners of the Company	22,602	38,487	33,814	22,047	**63,415**
Non-controlling interests	(8)	–	(146)	(400)	**(1,585)**
Total equity	22,594	38,487	33,668	21,647	**61,830**

SDM Group Holdings Limited