SDM Group Holdings Limited

2018 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

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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

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
Bank of Singapore 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 2018.

BUSINESS REVIEW

The Group continues focusing on engaging in business of jazz and ballet and pop dance academy in Hong Kong. During the year 2018, the Group completed the acquisition of several companies which own pre-schools in Singapore in order to expand its presence in key overseas market in asia.

To cope with the intense competition and economy unsteadiness in 2018, 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 2018, the Group had twenty-three dance centres (the "**Centres**") and one kindergarten in Hong Kong. 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.

In view of the immense growth in the early childhood education sector in Singapore, the Group has acquired several companies in the region which are principally engaged in the early childhood business since June 2018. The Group had four pre-schools operated in Singapore during the year 2018. The Group believes that such acquisitions provide an excellent development platform and opportunity to establishing its own early childhood brand and curriculum in Singapore, which will maximize return for the Group and the Shareholders as a whole in the long term.

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 broadening the development of the operation of day care centres, kindergartens 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.

CHAIRMAN'S STATEMENT

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 Singapore and other overseas markets to 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 2019.

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 2018, the Group had 20 self-operated dance centres, 3 joint venture dance centres, 1 kindergarten in Hong Kong and 4 international pre-schools in Singapore. Besides offering wide range of dance courses for children generally between the age of 1 and 16, the Group is developing operations of day care centres, kindergartens and indoor theme-based kids clubs. The vision of the Group is to provide social and life experience to children at a young age through their participation in dance courses and pre-school activities, thereby nurturing their social interaction skills and confidence.

BUSINESS REVIEW

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

During the 2018 under review, competition in the dance institution industry for children in Hong Kong was intense, the Group continued 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 implemented 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.

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. During the second half of year 2018, the overseas international pre-schools acquired by the Group offered revenues totaled HK$7.5 million. For the year under review, the Group recorded a revenue of approximately HK$76.5 million, presenting an increase of approximately 19% compared with the revenue of approximately HK$64.3 million for corresponding year. There was a growth in the total revenue as compared to the year ended 31 December 2017.

With the injection of overseas international pre-school business, the portion of revenue from business of jazz and ballet and pop dances courses to the Group revenue will be lowered in the future. On the other hand, due to the expansion of the market share, the business of international pre-schools education will contribute increasing portion of revenue to the Group.

Other income of the Group increased slightly by approximately 22% from approximately HK$10.4 million for the year ended 31 December 2017 to approximately HK$12.7 million for the year ended 31 December 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group recorded a loss attributable to owners of the Company amounted to approximately HK$53.5 million for the year ended 31 December 2018 while 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. Such increase in loss was mainly due to the one-off non-operation costs in 2018. According to the HKFRS accounting standard, during the year 2018, the impairment losses on goodwill and fair value change in consideration of acquisition of subsidiaries amounted to HK$15.2 million were included. Furthermore, legal and professional fee for acquisition of local and overseas subsidiaries amounted to HK$5.3 million and license fee to government for waiver of land use amounted to HK$2.5 million were included. These one-off expenses were incurred in the acquisition of subsidiaries and expanding business in the international pre-schools market.

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 2018, the total bank balances and cash of the Group amounted to approximately HK$55 million (2017: approximately HK$133.8 million).

There was a bank borrowing HK$3 million of the Group as at 31 December 2018 and none as at 31 December 2017. As at 31 December 2018, the current ratio (defined as total current assets divided by total current liabilities) was approximately 1.22 times as compared to that 3.5 times as at 31 December 2017.

CAPITAL STRUCTURE

The shares of the Company were successfully listed on the GEM of the Stock Exchange on 14 October 2014. The share capital of the Group only comprises of ordinary shares.

As at 31 December 2018 and 2017, the authorized 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 2018 and 2017, the issued share capital of the Company was HK$35,410,000 divided into 354,100,000 Shares.

As at 31 December 2018, the Group had outstanding corporate bonds with carrying amount of approximately HK$69.2 million (2017: Nil). The corporate 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 repayment of the bonds is guaranteed by Wealthy Together.

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$74.4 million as at 31 December 2018 (2017: approximately HK$50.5 million).

Details of other commitments are set out in Note 34 to the consolidated financial statements.

MATERIAL ACQUISITIONS AND DISPOSALS

Details of material acquisitions and disposals are set out in Note 32 to the consolidated financial statement.

SIGNIFICANT INVESTMENTS

As at 31 December 2018, except for the held-for-trading investments amounted to HK$3.6 million as disclosed in this report, there was no other significant investment held by the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

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 2018, the Group officially stepped foot on the mainstream education market in the overseas through its proposed acquisition of several pre-schools in Singapore ("**Acquisition**"). For further details, please refer to the announcements of the Company dated 29 June 2018, 3 October 2018, and 12 November 2018 respectively.

The Acquisition are in line with the business development plan and expansion plan of the Group. The Board believes that the 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 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 and overseas markets.

CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 31 December 2018 (2017: Nil).

FOREIGN EXCHANGE EXPOSURE

As at 31 December 2018, as set out in Note 37 to the consolidated financial statements the Group have certain bank deposits, other receivables and deposits which has exchanged to foreign currency denominated in Renminbi ("**RMB**"), United Stated Dollars ("**US$**"), Singapore Dollar ("**S$**") and Australian Dollar ("**AU$**") 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.

TREASURY POLICIES

The Group adopts a conservative approach towards its treasury policies. The Group's credit risk is primarily attributable to trade receivables, 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 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.

MANAGEMENT DISCUSSION AND ANALYSIS

CHARGE ON GROUP'S ASSETS

As at 31 December 2018, the Group pledged its held for trading investments amounted to HK$3.6 million against its outstanding security margin account balances as set out in Note 33 to the consolidated financial statements (2017: Nil).

EMPLOYEES AND REMUNERATION POLICIES

With increase in number of subsidiaries, staff costs of the Group, including Directors' emoluments, were approximately HK$38 million for the year ended 31 December 2018 (2017: approximately HK$26.2 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 42 to the consolidated financial statement.

USE OF PROCEEDS

(a) 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$3.4 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$5.3 million has been used for the payments of rental expenses; (iii) approximately HK$1.2 million for renovation of the kindergartens; (iv) approximately HK$0.3 million for purchasing furniture and equipment; (v) approximately HK$1.4 million for other operating expenses for opening the kindergartens as the intended use of proceeds as stated in the prospectus dated 25 January 2017. The remaining of the proceeds amounted to HK$27.9 million has been used as general working capital of the Group during the year 2017 and 2018.

(b) In respect of the net proceeds of approximately HK$23.7 million raised from the placing of new shares under general mandate in June 2017, up to the date of this report, approximately HK$23.7 million has been used for development of children centers, pre-schools and kindergartens businesses of the Group as the intended use of proceeds as stated in the announcements dated 25 May 2017 and 14 June 2017.

(c) In respect of the net proceeds of approximately HK$67.3 million raised from the placing of unlisted bonds completed in March 2018, up to the date of this report, (i) approximately HK$30.2 million has been used in acquisition of overseas pre-school education businesses and (ii) approximately HK$37.1 million is kept at bank for future use as for potential investment in an education group which is principally engaged in child-care centers, pre-schools and kindergartens business overseas as stated in the announcements dated on 11 December 2017 and 14 March 2018.

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 healthy 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 2018, 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 28 to 31 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 2018, the roles of the Chairman and the CEO are segregated and was held by Mr. Chiu Ka Lok and Mr. Chun Chi Ngon Richard respectively. There is clear division of responsibilities between the Chairman and CEO which provides a balance of power and authority.

BOARD DIVERSITY POLICY

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

Summary of the Board Diversity Policy

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

Measurable Objectives

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

Implementation and Monitoring

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

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

CORPORATE GOVERNANCE REPORT

BOARD MEETING

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

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

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

Our chairman has held 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 2018 is as follows:

Name of Directors	Number of attendance/ number of Board meetings since respective appointment date
Number of meetings	12
Executive Directors:	
Mr. Chiu Ka Lok	12/12
Mr. Chun Chi Ngon Richard	12/12
Non-executive Directors:	
Dr. Chun Chun	11/12
Ms. Yeung Siu Foon	11/12
Independent non-executive Directors:	
Mr. Lau Sik Yuen	10/12
Dr. Yuen Man Chun Royce	8/12
Mr. Lee Kwok Ho David	5/12

GENERAL MEETING

For the year ended 31 December 2018, the attendance record of each Director at general meetings is as follows:

Name of Directors	Number of attendance/number of general meeting since respective appointment date Annual general meeting
Mr. Chiu Ka Lok	2/2
Mr. Chun Chi Ngon Richard	2/2
Dr. Chun Chun	1/2
Ms. Yeung Siu Foon	2/2
Mr. Lau Sik Yuen	2/2
Dr. Yuen Man Chun Royce	2/2
Mr. Lee Kwok Ho David	1/2

Our chairman has attended the annual general meeting in 2018. 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 meetings during the year. The Group's unaudited quarterly results for the three months ended 31 March 2018 and the nine months ended 30 September 2018, unaudited interim results for the six months ended 30 June 2018 and audited annual results for the year ended 31 December 2018 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	5	1	1
Mr. Lau Sik Yuen	5/5	N/A	N/A
Dr. Yuen Man Chun Royce	4/5	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	2/5	1/1	1/1

The Directors acknowledge their responsibilities for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards 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 accounting policies and applied them consistently; made judgment and estimate that are prudent and reasonable. As at 31 December 2018, 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 42 to 46 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 comprises 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 10 to the consolidated financial statements.

Nomination Committee

The Nomination Committee of the Company was established on 26 September 2014. The Nomination Committee comprises 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 2018 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	✓
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 2018 amounted approximately HK$2,400,000 (2017: HK$1,100,000). Non-audit services incurred during the year amounted approximately HK$91,000 (2017: HK$68,000).

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 2018.

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 be 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.

DIVIDEND POLICY

The Company may declare and pay dividends to the shareholders of the Company by way of cash or by other means that the Board considers appropriate. It is the policy of the Board, in recommending dividends, to allow the Shareholders to participate in the Company's profits, and at the same time, to ensure that the Company is to retain adequate reserves for future growth.

Any proposed distribution of final dividends shall be formulated by the Board and will be subject to the Shareholders' approval. A decision to declare or to pay any dividends in the future, and the amount of any dividends, will depend on a number of factors, including the results of operations, cash flows, financial conditions, operating and capital expenditure requirements, distributable profits and other applicable laws and regulations and other factors that the Board may consider important and appropriate.

INVESTORS RELATIONS

The Company has established a range of communication channels between itself, 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.

ENVIRONMENTAL, 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 09 to 18.

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 2018 to 31 December 2018 ("**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.

VISION ON ENVIRONMENTAL, SOCIAL, AND GOVERNANCE

As sustainability is essential to the Group's cultural values, it is committed to sustainable development by investing in the economic, social and environmental well-being into their business decision-making. In order to maintain a quality standard of life for both the present and future generations, the Group also promotes environmental protection, makes positive contribution and creates long-term value in the communities through engaging in various charitable events and workshops.

During This year, the Group committed to a high standard of corporate social responsibility and strictly complied with relevant laws and regulations reporting.

The table underneath showed aspects on the ESG Guide to be assessed and those ESG issues were determined to be material to the Group.

ESG Aspects as set forth in ESG Guide			Material ESG issues for the Group
(A)	**Environmental**		
	A1	Emissions	Emission from town gas or Vehicle
	A2	Use of Resources	Use of energy
	A3	Environment and Natural Resources	
(B)	**Social**		
	B1	Employment and Labour Practices	Labour practices
	B2	Health and Safety	Workplace health and safety
	B3	Development and Training	Employee development and training
	B4	Labour Standards	Anti-child and forced labour
	B5	Supply Chain Management	Supply chain management
	B6	Product Responsibility	Product responsibility
	B7	Anti-corruption	Anti-corruption, fraud prevention and anti-money laundering
	B8	Community Involvement	Community programs, employee volunteering and donation

A. ENVIRONMENTAL

The Group keeps on strictly complying with the laws and regulations relating to the environmental protection. To minimise the environmental impacts concerning the activities, products and services, the Group will:

- Comply with applicable legal and other requirements which relate to the Group's environmental aspects, and to which the Group subscribes;
- Identify environmental impacts associated with the operations and set the targets to reduce stress on the environment in consideration of social expectations;
- Prevent pollution, reduce waste and minimise the consumption of resources from all daily operations and actively promote recycle, reuse and replace;
- Educate, train and motivate employees to develop a social viewpoint that enables them to conduct business activities in an environmentally responsible manner.

A1.1 Emissions Data from Gaseous Fuel Consumption

As the Group principally engages in the business of jazz and ballet and pop dance academy, the direct impact to the environment is immaterial with relatively low energy, power and water consumption and low generation of hazardous waste.

As part of the efforts to minimise the impact to the environment, the Group applies energy saving measures in the workplace including installation of an energy-saving lighting system, setting optimal temperature on the air-conditioning, and switching-off the lighting and air-conditioning after office hours.

(a) Since the Company did not have town gas consumption during this year, therefore no emissions data applied.

(b) The Company has owned motor vehicle during this year, the emissions data from vehicle applied are set out below:

	KPI			
	2018	2017	Unit	% increase/ (decrease)
NOx	**12,863**	1,354	Grams	850%
SOx	**21**	3	Grams	600%
PM	**1,233**	130	Grams	848%
Total	**14,117**	1,487	Grams	849%

There was significantly increase of motor vehicle emission because the motor vehicle was purchased on 21 December 2017. There were no non-compliance cases noted in relation to environmental laws and regulations for This year.

A1.2 Greenhouse Gas Emission

	KPI			
	2018	2017	Unit	% increase/ (decrease)
Scope 1				
Direct Emission	**3,839**	404	Kg	850%
Scope 2				
Indirect Emission	**264,666**	234,182	Kg	13%
Scope 3				
Other indirect Emission	**12,486**	18,373	Kg	(32%)
Total	**280,991**	252,959	Kg	11%

During this year, there was 280,991 Kg (2017: 252,959 Kg) of carbon dioxide equivalent greenhouse gases (mainly carbon dioxide, methane and nitrous oxide) emitted from the Group's operation.

Indirect emission mainly raised from electricity consumption while the other indirect emission came from business air travel. Total no. of facilities[1] for the Group was 31 in 2018 (2017: 22). The annual emission intensity was 9,064 KgCO_2e/facility (2017: 11,498 KgCO_2e/facility). The decrease was mainly due to efficient energy control and launch of more dance centres during this year.

A1.3 Non-hazardous Waste

During this year, the Group generated 3 tonnes (2017: 3 tonnes) non-hazardous waste in its operation. Hazardous waste from the Group's operations was mainly office paper but the management of the Group believed that the wastage of this aspect was insignificant.

[1] Total no. of facilities in 2018 includes 1 head quarter, 23 self-operated dance centres and 1 kindergarten in Hong Kong, 1 kindergarten in PRC and 5 kindergartens in Singapore.

A2.1 Use of resource

Energy

The energy consumed is mainly from purchase of electricity. The total electricity consumed are set out below:

	KPI			
	2018	2017	Unit	% increase/ (decrease)
Electricity consumed	**443,855**	429,000	kWh	3%
Fuel consumed	**535**	79	kWh	577%
Total	**444,390**	429,079	kWh	4%
No. of facilities	**31**	22	facility	41%
Electricity consumed per facilities	**14,335**	19,504	kWh/facility	(27%)

	KPI			
	2018	2017	Unit	% increase/ (decrease)
Water consumed	**60**	63	m^3	(5%)
No. of facilities	**31**	22	facility	41%
Electricity consumed per facilities	**2.5**	2.9	kWh/m^2	(14%)

The Group's commitment to protect the environment is well reflected by its continuous efforts in promoting green measures and awareness in all business practices and contribute to the sustainable development of the environment. The Group is committed to a series of resource procedures to fully utilise and recycle resources in the daily business operations. For instance, the Group advocates employees to reduce the usage of papers by encouraging internet communication, assessing the necessity of printing, applying duplex printing, and reusing any single-sided printed papers where appropriate. Also, for reducing the water consumption, employees are reminded to turn off the faucet tight after use.

Apart from that, environmental-friendly suppliers have been its preference when procuring office stationery, the brand of paper used is Programme for the Endorsement of Forest Certification ("**PEFC**") certified which means the product is from sustainably managed forests, recycled and controlled resources.

A3 Environmental and Natural Resources

Air Quality

The Group's water consumption was minimal, hence good indoor air quality has always been top of the priorities. Pollutants such as ozone produced by photocopiers, stale air drawn in from outside through poorly located fresh air inlets and bacteria that entered the office or accumulated in the ventilation system as a result of poor maintenance can be accumulated indoors if the design, operation and maintenance are improper.

To improve indoor air quality, a range of air pollution prevention measures have been implemented by the Group as follows:

- Ensure air inlets are away from any source of pollutants and sufficient ventilation systems;
- Test the level of dust and micro-organism in the air;
- Clean all air units regularly (e.g. air inlets, air outlets and filters); and
- Perform regular maintenance on carpet and furniture upholstery.

In compliance with the Air Pollution Control Ordinance, the Group has been placing more efforts in reducing the emission levels in the operation office.

Being a responsible business and employer, the Group are committed to consistently looking for ways to meet the corporate social responsibilities. The Group focuses on its staff, environment and community as well as its business partners.

B. SOCIAL

B1 Employment and Labour Practices

The Group advocates a community spirit that thrives on mutual respect and equal opportunities. The Group comply strictly to equal opportunities legislation include but not limited to the Sex Discrimination Ordinance, Race Discrimination Ordinance, Disability Discrimination Ordinance and Family Status Discrimination Ordinance. To ensure diversity and equality, the selection process is non-discriminatory and is solely based on the employees' performance, experience and skills. Employees are also encouraged to communicate with their senior management their opinions and targets in job advancement and career development.

The Employment of Children Regulations and Employment of Young Persons (Industry) Regulations made under the Employment Ordinance prohibits all employers engaging child and forced labour in the workforce and regulate the hours of work and general conditions of employment of young persons in industrial undertakings. With compliance to relevant laws and regulations, the Group did not and will not engage in any forced or child labour. The Staff Code of Conduct is enclosed in the Compliance Manual, which is readily accessible to all employees.

To attract, develop and retain qualified employees, the Group is committed to offering professional development opportunities and a healthy working environment for all employees. Salaries and wage rates are usually subjected to an annual review that are based on performance appraisals and other relevant factors. The Group also provide equal opportunities for all employees along with competitive remuneration and strongly encourage internal promotion and a variety of job opportunities is offered to the existing staff when it is best suited.

The Group's remuneration policies are formulated on the performance of employees with reference to the market condition. For the purpose of ensuring there are formal and transparent procedures for setting policies on the remuneration for the Directors, the Remuneration Committee was established.

There were no non-compliance cases noted in relation to employment and labour standards laws and regulations for this year.

Staff Composition

As at 31 December 2018, the Group employed a total of 268 (2017: 211) staffs, including operating staffs in dancing center and kindergarten and management and supporting staffs in head quarter. All staff members are allocated in Hong Kong, PRC and Singapore.

(a) Employee' s Age and Gender Distribution

	2018		2017	
Age Group	**Male**	**Female**	Male	Female
0–15	**0%**	**0%**	0%	0%
16–18	**0%**	**1%**	0%	0%
18–30	**2%**	**48%**	2%	47%
31–45	**2%**	**26%**	1%	27%
46–60	**0%**	**16%**	0%	18%
= 61/>61	**0%**	**5%**	0%	5%
Total	**4%**	**96%**	3%	97%

	2018		2017	
By gender	**Male**	**Female**	Male	Female
Under employment	**4%**	**96%**	3%	97%

(b) Turnover Rate by Age Group and Gender

Age Group	2018 Male	2018 Female	2017 Male	2017 Female
0–15	**0%**	**0%**	0%	0%
16–18	**0%**	**0%**	0%	0%
18–30	**2%**	**13%**	0%	9%
31–45	**1%**	**9%**	1%	4%
46–60	**0%**	**4%**	0%	3%
= 61/>61	**0%**	**0%**	0%	1%
Total	**3%**	**26%**	1%	17%

By gender	2018 Male	2018 Female	2017 Male	2017 Female
Resigned staff	**10%**	**90%**	8%	92%

The Group will continue to provide a well-structured and caring environment to employees to raise their sense of belonging and work efficiency in the Group.

B2 Employee Health and Safety

To safeguard employees' occupational health and safety, the Group continues focusing on providing a safe, healthy and comfortable environment for its employees to avoid any accident, and complies with the relevant laws and regulations. During This year, the Group endeavor to keep its workplaces clean to maintain safe work environment for its employees.

There were no non-compliance cases noted in relation to health and safety laws and regulations during This year.

(a) Occupational Health and Safety Data

Health and Safety	2018 Male	2018 Female	2017 Male	2017 Female
Number of work-related fatalities	**0%**	**0%**	0%	0%
Lost days due to work injury	**0%**	**0.03%**	0%	0.04%
No. of staff injured	**0**	**1**	0	1

There were 22 lost days due to work injury applied by a female ballet dancing teacher (2017: 33 lost days) during This year. The teacher has been healed from ankle sprain and back to work.

B3 Development and Training

To encourage employees' development and continuous training, the Group provides various training programs to 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. The Group also provides the annual overseas retreat for teachers for their professional development. During this year, they had paid several visits to the famous dancing academies in Thailand, Singapore and Australia.

During this year, Directors and staff have attended a series of training programmes.

B4 Labour Standard

No forced labour was employed in the Group's operations during this year which was in compliance with the Employment Ordinance, Chapter 57 of the Laws of Hong Kong in terms of employment management.

The Group lists specific requirements on advertisement to hire the most suitable candidate. All resume, original identification card, original certificate should be first checked by human resources ("**HR**") department during interview. HR department also contacts candidate's preceded employer for reference.

Equal opportunities are given to employees in respect of recruitment, training and development, job advancement, and compensation and benefits. The employees are not discriminated against or deprived of such opportunities on the basis of gender, ethnic background, religion, race, sexual orientation, age, marital status, family status, retirement, disability, pregnancy or any other discrimination prohibited by applicable law. The Group also appreciates the importance of cultural diversity in the development of the Group, and employs employees in a wide range of ages, genders, and ethnicities

In particular, the Group adopted Board Diversity function under which the Board composition includes members from different skills, industry knowledge, experience, education, background and other qualities without discrimination.

B5 Supply Chain Management

To comply with the laws and regulations, the Group has established stringent internal controls on the procurement of goods and materials through fair and unbiased tendering process. The criteria for selection of subcontractors and suppliers are based on specifications and standards, product and service quality as well as after service support.

The Group selects qualified suppliers carefully to ensure that the entire production process is in line with its standards and rules. The Group not only requests its new suppliers to submit all relevant documents, for review but also conducts rigorous check to assess their reliability. The Group carries out inspections and assessments regularly on suppliers' standards, and will terminate collaboration with unqualified suppliers.

B6 Product Responsibility

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

The Group recognises that good customer and after-sales services are the key factors influencing the success and sustainability of the business. In order to cater for the needs of prompt response to customers, the Group has set up a range of communication channels among different business units to handle customers' queries efficiently.

The Group emphasises the importance of protecting and safe-guarding its customers' privacy. Thereby, the Group has been very cautious when collecting, processing and using customers' personal data in order to comply with the provisions of the Personal Data (Privacy) Ordinance.

There were no non-compliance cases noted in relation to data privacy related laws and regulations during this year.

B7 Anti-corruption

The Group has an established procedure for 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. The Group encourages reporting suspected wrongdoings and business irregularities, e.g. breach of duty, abusing the power or receiving bribes.

There was no non-compliance in relation to corruption or money laundering related laws and regulations during this year.

B8 Community Involvement

Through jazz and ballet, pop dance and dancing shows, the Group encourages children to build up positive energy, realize their potential and share their passion for dancing with the others in the society.

During This year, the Group continued to encourage its employees to join Green Monday for promoting low-carbon and sustainable lifestyle. The Group 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 St. John Ambulance, Pok Oi Hospital, Green Monday Foundation Limited, Make-a-wish Foundation Limited and Po Leung Kuk Choi Kai Yau School. The Group kept on working closely with various charitable organizations like Yan Oi Tong, Yuen Long District Sports Association and Oxfam This year. Over 1,000 students had participated in a dance marathon which has successfully challenged the Guinness World Records and was held by the Group and Yan Oi Tong.

In addition, the Group does not focus on individual activities only, but is also keen on participating in all-rounded community engagement services, from community services to environmental protection activities. Our students have chances to get involved in these meaningful events and delivered positive messages to others.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Chiu Ka Lok (趙家樂) ("Mr. Chiu"), aged 43, 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 71, 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 43, 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 68, 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 52, 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), Dragon Crown Group Holdings Limited (Stock code: 00935) and CTEH INC. (Stock code: 1620), all 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 54, 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 43, 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 45, 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 41, was appointed as assistant to general manager in July 2007, as administration and human resources manager in February 2008 and was promoted as head of administrations and deputy manager in July 2013. Ms. Yu is responsible for coordinating the operation of various departments, human resources planning, and personnel recruitment. Ms. Yu has over 15 years of experience in management. Prior to joining us, Ms. Yu worked as administration assistant in Manulife (International) Limited, a company principally engaged in insurance, investment, asset management and financial planning, responsible for administrative matters, from April 1997 to November 1997. She was a consultant in World Sky International Limited, a company principally engaged in trading and marketing of health products, where she was responsible for providing assistance to improve the workflow, training memo, policies and practices, analyzing training needs, designing employee development programme and conducting product training, from November 1997 to February 2007. Ms. Yu obtained a certificate in secretarial studies from Sacred Heart Canossian Commercial School, Hong Kong, in June 1996. Ms. Yu is the administrative officer of the Hong Kong Children Dance Promotion Association. Ms. Yu obtained certificates in personnel administration and operations as well as in human resources management from the Hong Kong Management Association in 2011.

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

REPORT OF DIRECTORS

DIRECTORS' REPORT

The Directors hereby present their report and the audited financial statements of SDM Group Holdings Limited (the "**Company**") and the audited consolidated financial statements of the Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are set out in Note 40 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 2018 is set out in Note 5 to the consolidated financial statements.

RESULTS AND DIVIDENDS

The Group's results for the year ended 31 December 2018 are set out in the consolidated statement of profit or loss and other comprehensive income on page 47.

No final dividend for the year ended 31 December 2018 is proposed by the Board (2017: 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 142 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 28 to the consolidated financial statements.

SHARE OPTION SCHEME

The Company's share option scheme (the "**Scheme**") was conditionally adopted by a written resolution of the shareholders of the Company on 26 September 2014 (the "**Date of Adoption**"), and is a share incentive scheme prepared in accordance with Chapter 23 of the GEM Listing Rules and is established to recognize and acknowledge the contribution of the Directors and other employees who have made valuable contribution to the Group. There was no share option granted or agreed to be granted under the Scheme from the Date of the Adoption to 31 December 2018 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 50 in the consolidated statement of changes in equity respectively.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2018, the Company had no distributable reserve (2017: HK$22.9 million) calculated in accordance with the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

REPORT OF DIRECTORS

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, due to nature of our business, sales to the Group's five largest customers accounted for approximately 0.5% (2017: approximately 0.5%) of the total sales for the year ended 31 December 2018, which is less than 30% of total revenue and the sales to the largest customer included therein amounted to approximately 0.2% (2017: approximately 0.2%) of the total sales for the year ended 31 December 2018.

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 2018, the rental expenses accounted for approximately 28.6% (2017: approximately 39.5%) 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 2018.

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

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 28 to 31 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 the paragraphs headed "Connected Transaction" and "Continuing Connected Transactions" in this report and Related Party Transactions in Note 39 to the consolidated financial statements, 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 2018, 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 2018, 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 2018, 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 2018, 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	53,398,000	15.08%
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 2018, 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 2018 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 2018 are set out in Note 39 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 "**Connected Transaction**" and "**Continuing Connected Transactions**" below.

CONNECTED TRANSACTION

Pursuant to the sales and purchase agreement dated 18 September 2017 and subsequent supplemental agreements on 30 March 2018 and 19 June 2018 (collectively referred to "**Global Win S&P Agreements**") 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 acquired the entire issued share capital of Global Win (BVI) Limited ("**Global Win**") at 31 July 2018 with total consideration of HK$32,000,000 which shall be satisfied by way of issue of 80,000,000 new ordinary shares of the Company to each of the Vendors in proportion to their respective shareholdings in Global Win (the "**Acquisition**"). The principal assets of Global Win is its investment in the wholly owned subsidiaries, Hong Kong Speech & Swallowing Therapy Co. Limited ("**Hong Kong Speech**") and Stage Photography Company Limited ("**Stage Photography**") (collectively refer to as the "**Global Win Group**").

As at 18 September 2017, Mr. Chiu Ka Lok, being the chairman, an executive Director and the controlling shareholder of the Company, and Dr. Chun Chun, being a non-executive Director and the spouse of Mr. Chiu Ka Lok, are interested/ deemed to be interested in approximately 56.13% of the total issued share capital of the Company. Upon completion of the reorganization of Global Win Group, Mr. Chiu Ka Lok and Dr. Chun Chun will own the entire issued share capital of the Global Win, which will in turn own the entire issued share capital of Stage Photography and Hong Kong Speech. Therefore, the Acquisition also constitutes a connected transaction of the Company under Chapter 20 of the GEM Listing Rules.

For further details, please refer to the announcements of the Company dated 18 September 2017, 16 October 2017, 23 November 2017, 29 December 2017, 13 February 2018, 3 April 2018, 14 May 2018, 11 June 2018, 19 June 2018 and 31 July 2018 and the circular of the Company dated 6 July 2018.

All conditions precedent under the Global Win S&P Agreements has been fulfilled and the completion of the Acquisition took place on 31 July 2018.

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 and Red Vocal Limited. 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, 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, and Red Vocal Limited is 50% beneficially indirectly and controlled by 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 2017 and 2018 the total rental and fees paid to our Group by Dunn's Education Limited under the Sub-lease Agreements amounted to approximately HK$1,569,000 and HK$1,402,000, respectively, of which approximately HK$583,000 and HK$631,000, respectively, were in relation to the sub-leasing of the Taikoo Centre.

For the years ended 31 December 2017 and 2018 the total rental and fees paid to our Group by Rainbow Creative Arts Limited under the Sub-lease Agreements amounted to approximately HK$830,000 and HK$563,000, respectively, of which approximately HK$267,000 and HK$288,000, respectively, were in relation to the sub-leasing of the Taikoo Centre.

For the years ended 31 December 2017 and 2018 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$226,000, respectively.

For the year ended 31 December 2018 the total rental and fees paid to our Group by Red Vocal Limited under the Sub-lease Agreements amounted to approximately HK$540,000 (2017: nil).

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 2018.

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 2018, 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.

REPORT OF DIRECTORS

CORPORATE GOVERNANCE

During the year ended 31 December 2018, the Company has complied with the code provisions set out in the Corporate Governance Code and Corporate Governance Report contained in Appendix 15 of the GEM Listing Rules.

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

SUFFICIENCY OF PUBLIC FLOAT

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

MATERIAL EVENTS AFTER THE REPORTING PERIOD

Save as disclosed in "EVENTS AFTER THE REPORTING PERIOD" in Note 42 to the consolidated financial statements, the Group had no material events after the reporting period.

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, 25 March 2019

INDEPENDENT AUDITOR'S REPORT

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 47 to 141, which comprise the consolidated statement of financial position as at 31 December 2018, 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 2018, 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$35,330,000 as at 31 December 2018 as disclosed in note 24 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 recognition process; • Reviewing the revenue recognition policy of the Group to ensure that the course fee income is recognised in accordance with Hong Kong Financial Reporting Standard 15 "Revenue from Contracts with Customers"; and • Performing substantive procedures on the calculation of deferred income by checking to the sales contracts and students records .
Impairment of goodwill, property, plant and equipment and intangible assets	
We identified the impairment of goodwill, property, plant and equipment and intangible assets allocated to the relevant cash generating units ("**CGUs**") of the Acquired Businesses (as defined below) as a key audit matter due to the inherent subjectivity involved in impairment assessment of these assets by the management as disclosed in note 14 to the consolidated financial statements. Goodwill of HK$50,096,000 arose from the acquisitions of subsidiaries (the "**Acquired Businesses**") during the year ended 31 December 2018 and the carrying amounts of property, plant and equipment and intangible assets from the Acquired Businesses were HK$337,000 and HK$13,899,000, respectively at 31 December 2018. For the purpose of impairment testing, these assets have been allocated to the relevant CGUs of the Acquired Businesses. The Group engaged independent qualified valuers to assist in determining the value in use of the relevant CGUs of the Acquired Businesses that these assets belong to. Significant judgment and assumptions, such as the use of appropriate discount rates and growth rates, were required in the process of impairment testing. During the year, an impairment loss on goodwill of HK$4,000,000 was recognised.	Our audit procedures in relation to the impairment assessment of goodwill, property, plant and equipment and intangible assets by the management included: • Understanding the relevant key controls over the assessment of impairment of goodwill, property, plant and equipment and intangible assets; • Assessing the competence, capabilities and objectivity of the independent qualified valuers; • Evaluating the reasonableness of the key assumptions adopted and the appropriateness of the discount rates and growth rates used in the cash flow projections with the involvement of our valuation experts; • Testing data inputs in the cash flow projections, on a sample basis, against source documents; 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 27 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$9,145,000. Such obligation requires using appropriate valuation techniques with estimation of various key inputs, the details of which are disclosed in notes 4, 27 and 37 to the consolidated financial statements.	Our procedures in relation to 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; • Testing data inputs in the cash flow projections, on a sample basis, against source documents; 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 issued by the HKICPA 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 this 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.

INDEPENDENT AUDITOR'S REPORT

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 Stephen C.L. Yuen.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

25 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Notes	**2018 HK$'000**	2017 HK$'000
Revenue	5	**76,492**	64,326
Other income	6	**12,687**	10,378
Other gains and losses	6	**(18,024)**	(3,240)
Changes in inventories of finished goods		**230**	338
Finished goods purchased		**(2,630)**	(2,538)
Advertising and promotion expenses		**(7,968)**	(4,703)
Depreciation		**(4,114)**	(2,347)
Amortisation		**(528)**	(89)
Rental expenses	9	**(24,845)**	(25,406)
Staff costs	9	**(37,953)**	(26,237)
Other expenses		**(43,674)**	(27,925)
Gain (loss) on disposal of subsidiaries	32	**331**	(727)
Impairment loss on goodwill	14	**(4,000)**	(1,897)
Impairment loss recognised on financial assets		**(453)**	(4,087)
Finance costs	7	**(5,587)**	–
Share of results of joint ventures		**482**	(2,829)
Loss before taxation		**(59,554)**	(26,983)
Income tax (expense) credit	8	**(170)**	42
Loss for the year	9	**(59,724)**	(26,941)
Other comprehensive income (expense)			
Item that may be subsequently reclassified to profit or loss:			
Exchange differences arising on translation of foreign operations		**1,101**	(194)
Total comprehensive expense for the year		**(58,623)**	(27,135)
Loss for the year attributable to:			
Owners of the Company		**(53,505)**	(25,702)
Non-controlling interests		**(6,219)**	(1,239)
		(59,724)	(26,941)
Total comprehensive expense attributable to:			
Owners of the Company		**(52,404)**	(25,896)
Non-controlling interests		**(6,219)**	(1,239)
		(58,623)	(27,135)
Loss per share (HK cents)	12		
Basic		**(15.11)**	(7.94)
Diluted		**N/A**	(7.94)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Non-current assets			
Property, plant and equipment	13	**5,968**	6,913
Goodwill	14	**46,280**	–
Intangible assets	15	**13,988**	178
Interests in joint ventures	16	**156**	156
Loans to joint ventures	16	**2,202**	1,720
Deposits for acquisition of subsidiaries/businesses	17	**22,466**	–
Other receivables, deposits and prepayments	19	**14,276**	11,597
Deferred tax assets	29	**331**	331
		105,667	20,895
Current assets			
Inventories	18	**1,633**	1,285
Trade and other receivables, deposits and prepayments	19	**13,555**	18,503
Amounts due from related parties	20	**10,418**	4,831
Amounts due from non-controlling shareholders of subsidiaries	21	**1,410**	4
Held for trading investments	22	**3,587**	7,423
Tax recoverable		**–**	15
Bank balances and cash	23	**54,966**	133,822
		85,569	165,883
Current liabilities			
Trade and other payables and accrued charges	24	**14,732**	7,074
Deferred income	24	**35,330**	39,256
Amounts due to related parties	20	**236**	459
Provisions	25	**832**	737
Tax payable		**238**	–
Consideration payable	32a	**15,635**	–
Bank and other borrowings	26	**3,052**	–
		70,055	47,526
Net current assets		**15,514**	118,357
Total assets less current liabilities		**121,181**	139,252

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	**2018 HK$'000**	2017 HK$'000
Capital and reserves			
Share capital	28	**35,410**	35,410
Reserves		**(21,547)**	28,005
Equity attributable to owners of the Company		**13,863**	63,415
Non-controlling interests		**(6,491)**	(1,585)
Total equity		**7,372**	61,830
Non-current liabilities			
Provisions	25	**1,568**	1,342
Obligation arising from put options written to non-controlling shareholders of a subsidiary	27	**9,145**	8,630
Deferred tax liabilities	29	**2,306**	–
Corporate bonds	30	**69,225**	–
Other payables	24	**–**	67,450
Consideration payable	32a	**31,565**	–
		113,809	77,422
		121,181	139,252

The consolidated financial statements on pages 47 to 141 were approved and authorised for issue by the Board of Directors on 25 March 2019 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 2018

	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 2017	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 of foreign operations	–	–	(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 28(a) and Note 32)	240	1,536	–	–	–	–	1,776	(882)	894
Issue of shares by open offer (Note 28(b))	10,120	29,279	–	–	–	–	39,399	–	39,399
Placement of shares (Note 28(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 non-controlling shareholders	–	–	–	–	–	–	–	6,566	6,566
Obligation arising from issuance of put options (Note 27)	–	–	–	–	–	–	–	(4,203)	(4,203)
Disposal of subsidiaries (Note 32)	–	–	–	–	–	–	–	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**
Loss for the year	**–**	**–**	**–**	**–**	**–**	**(53,505)**	**(53,505)**	**(6,219)**	**(59,724)**
Exchange differences arising on translation of foreign operations	**–**	**–**	**1,101**	**–**	**–**	**–**	**1,101**	**–**	**1,101**
Loss and total comprehensive income (expense) for the year	**–**	**–**	**1,101**	**–**	**–**	**(53,505)**	**(52,404)**	**(6,219)**	**(58,623)**
Capital contribution from non-controlling shareholders (Note 40)	**–**	**–**	**–**	**–**	**3,458**	**–**	**3,458**	**1,042**	**4,500**
Acquisition of subsidiaries (Note 32)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**323**	**323**
Acquisition of additional interests in subsidiaries (Note 40)	**–**	**–**	**–**	**–**	**(606)**	**–**	**(606)**	**(52)**	**(658)**
At 31 December 2018	**35,410**	**66,892**	**608**	**–**	**3,546**	**(92,593)**	**13,863**	**(6,491)**	**7,372**

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**"); (ii) gain on deemed partial disposal of Prism International Pre-school Limited ("**Prism**", a subsidiary of the Company) without loss of control; (iii) difference between amounts of non-controlling interests acquired and the fair value of consideration paid, and (iv) difference between capital contribution from non-controlling shareholders and increase in non-controlling interests during the year ended 31 December 2018 as explained in note 40.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
OPERATING ACTIVITIES			
Loss before taxation		**(59,554)**	(26,983)
Adjustments for:			
Depreciation of property, plant and equipment		**4,114**	2,347
Amortisation of intangible assets		**528**	89
Loss on change in fair value of held for trading investments		**5,783**	3,619
Foreign exchange gain, net		**(421)**	(359)
Impairment loss recognised on financial assets		**453**	4,087
Interest income		**(2,085)**	(105)
Provision for a rental deposit		**–**	400
Impairment loss on goodwill		**4,000**	1,897
Share of results of joint ventures		**(482)**	2,829
(Gain) loss on disposal of subsidiaries	32	**(331)**	727
Loss on disposal of property, plant and equipment		**1,235**	10
Loss on change in fair value of obligation arising from put options written to non-controlling shareholders of a subsidiary		**515**	493
Loss on change in fair value of consideration payable		**11,200**	–
Finance costs		**5,587**	–
Operating cash flows before movements in working capital		**(29,458)**	(10,949)
Increase in inventories		**(348)**	(338)
Decrease (increase) in trade and other receivables, deposits and prepayments		**6,256**	(3,279)
Increase in amounts due from related parties		**(63)**	(1,069)
Increase in held for trading investments		**(1,947)**	(8,260)
(Decrease) increase in trade and other payables and accrued charges		**(437)**	53
(Decrease) increase in deferred income		**(3,926)**	3,391
Increase in provisions		**327**	31
Cash used in operations		**(29,596)**	(20,420)
Income tax refunded		**30**	1,722
Income tax paid		**(211)**	–
NET CASH USED IN OPERATING ACTIVITIES		**(29,777)**	(18,698)
INVESTING ACTIVITIES			
Interest received		**2,085**	105
Purchase of property, plant and equipment		**(3,870)**	(3,476)
Deposits paid for acquisition of subsidiaries/businesses		**(22,466)**	(5,771)
Net cash outflow from acquisition of subsidiaries	32	**(28,987)**	(88)
Net cash (outflow) inflow from disposal of a subsidiary	32	**(4)**	446
Advances to related parties/joint ventures		**(1,148)**	(3,972)
Repayment from related parties/joint ventures		**–**	3,920
Repayment from non-controlling shareholders of subsidiaries		**4**	–
NET CASH USED IN INVESTING ACTIVITIES		**(54,386)**	(8,836)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	2018 HK$'000	2017 HK$'000
FINANCING ACTIVITIES		
Advances from related parties	–	5
Repayment to related parties	(494)	(2,041)
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)
Proceeds from other borrowing	1,904	–
Repayment of bank borrowing	(86)	–
Capital contribution from minority shareholders of a subsidiary	3,000	–
Acquisition of additional interests in subsidiaries	(658)	–
Interest paid	(262)	–
NET CASH FROM FINANCING ACTIVITIES	3,404	139,033
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(80,759)	111,499
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	133,822	22,295
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	1,276	28
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	54,339	133,822
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balance and cash	54,966	133,822
Bank overdraft	(627)	–
	54,339	133,822

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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 (i) business of jazz and ballet and pop dance academy in Hong Kong and the People's Republic of China (the "**PRC**"); (ii) operation of kindergartens and pre-schools in Hong Kong and Singapore; (iii) provision of swallowing and speech treatments; and (iv) provision of photographic services.

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 AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

New and Amendments to HKFRSs that are mandatorily effective for the current year

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

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014–2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

Except as described below, the application of the new and 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 AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

2.1 HKFRS 15 Revenue from Contracts with Customers

The Group has applied HKFRS 15 for the first time in the current year. HKFRS 15 superseded HKAS 18 "*Revenue*", HKAS 11 "*Construction Contracts*" and the related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening accumulated losses (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 "*Revenue*" and HKAS 11 "*Construction Contracts*" and the related interpretations.

The Group recognises revenue from the following major sources which arise from contracts with customers:

- Course fee income
- Sales of uniforms, shoes and accessories
- Swallowing and speech treatments income
- Photographic services income for children

Information about the Group's performance obligations and the accounting policies resulting from application of HKFRS 15 are disclosed in notes 5 and 3 respectively.

Apart from providing more extensive disclosures for the Group's revenue transactions, the application of HKFRS 15 has not had a significant impact on the financial position and/or financial performance of the Group.

2.2 HKFRS 9 Financial Instruments

In the current year, the Group has applied HKFRS 9 "*Financial Instruments*" and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for (1) the classification and measurement of financial assets and financial liabilities, (2) expected credit losses ("**ECL**") for financial assets and (3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening accumulated losses and other components of equity, without restating comparative information.

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

2.2 HKFRS 9 Financial Instruments (Continued)

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS *39 "Financial Instruments: Recognition and Measurement"*.

Accounting policies resulting from application of HKFRS 9 are disclosed in note 3.

Classification and measurement of financial assets and financial liabilities

The directors of the Company have reviewed and assessed the Group's financial assets and financial liabilities at 1 January 2018 based on the facts and circumstances that existed at that date and concluded that there was no material impact on the Group's consolidated statement of financial position upon adoption of HKFRS 9.

Impairment under ECL model

At 1 January 2018, the directors of the Company have reviewed and assessed the Group's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9 and have concluded that no material financial impact exists, and therefore no adjustment to the opening accumulated losses at 1 January 2018 has been recognised.

New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 16	Leases[1]
HKFRS 17	Insurance Contracts[2]
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments[1]
Amendments to HKFRS 3	Definition of a Business[4]
Amendments to HKFRS 9	Prepayments Features with Negative Compensation[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 1 and HKAS 8	Definition of Materials[5]
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle[1]

1 Effective for annual periods beginning on or after 1 January 2019.
2 Effective for annual periods beginning on or after 1 January 2021.
3 Effective for annual periods beginning on or after a date to be determined.
4 Effective for business combinations and asset acquisitions for which the acquisition date is on or after beginning of the first annual period beginning on or after 1 January 2020.
5 Effective for annual periods beginning on or after 1 January 2020.

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

2. APPLICATION OF NEW AND AMENDMENTS TO 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. In addition, HKFRS 16 requires sales and leaseback transactions to be determined based on the requirements of HKFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. HKFRS 16 also includes requirements relating to subleases and lease modifications.

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 and upfront prepaid lease payments will continue to be presented as investing or operation cash flows in accordance to the nature as appropriate.

Other than certain requirements which are also applicable to lessor, 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 2018, the Group has non-cancellable operating lease commitments of HK74,426,000 as disclosed in note 34. 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$17,435,000 and refundable rental deposits received of HK$890,000 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. Adjustments to refundable rental deposits paid would be considered as additional lease payments and included in the carrying amount of right-of-use assets. Adjustments to refundable rental deposits received would be considered as advance lease payments.

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group intends to elect the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 "Determining whether an Arrangement contains a lease" and not apply this standard to contracts that were not previously identified as containing a lease applying HKAS 17 and HK(IFRIC)-Int 4. Therefore, the Group will not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application. Furthermore, the Group intends to elect the modified retrospective approach for the application of HKFRS 16 as lessee and will recognise the cumulative effect of initial application to opening accumulated losses without restating comparative information.

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, 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.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's 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 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.

When the consideration transferred by the Group in a business combination includes a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured to fair value at subsequent reporting dates, with the corresponding gain or loss being recognised in profit or loss.

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 or any of the CGU within the group of CGUs, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal. When the Group disposes of an operation within the CGU (or a CGU within a group of CGUs), the amount of goodwill disposed of is measured on the basis of the relative values of the operation (or the CGU) disposed of and the portion of the CGU (or the group of CGUs) retained.

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 Group assesses whether there is an objective evidence that the interest in a joint venture may be impaired, When any objective evidence exists, the entire carrying amount of the investment is tested for impairment in accordance with HKAS 36 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 from contracts with customers (upon application of HKFRS 15 in accordance with transitions in note 2)

Under HKFRS 15, the Group 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.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in note 2) (Continued)

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A contract asset and a contract liability relating to the same contract are accounted for and presented on a net basis.

Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation

Output method

The progress towards complete satisfaction of a performance obligation is measured based on output method, which is to recognise revenue on the basis of direct measurements of the value of the goods or services transferred to the customer to date relative to the remaining goods or services promised under the contract, that best depict the Group's performance in transferring control of goods or services.

Revenue recognition (prior to 1 January 2018)

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 short-term employee benefits

Payments to state-managed retirement benefit schemes, the Mandatory Provident Fund Scheme ("**MPF Scheme**") and the Central Provident Fund in Singapore as defined contribution plan 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 differences 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). Intangible assets acquired in a business combination with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses.

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 except for trade receivables arising from contracts with customers which are initially measured accordance with HKFRS 15 since 1 January 2018. 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 fair value through profit or loss ("**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 FVTPL are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liabilities and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and 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 asset or financial liabilities, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Financial assets

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2)

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2) (Continued)

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income ("**FVTOCI**"):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application of HKFRS 9/Initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 "Business Combinations" applies.

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.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost and debt instruments/receivables subsequently measured at FVTOCI. For financial instruments other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2) (Continued)

(ii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, excludes with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the "other gains and losses" line item.

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2)

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade and other receivables, amounts due from related parties, amounts due from non-controlling shareholders of subsidiaries and bank balances). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables. The ECL on these assets are assessed individually.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition in which case the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised, based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2) (Continued)

(i) Significant increase in credit risk (Continued)

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

- an actual or expected significant deterioration in the operating results of the debtor;

- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

The Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

(e) the disappearance of an active market for that financial asset because of financial difficulties.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2) (Continued)

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments;
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables where the corresponding adjustment is recognised through a loss allowance account.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018)

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.

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 37.

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, amounts due from non-controlling shareholders of subsidiaries 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (before application of HKFRS 9 on 1 January 2018)

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.

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 loss 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Derecognition of financial assets

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.

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 (warrant reserve). The warrant 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 warrant reserve will be transferred to retained earnings/accumulated losses.

Financial liabilities at amortised cost

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

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.

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.

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 liability is (i) contingent consideration of an acquirer in a business combination to which HKFRS 3 applies, (ii) held for trading or (iii) it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is 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, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration of an acquirer in a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKFRS 9/HKAS 39 permits the entire combined contract to be designated as at FVTPL.

Upon application of HKFRS 9, for financial liabilities that are designated as at FVTPL, 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 recognised 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.

Derecognition of financial liabilities

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.

Impairment of goodwill, property, plant and equipment and intangible assets

Goodwill of HK$50,096,000 arose from the Acquired Businesses during the year ended 31 December 2018 and the carrying amounts of property, plant and equipment and intangible assets from the Acquired Businesses were HK$337,000 and HK$13,899,000, respectively at 31 December 2018. Determining whether an impairment loss of these assets is required requires an estimate of the recoverable amount of the relevant CGUs to which these assets belong to. The recoverable amount is determined based on a value in use calculation. In determining the value in use, the management of the Group engaged independent qualified valuers to assist in determining the value in use of the relevant CGUs. Significant judgment and assumptions, such as the use of appropriate discount rates and growth rates, were required in the process of impairment testing. Where the actual outcome of growth rates are less than expected, a material impairment loss may arise. Details of the recoverable amount calculation for the CGUs are set out in note 14. During the year ended 31 December 2018, an impairment loss of HK$4,000,000 (2017: HK$1,897,000) was recognised in relation to goodwill (see note 14).

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

The fair value of the put option is determined by a professional qualified valuer. In determining the fair value, the valuer uses their judgment in selecting an appropriate valuation technique for financial instruments not quoted in an active market as well as estimating the various key inputs for the underlying cash flow projections. 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 27 and 37. 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 2018, the carrying amount of the Group's obligation arising from put options written to non-controlling shareholders of a subsidiary is approximately HK$9,145,000 (2017: HK$8,630,000).

5. REVENUE AND SEGMENT INFORMATION

A. Revenue for the year ended 31 December 2018

(i) Disaggregation of revenue from contracts with customers

Segments	Dance academy HK$'000	Early childhood education HK$'000	Others HK$'000	Total HK$'000
	For the year ended 31 December 2018			
Types of goods or service				
Dance academy business				
Elementary courses	26,405	–	–	26,405
CSTD jazz courses	22,766	–	–	22,766
RAD ballet courses	3,205	–	–	3,205
Other courses	6,819	–	–	6,819
Sale of dance uniforms, shoes and accessories	2,547	–	–	2,547
Sub-total	61,742	–	–	61,742
Early childhood education business				
Enrichment courses	–	9,376	–	9,376
Sale of uniforms and accessories	–	89	–	89
Sub-total	–	9,465	–	9,465
Others				
Provision of swallowing and speech treatments	–	–	3,131	3,131
Provision of photographic services for children	–	–	2,154	2,154
Sub-total	–	–	5,285	5,285
Total	61,742	9,465	5,285	76,492
Geographical markets				
Hong Kong	61,469	1,937	5,285	68,691
Mainland China ("**The PRC**")	273	–	–	273
Singapore	–	7,528	–	7,528
Total	61,742	9,465	5,285	76,492
Timing of revenue recognition				
A point of time	2,547	89	2,154	4,790
Over time	59,195	9,376	3,131	71,702
Total	61,742	9,465	5,285	76,492

5. REVENUE AND SEGMENT INFORMATION (CONTINUED)

A. Revenue for the year ended 31 December 2018 (Continued)

(ii) Performance obligations for contracts with customers

In respect of dance academy classes, fee received are initially recorded as "deferred income" and revenue is recognised over the period of the instruction because the participant simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs.

Tuition fees from kindergarten and pre-schools are generally paid in advance at the beginning of every month and revenue is recognised over the period of tuition service because the students simultaneously receive and consume the benefits provided by the Group's performance as the Group performs.

Revenue from sales of uniforms, shoes and accessories is recognised when the goods are delivered to the customers and control of the goods has transferred.

Revenue from the provision of swallowing and speech treatments is recognised over the period of treatment service because the patients simultaneously receive and consume the benefits provided by the Group's performance as the Group performs.

The revenue from the provision of photographic services for children is recognised when the related products are delivered to the customers and control of the goods has transferred.

(iii) Transaction price allocated to the remaining performance obligation for contracts with customers

All dance academy classes, tuition for kindergarten and pre-schools and swallowing and speech treatment services are for periods of one year or less. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

5. REVENUE AND SEGMENT INFORMATION (CONTINUED)

B. Revenue for the year ended 31 December 2017

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

	2017 HK$'000
Course fee income	61,545
Sales of dance uniforms, shoes and accessories	2,781
	64,326

C. Segment Information

During the year ended 31 December 2017, the Group's operation was solely derived from jazz and ballet and pop dance academy in Hong Kong and the PRC. For the purpose of resources allocation and performance assessment, the chief operating decision maker ("**CODM**") (i.e. the chief executive officer of the Group) reviewed 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 for the year ended 31 December 2017.

During the year ended 31 December 2018, with the completion of the acquisition of subsidiaries as detailed in note 32, new operating and reportable segments are considered by the CODM for the purpose of allocating resources to segments and assessing their performance focuses on types of goods or services delivered or provided. The details of each operating segments are set out below.

Specifically, the Group's reportable segments under HKFRS 8 are as follows:

Dance academy business — jazz and ballet and pop dance academy in Hong Kong and the PRC.

Early childhood education business — operation of kindergartens and pre-schools in Hong Kong and Singapore.

Other operating segments include operation of the provision of swallowing and speech treatments and provision of photographic services for children in Hong Kong. None of these segments met the quantitative thresholds for the reportable segments. Accordingly, these were grouped in "Others".

5. REVENUE AND SEGMENT INFORMATION (CONTINUED)

C. Segment Information (Continued)

Segment revenues and results

The following is an analysis of the Group's revenue and results by operating and reportable segment.

For the year ended 31 December 2018

	Dance academy business HK$'000	Early childhood education business HK$'000	Others HK$'000	Consolidated HK$'000
Revenue	61,742	9,465	5,285	76,492
Segment (loss) profit	(14,708)	(13,163)	1,665	(26,206)
Other income, other gains and losses				(17,498)
Central corporate expenses				(11,879)
Impairment loss on goodwill				(4,000)
Impairment loss recognised on financial assets				(453)
Share of results of joint ventures				482
Loss before taxation				(59,554)

All of the segment revenue reported above is from external customers.

The accounting policies of the operating and reportable segments are the same as the Group's accounting policies described in note 3. Segment profit (loss) represents the profit earned/losses incurred by each segment without allocation of certain other gains and losses and other income, central corporate expenses, impairment loss on goodwill, impairment loss recognised on financial assets and share of results of joint ventures.

The CODM makes decisions according to operating results of each segment. No analysis of segment asset and segment liability is presented as the CODM does not regularly review such information for the purposes of resources allocation and performance assessment. Therefore, only segment revenue and segment results are presented.

5. REVENUE AND SEGMENT INFORMATION (CONTINUED)

C. Segment Information (Continued)

Other segment information

For the year ended 31 December 2018

	Dance academy business HK$'000	Early childhood education business HK$'000	Others HK$'000	Unallocated HK$'000	Consolidated HK$'000
Amounts credited (charged) included in the measure of segment results					
Interest income	297	2	–	1,786	2,085
Amortisation of intangible assets	(89)	(228)	(211)	–	(528)
Depreciation of property, plant and equipment	(2,164)	(1,884)	(53)	(13)	(4,114)
Loss on disposal of property, plant and equipment	(1,235)	–	–	–	(1,235)

Geographical information

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

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	
	2018 HK$'000	2017 HK$'000	**2018 HK$'000**	2017 HK$'000
Hong Kong	**68,691**	62,633	**52,323**	18,018
The PRC	**273**	1,693	**–**	1,658
Singapore	**7,528**	–	**52,645**	–
	76,492	64,326	**104,968**	19,676

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

	2018 HK$'000	2017 HK$'000
Other income		
Management fee income	**3,000**	2,420
Examination and competition handling fee income	**1,542**	1,894
Performance and show income	**1,905**	772
Rental income	**3,024**	3,422
Interest income	**2,085**	105
Others	**1,131**	1,765
	12,687	10,378
Other gains and losses		
Net exchange gains	**709**	1,282
Loss on change in fair value of held for trading investments	**(5,783)**	(3,619)
Loss on change in fair value of obligation arising from put options written to non-controlling shareholders of a subsidiary (Note 27)	**(515)**	(493)
Loss on change in fair value of consideration payable (Note 32a)	**(11,200)**	–
Provision for a rental deposit (Note 41)	**–**	(400)
Loss on disposal of property, plant and equipment	**(1,235)**	(10)
	(18,024)	(3,240)

7. FINANCE COSTS

	2018 HK$'000	2017 HK$'000
Interest on borrowings	**262**	–
Interest on corporate bonds	**5,325**	–
	5,587	–

8. INCOME TAX EXPENSE (CREDIT)

	2018 HK$'000	2017 HK$'000
Hong Kong Profits Tax		
— Current year	233	–
— Under (over) provision in prior years	7	(42)
PRC Enterprise Income Tax		
— Current year	–	–
Singapore corporate income tax ("**CIT**")		
— Current year	3	–
	243	(42)
Deferred tax (Note 29)	(73)	–
	170	(42)

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "**Bill**") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

The directors of the Company considered the amount involved upon implementation of the two-tiered profits tax rates regime as insignificant to the consolidated financial statements. Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

No provision for Hong Kong Profits Tax had been made as the Group has no assessable profit in prior year.

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 both years.

Singapore CIT is calculated at 17% (2017: not applicable) of the estimated assessable profit eligible for CIT rebate of 20%, capped at Singaporean dollars ("**S$**")10,000 for the Year of Assessment 2018. Singapore incorporated companies can also enjoy 75% tax exemption on the first S$10,000 of normal chargeable income and a further 50% tax exemption on the next S$290,000 of normal chargeable income. The Singapore companies which meet the qualifying condition as start-up companies can enjoy 100% tax exemption on the first S$100,000 of normal chargeable income and a further 50% tax exemption on the next S$200,000 of normal chargeable income at the relevant year of assessment.

8. INCOME TAX EXPENSE (CREDIT) (CONTINUED)

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

	2018 HK$'000	2017 HK$'000
Loss before taxation	**(59,554)**	(26,983)
Tax at Hong Kong profits tax rate of 16.5%	**(9,826)**	(4,452)
Tax effect of expenses not deductible for tax purpose	**2,762**	762
Tax effect of income not taxable for tax purpose	**(382)**	(284)
Under (over) provision in prior years	**7**	(42)
Effect of share of results of joint ventures	**(80)**	467
Tax effect of tax losses not recognised	**7,714**	2,650
Tax effect of deductible temporary differences not recognised	**914**	857
Effect of tax exemption and tax relief	**(605)**	–
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(334)**	–
Income tax expense (credit) for the year	**170**	(42)

9. LOSS FOR THE YEAR

	2018 HK$'000	2017 HK$'000
Loss for the year has been arrived at after charging:		
Auditor's remuneration*	**2,400**	1,100
Directors' remuneration (Note 10)	**1,386**	636
Instructor costs	**7,051**	4,276
Other staff costs	**27,340**	20,276
Retirement benefits scheme contributions	**2,176**	1,049
Total staff costs (excluding directors' remuneration)	**36,567**	25,601
Consultants service costs*	**8,868**	6,599
Cost of inventories recognised as expenses	**2,400**	2,200
Operating lease payments in respect of tenancy agreements of rented premises entered into:		
By the Group for minimum lease payments	**24,818**	25,255
Contingent rents	**27**	151
	24,845	25,406
Impairment loss recognised on amounts due from related parties	**363**	–
Impairment loss recognised on amounts due from non-controlling shareholders of subsidiaries	**90**	–
Impairment loss recognised on other receivables	**–**	4,087
Total impairment loss recognised on financial assets	**453**	4,087
Building management fee*	**5,449**	4,499
Entertainment*	**1,222**	1,372
Legal and professional fee*	**5,513**	1,663
Travelling expenses*	**1,767**	1,002

* included in "other expenses"

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

Directors' and chief executive's remuneration

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

	Directors' fees HK$'000	Salaries and other benefits HK$'000	Retirement benefits scheme contributions HK$'000	Total HK$'000
2018				
Executive Directors				
Mr. Chiu Ka Lok	194	–	6	200
Mr. Chun Chi Ngon Richard ("**Mr. Chun**") (Note i)	240	–	–	240
Non-executive Directors				
Ms. Yeung Siu Foon ("**Ms. Yeung**")	75	–	–	75
Dr. Chun Chun	210	259	6	475
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	1,115	259	12	1,386

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 non-executive directors' emoluments shown above were for their services as directors of the Company or its subsidiaries. The independent non-executive directors' emoluments shown above were for their services as directors of the Company.

Note:

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

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

Directors' and chief executive's remuneration (Continued)

	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 (Note i)	240	–	–	240
Non-executive Directors				
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.

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

Employees' emoluments

None of the five highest paid individuals are directors of the Company or chief executive of the Group. The non-director employees' emoluments were as follows:

	2018 HK$'000	2017 HK$'000
Salaries and other benefits	**3,842**	3,640
Retirement benefit scheme contributions	**90**	86
	3,932	3,726

Their emoluments were within the following bands:

	Number of employees 2018	 2017
Up to HK$1,000,000	**3**	5
HK$1,000,001 to HK$1,500,000	**2**	–

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

The directors do not recommend the payment of any dividend for the year ended 31 December 2018 (2017: Nil) nor propose any dividend since the end of the reporting period.

12. LOSS PER SHARE

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

	2018 HK$'000	2017 HK$'000
Loss:		
Loss for the purpose of calculating basic loss per share (loss for the year attributable to owners of the Company)	**(53,505)**	(25,702)

	2018 '000	2017 '000
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic and diluted loss per share	**354,100**	323,596

No diluted loss per share have been presented for the current year, since there was no potential ordinary shares in issue during the current year and at the end of the reporting date.

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 had been adjusted for the effect of bonus element in connection with the open offer completed during that year.

The computation of diluted loss per share for the year ended 31 December 2017 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 2017	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
Additions through acquisition of subsidiaries	286	247	–	533
Additions	3,322	548	–	3,870
Disposal	(3,532)	(229)	–	(3,761)
Exchange realignment	1	2	–	3
At 31 December 2018	14,137	4,762	107	19,006
DEPRECIATION				
At 1 January 2017	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
Provided for the year	3,335	743	36	4,114
Disposal	(2,296)	(230)	–	(2,526)
Exchange realignment	1	1	–	2
At 31 December 2018	9,177	3,822	39	13,038
CARRYING VALUES				
At 31 December 2018	**4,960**	**940**	**68**	**5,968**
At 31 December 2017	5,923	886	104	6,913

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 2017	1,897
Acquisition of subsidiaries (Note 32(e))	3,599
Disposal of subsidiaries (Note 32(g))	(3,599)
At 31 December 2017	1,897
Acquisition of subsidiaries (Note 32)	50,096
Exchange realignment	184
At 31 December 2018	52,177
IMPAIRMENT	
At 1 January 2017	–
Impairment loss recognised during the year	1,897
At 31 December 2017	1,897
Impairment loss recognised during the year	4,000
At 31 December 2018	5,897
CARRYING VALUES	
At 31 December 2018	**46,280**
At 31 December 2017	–

The Group tests for impairment of goodwill annually and in the financial year in which the acquisition takes place, or more frequently if there are indications that goodwill might be impaired.

Impairment testing on goodwill

For the year ended 31 December 2018

Management considers that each subsidiary/sub-group of subsidiaries engaging in the early childhood education business, provision of swallowing and speech treatments business and provision of photographic service for children business respectively represents a separate CGU for the purpose of goodwill impairment testing.

14. GOODWILL (CONTINUED)

Impairment testing on goodwill (Continued)

For the year ended 31 December 2018 (Continued)

The cost of goodwill as at 31 December 2018 (before impairment loss) are allocated as follows:

	2018 HK$'000
Early childhood education business within each of the following subsidiaries/ sub-group of subsidiaries	
Columbia Group (as defined in Note 32)	10,664
Tinkerland (as defined in Note 32)	9,112
BTT Group (as defined in Note 32)	5,632
	25,408
Provision of swallowing and speech treatments business within the following subsidiary	
Hong Kong Speech (as defined in Note 32)	15,147
Provision of photographic services for children business within the following subsidiary	
Stage Photography (as defined in Note 20)	9,725
Acquired Dancing Business (as defined below)	1,897
	52,177

The recoverable amount of the relevant CGUs is determined based on a value in use calculation. The Group engaged independent qualified valuers to assist in determining the value in use of the relevant CGUs. The calculations use cash flow projections based on financial budgets approved by management covering a 5-year period, and at a discount rate from 14.1% to 20.3% as at 31 December 2018. The CGUs' cash flows beyond the 5-year period are extrapolated using a growth rate from 2% to 2.5% as at 31 December 2018 that is with reference to the historical performance of the relevant CGUs 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.

14. GOODWILL (CONTINUED)

Impairment testing on goodwill (Continued)

For the year ended 31 December 2018 (Continued)

Hong Kong Speech and Stage Photography were acquired through the acquisition of Global Win (BVI) Limited ("**Global Win**") during the year ended 31 December 2018 as detailed in Note 32a. The goodwill arising from the acquisition of Hong Kong Speech and Stage Photography amounted to HK$15,147,000 and HK$9,725,000 respectively and represented the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of Hong Kong Speech and Stage Photography. The consideration of the acquisition shall be satisfied by the allotment and issue of the new ordinary shares of the Company pursuant to the S&P Agreements (as defined in Note 32a). The fair value of the consideration is recognised at fair value at the date of obtaining the control of Hong Kong Speech and Stage Photography by reference to the quoted market price of the ordinary shares of the Company. With the unexpected increase of the quoted market price of the ordinary shares of the Company between the agreed price as stated in the S&P Agreements and the date of obtaining the control of Hong Kong Speech and Stage Photography, the goodwill arising from the acquisition was greater than the amount that was expected by the management of the Group when the S&P Agreements were entered into.

During the year, the Group has determined an impairment loss of HK$4,000,000 on goodwill in the profit or loss after assessment. Management believes that any reasonably possible change in any of the key assumptions of cash flow projections would not cause the aggregate carrying amount of CGUs to exceed the aggregate recoverable amount of CGUs.

For the year ended 31 December 2017

The Group acquired four dancing schools together with the relevant assets and liabilities (the "**Acquired Dancing 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 Dancing Business. During the year ended 31 December 2017, the Group recognised an impairment loss on goodwill of HK$1,897,000 because the management was of view that the growth of the Acquired Dancing 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 Dancing 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 used cash flow projections based on financial budgets approved by management covering a 5-year period, and at a discount rate of 15.30% as at 31 December 2017. The CGUs' cash flows beyond the 5-year period were extrapolated using a growth rate of 0% as at 31 December 2017 that was with reference to the historical performance of the Acquired Dancing Business and the relevant industry growth forecasts that did 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 included budgeted revenue and gross margin, such estimation was based on the CGUs' past performance and management's expectations for the market development.

15. INTANGIBLE ASSETS

	Customer relationship HK$'000	Brand name HK$'000	Total HK$'000
COST			
At 1 January 2017 and 31 December 2017	534	–	534
Acquired on acquisition of subsidiaries (note 32)	8,912	5,360	14,272
Exchange realignment	40	28	68
At 31 December 2018	9,486	5,388	14,874
AMORTISATION			
At 1 January 2017	267	–	267
Charge for the year	89	–	89
At 31 December 2017	356	–	356
Charge for the year	528	–	528
Exchange realignment	2	–	2
At 31 December 2018	886	–	886
CARRYING VALUES			
At 31 December 2018	8,600	5,388	13,988
At 31 December 2017	178	–	178

Note: The customer relationship is amortised on a straight-line method over the period of 4 to 10 years. The brand name is with indefinite useful lives as the directors of the company are of the opinion that the brand name has no foreseeable limit to the period over which the Group's early childhood education business and swallowing and speech treatments business are expected to generate net cash flows for the Group.

16. INTERESTS IN JOINT VENTURES

	2018 HK$'000	2017 HK$'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 (as defined below)	**2,194**	2,194
Share of post-acquisition losses	**(2,194)**	(2,191)
	–	3
Loan to Guangzhou Delilong (as defined below)	**2,355**	2,355
Share of post-acquisition losses	**(153)**	(638)
	2,202	1,717
	2,202	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/ establishment	Place of operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group as at 31 December		Principal activities
				2018 %	2017 %	
廣州德理隆商務服務有限公司 ("**Guangzhou Delilong**")	PRC 5 June 2017	PRC	–	**66 (Note)**	66 (Note)	Operation 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

Note: The entity is jointly controlled by the Group and the other investors by virtue of contractual arrangements among all investors. Therefore, it is classified as joint venture of the Group.

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 ventures' 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

	2018 HK$'000	2017 HK$'000
Current assets	**2,158**	2,601
Current liabilities	**(2,391)**	(3,568)
Net liabilities	**(233)**	(967)
The above amounts of assets and liabilities include the following:		
Cash and cash equivalents	**1**	–
Current financial liabilities (excluding trade and other payables and provision)	**–**	–

	2018 HK$'000	2017 HK$'000
Revenue	**–**	–
Profit (loss) and total comprehensive income (expense) for the year	**734**	(967)

Reconciliation of the above summarised financial information to the carrying amount of the interest in Guangzhou Delilong recognised in the consolidated financial statements.

16. INTERESTS IN JOINT VENTURES (CONTINUED)

Summarised financial information of the joint ventures (Continued)

Guangzhou Delilong (Continued)

	2018 HK$'000	2017 HK$'000
Net liabilities of Guangzhou Delilong	**(233)**	(967)
Proportion of the Group's ownership interest in Guangzhou Delilong	**66%**	66%
	(153)	(638)
Loan to Guangzhou Delilong	**2,355**	2,355
Carrying amount of the Group's interest in Guangzhou Delilong	**2,202**	1,717

Well Team

	2018 HK$'000	2017 HK$'000
Current assets	**4,473**	5,186
Non-current assets	**748**	481
Current liabilities	**(9,731)**	(10,050)
Net liabilities	**(4,510)**	(4,383)
The above amounts of assets and liabilities include the following:		
Cash and cash equivalents	**1,349**	1,812
Current financial liabilities (excluding trade and other payables and provision)	**–**	–

16. INTERESTS IN JOINT VENTURES (CONTINUED)

Summarised financial information of the joint ventures (Continued)

Well Team (Continued)

	2018 HK$'000	2017 HK$'000
Revenue	**5,542**	3,983
Loss and total comprehensive expense for the year	**(127)**	(27)
The above loss for the year includes the following:		
Depreciation and amortisation	**553**	273

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

	2018 HK$'000	2017 HK$'000
Net liabilities of Well Team	**(4,510)**	(4,383)
Proportion of the Group's ownership interest in Well Team	**50%**	50%
	(2,255)	(2,191)
Loan to Well Team	**2,194**	2,194
Carrying amount of the Group's interest in Well Team (Note)	**–**	3

Note: The Group shared its losses up to the Group's investment and long term loan to Well Team. The cumulative share of accumulated losses not recognised was HK$61,000.

Other joint ventures are considered as individually not material and therefore no summarised financial information on joint ventures are presented.

17. DEPOSITS FOR ACQUISITION OF SUBSIDIARIES/BUSINESS

(a) Pursuant to an exclusivity and deposit deed dated 10 September 2018, the Group paid a deposit of Australian Dollars ("**AU$**") 200,000 (equivalent to approximately HK$1,126,000) to a vendor up to 31 December 2018 to enable the Group to carry out the financial due diligence on the target businesses. Subsequent to the end of the reporting period, the sale and purchase agreements were entered into as set out in note 42(b). Details are set out in the Company's announcements dated 14 January 2019 and 29 January 2019.

(b) On 1 November 2018, a wholly-owned subsidiary of the Company entered into the sale and purchase agreements (the "**Happy Family S&P Agreements**") with the vendors (the "**Happy Family Vendors**") and the guarantors, pursuant to which the Happy Family Vendors have conditionally agreed to sell and the subsidiary has conditionally agreed to purchase the certain assets relating to the business of operating and managing the childcare centres currently carried out by Happy Family Vendors (the "**Happy Family Businesses**") at total cash consideration of S$1,250,000 (equivalent to approximately HK$7,075,000). Details are set out in the Company's announcement dated 1 November 2018. Pursuant to the Happy Family S&P Agreements, the Group had paid S$625,000 (equivalent to approximately HK$3,593,000) to the Happy Family Vendors up to 31 December 2018. As the conditions precedent in the Happy Family S&P Agreements are not yet fulfilled at 31 December 2018, the acquisition was not completed as at 31 December 2018. Subsequent to the end of the reporting period, the acquisition of Happy Family Businesses was completed as set out in Note 42(c).

(c) Pursuant to a term sheet which took effect on 27 November 2018 for summarising the principal terms of a proposed acquisition of 51% equity interest of a company incorporated in Singapore as entered into by a subsidiary of the Company with the vendor, the subsidiary had paid an earnest money of S$3,059,000 (equivalent to HK$17,747,000) to the vendor up to 31 December 2018. The terms set out in the term sheet are for the purpose of outlining those terms pursuant to which definitive agreements may be entered into. As the conditions precedent in the term sheet was not yet fulfilled at 31 December 2018, no definitive agreement was entered into up to the date of report.

18. INVENTORIES

	2018 HK$'000	2017 HK$'000
Finished goods — uniforms, shoes and accessories	**1,633**	1,285

19. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2018 HK$'000	2017 HK$'000
Trade receivables from third parties	**1,656**	673
Rental deposits	**17,435**	14,355
Deposits paid for acquisition of companies (Note i)	**–**	5,771
Staff loans (Note ii)	**888**	1,379
Consideration receivable from disposal of a subsidiary (Note 32)	**–**	960
Other deposits, receivables and prepayments	**7,852**	6,962
Total trade and other receivables, deposits and prepayments	**27,831**	30,100
Analysed as		
Current	**13,555**	18,503
Non-current	**14,276**	11,597
	27,831	30,100

Notes:

(i) As at 31 December 2017, the amounts included: (a) a deposit of 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 ended 31 December 2017 because, based on the latest development of the PRC Education Project, the establishment of the relevant business in the PRC had not yet been successful and the future viability of the PRC Education Project was doubtful. Management had negotiated with the independent third party for the refund of the deposits without success and the Group had 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 was uncertain and, thus, full impairment of the deposits had been made.

(ii) In 2015, staff loans with an 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$520,000 (2017: HK$491,000) are required to be repaid within one year and HK$368,000 (2017: HK$888,000) are required to be repaid after one year. Accordingly, staff loans of HK$520,000 (2017: HK$491,000) are classified as current assets and staff loans of HK$368,000 (2017: HK$888,000) 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.

19. 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:

	2018 HK$'000	2017 HK$'000
0 to 30 days	**1,656**	673

As at 31 December 2018 and 2017, there was no trade receivables from third parties which are past due at the end of the reporting period.

Details of impairment assessment of trade and other receivables for the year ended 31 December 2018 are set out in note 37.

20. AMOUNTS DUE FROM/TO RELATED PARTIES

Amounts due from related parties

	2018 HK$'000	2017 HK$'000
Amounts due from joint ventures:		
Mutual Bright	**2,473**	–
Well Team	**675**	2,000
	3,148	2,000
Impairment loss allowance	**(189)**	–
	2,959	2,000
Amounts due from other related parties:		
Dr. Chun Chun (Note i)	**376**	–
Wealthy Together (Note ii)	**1**	–
Rainbow Creative Arts Limited ("**Rainbow**") (Note iii)	**1,812**	2,236
Dunn's Education Limited ("**Dunn's Education**") (Note iv)	**251**	220
E.L.S.A. EDU. Limited ("**E.L.S.A**") (Note iv)	**14**	375
Excel Concept Technology Development Limited ("**Excel Concept**") (Note v)	**4,595**	–
Red Vocal Limited ("**Red Vocal**") (Note vi)	**535**	–
廣州市白雲區南湖外語藝術幼兒園 ("**南湖幼兒園**") (Note vii)	**49**	–
	7,633	2,831
Impairment loss allowance	**(174)**	–
	7,459	2,831
Total amounts due from related parties	**10,418**	4,831

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

Amounts due from related parties (Continued)

Notes:

(i) Dr. Chun Chun, a non-executive Director, is the spouse of the Controlling Shareholder.

(ii) Wealthy Together is wholly and beneficially owned by Mr. Chiu, an executive Director and the Chairman of the Company.

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

(iv) 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.

(v) Excel Concept is 100% beneficially owned and controlled by the Controlling Shareholder.

(vi) Red Vocal is 50% beneficially owned and controlled by Excel Concept.

(vii) 南湖幼兒園 is 100% beneficially owned and controlled by Guangzhou Delilong, a joint venture of the Group

All balances as at 31 December 2018 and 2017 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 related companies are non-trade in nature.

Details of impairment assessment of amounts due from related parties for the year ended 31 December 2018 are set out in note 37.

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

	2018 HK$'000	2017 HK$'000
Amount due from joint ventures:		
Mutual Bright	**2,473**	3,586
Well Team	**2,000**	4,527
Amounts due from other related parties:		
Dr. Chun Chun	**376**	–
Wealthy Together	**1**	–
Rainbow	**2,236**	2,269
Dunn's Education	**251**	379
E.L.S.A.	**375**	376
Sunshine Chinese Painting ("**Sunshine**") (Note ii)	**–**	14
Stage Photography Company Limited ("**Stage Photography**") (Note iii)	**–**	11
Excel Concept	**4,595**	–
Red Vocal	**535**	–
南湖幼兒園	**49**	–

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

Amounts due to related parties

	2018 HK$'000	2017 HK$'000
Amounts due to joint ventures:		
Mutual Bright	–	171
Milang & Rainbow	**135**	146
	135	317
Amounts due to other related parties:		
Rainbow	–	113
TIM EDPlatform Ltd ("**TIM EDPlatform**") (Note iv)	**79**	–
Hong Kong Association of Children Dance Promotion Co. Limited ("**Hong Kong Association**") (Note i)	**22**	24
Stage Photography	–	5
	101	142
Total amounts due to related parties	**236**	459

Notes:

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

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

(iii) Stage Photography was 75% beneficially owned and controlled by the Controlling Shareholder before the completion of the acquisition of Global Win (BVI) Limited as set out in Note 32a.

(iv) TIM EDPlatform is 73% beneficially owned and controlled by Excel Concept and the Controlling Shareholder.

All balances as at 31 December 2018 and 2017 are unsecured, non-interest bearing and repayable on demand. The amounts due to joint ventures and other related parties are non-trade in nature.

21. AMOUNTS DUE FROM NON-CONTROLLING SHAREHOLDERS OF SUBSIDIARIES

All balances were non-trade in nature, unsecured, non-interest bearing and repayable on demand.

22. HELD FOR TRADING INVESTMENTS

	2018 HK$'000	2017 HK$'000
Listed securities:		
Equity securities listed in the PRC, at fair value	–	5,829
Equity securities listed in Hong Kong, at fair value	**3,587**	1,594
	3,587	7,423

For the year ended 31 December 2018, the loss on change in fair value of held for trading investments amounted to HK$5,783,000.

On 31 December 2018, a Deed of Indemnity ("**Deed**") was entered into between the Company and the representative (the "**Indemnifier**") of an investment manager. The investment manager managed an investment portfolio of the Group with full discretionary investment decision. Pursuant to the Deed, in consideration of the Company continuing to maintain the accounts with the investment manager, the Indemnifier undertakes with the Company that the Indemnifier shall pay the Company an indemnifying amount under the terms of the Deed which is calculated as HK$7,000,000 minus the total value of all the assets (net of any liabilities) under the investment portfolio of the Company. Subsequent to the end of the reporting period, the Group has served an indemnity notice and received an amount of HK$5,318,000 from the Indemnifier.

23. BANK BALANCES AND CASH

The bank balances carried interest at average market rates of 0.02% (2017: 0.02%) per annum as at 31 December 2018 and 2017.

For the year ended 31 December 2018, the Group performed impairment assessment on bank balances and concluded that the probability of defaults of the counterparty banks are insignificant and accordingly, no allowance for credit losses is provided.

24. TRADE AND OTHER PAYABLES AND ACCRUED CHARGES/DEFERRED INCOME

Trade and other payables and accrued charges

	2018 HK$'000	2017 HK$'000
Accrued rental expenses	**1,391**	1,792
Accrued staff costs	**412**	508
Other payables and accrued charges (Note)	**12,929**	4,774
Proceeds from issuing two-year bonds received in advance (Note 30)	**–**	67,450
	14,732	74,524
Less: Non-current portion (Note 30)	**–**	(67,450)
Current portion	**14,732**	7,074

Note: Included in other payables and accrued charges amount of HK$3,550,000 represented corporate bonds' interest accrued for the year ended 31 December 2018 (2017: nil)

Deferred income

Deferred income represents the course fee received in advance pursuant to the contracts with customers.

The following table shows how much of the revenue recognised in the current year relates to carried-forward deferred income.

	Dance courses HK$'000
Revenue recognised that was included in the deferred income balance at the beginning of the year	39,256

25. PROVISIONS

	Provision for reinstatement cost HK$'000
As at 1 January 2017	2,045
Additions	131
Utilised during the year	(100)
Exchange realignment	3
As at 31 December 2017	2,079
Additions	511
Utilised during the year	(184)
Exchange realignment	(6)
As at 31 December 2018	**2,400**

	2018 **HK$'000**	2017 HK$'000
Analysed as		
Current	**832**	737
Non-current	**1,568**	1,342
	2,400	2,079

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.

26. BANK AND OTHER BORROWINGS

The following table provides an analysis of the bank and other borrowings:

	2018 HK$'000	2017 HK$'000
Bank overdraft (Note b)	627	–
Securities margin loan (Note a)	1,904	–
Bank borrowing (Note b)	521	–
	3,052	–

The carrying amounts of bank and other borrowings that contain a repayable on demand clause (show under current liabilities) but are repayable based on schedule repayment dates set out in the loan agreements:

	2018 HK$'000	2017 HK$'000
Within one year	2,738	–
Over one year but not exceeding two years	219	–
Over two years but not exceeding five years	95	–
	3,052	–

Notes:

(a) Securities margin loan

This represents securities margin financing received from stock broking house which is secured by certain collateral of the Group as disclosed in note 33. Additional funds or collateral are required if the balance of the borrowing exceeds the eligible margin value of securities pledged to the broking house. The collateral can be sold at the broking houses' discretion to settle any outstanding borrowing owed by the Group. The entire loan is repayable on demand and bears variable interest at prime rate plus 0.75% per annum (2017: nil).

(b) Bank overdraft and bank borrowing

As at 31 December 2018, bank borrowing of HK$521,000 (2017: nil) bears variable interest at Best Lending Rate plus 1% per annum (2017: nil). The bank overdraft and bank borrowing are secured by a property of a non-executive director and also guaranteed by a non-executive director for unlimited amount.

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

On 1 September 2017, Prism entered into "**Investment Agreements I**" and supplemental agreements on 25 September 2017 and 28 September 2017, respectively, with three individual independent investors (the "**Investors**"). Pursuant to the Investment Agreements I 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 I 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 (credited) to other gains or losses (Note 6)	1,029	(536)	493
At 31 December 2017	5,232	3,398	8,630
Change in fair value charged (credited) to other gains or losses (Note 6)	1,102	(587)	515
At 31 December 2018	**6,334**	**2,811**	**9,145**

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

As at 31 December 2018, the share redemption amount at discount rate of approximately 9.5% (2017: 9.6%) on 31 December 2018 amounting to HK$6,334,000 (2017: HK$5,232,000) which has been recognised in the consolidated statement of financial position with the fair value change for the 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 through profit or loss.

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

The fair value of the put options was determined by an independent qualified valuer using binominal option pricing model with the following key inputs:

	At 31 December 2018	At 31 December 2017	At 1 September 2017
Volatility (Note a)	**43.03%**	43.07%	43.30%
Time-to-maturity (Note b)	**4.75 years**	5.75 years	6.08 years
Risk-free rate (Note c)	**1.81%**	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 2018	At 31 December 2017	At 1 September 2017
Discount rate	**9.5%**	9.6%	13.1%

As at 31 December 2018, as the Investors have no right to exercise the put options and demand for the redemption amounts until 1 January 2023 or later pursuant to the Investment Agreements I, the obligation arising from put options written to non-controlling shareholders of a subsidiary were classified as non-current liabilities as at 31 December 2018 (2017: non-current liabilities).

28. SHARE CAPITAL

	Number of shares	Share capital HK$'000
Ordinary shares of HK$0.1 each		
Authorised:		
As at 1 January 2017, 31 December 2017 and 2018	8,000,000,000	800,000
Issued:		
As at 1 January 2017	200,000,000	20,000
Issued as consideration for the acquisition of subsidiaries (Note a) (Note 32)	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 and 31 December 2018	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 sale and purchase agreement and supplementary agreement dated 14 March 2016 and 20 July 2016 respectively for the acquisition of 60% equity interest in Octopus Group Limited ("**Octopus**") and its subsidiaries (collectively referred to as the "**Octopus Group**"), 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, after 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, after issuing expenses of HK$520,000, was credited to the Company's share premium.

29. DEFERRED TAXATION

The following is the deferred tax assets (liabilities) recognised and movements thereon during the current and prior reporting years.

	Accelerated accounting depreciation HK$'000	Intangible assets HK$'000	Total HK$'000
Aa at 1 January 2017 and 31 December 2017	331	–	331
Exchange adjustments	–	(11)	(11)
Credit to profit or loss for the year (note 8)	–	73	73
Acquisition of businesses (note 32)	–	(2,368)	(2,368)
At 31 December 2018	331	(2,306)	(1,975)

The following is an analysis of the deferred tax balances for financial reporting purposes:

	2018 HK$'000	2017 HK$'000
Deferred tax assets	**331**	331
Deferred tax liabilities	**(2,306)**	–
	(1,975)	331

At 31 December 2018, the Group had estimated unused tax losses of HK$75,648,000 (2017: HK$28,897,000) 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 losses of HK$14,925,000 (2017: HK$10,861,000) that will expire in five years from the year of origin. All other tax losses may be carried forward indefinitely.

At 31 December 2018, the Group has deductible temporary differences of HK$11,927,000 (2017: HK$6,388,000). 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.

30. CORPORATE BONDS

On 11 December 2017, the Company as the issuer entered into the Placing Agreement with 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 in advance on 27 December 2017 for issuing 71 bonds and recognised as other payable within non-current liabilities at 31 December 2017. The bonds were issued during the year ended 31 December 2018.

As at 31 December 2018, the bonds amounted to HK$69,225,000 (2017: nil) were recorded as non-current liabilities.

31. RETIREMENT BENEFITS SCHEME/SHARE OPTION SCHEME

(a) 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.

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.

The Group makes legally required contributions to the Central Provident Fund ("**CPF**") in Singapore for its employees employed in Singapore who are Singapore citizens or permanent residents as prescribed by the Central Provident Fund Act of Singapore. The Group's obligation, in regard to the defined contribution plan, is limited to the amount it contributes to the CPF. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees.

The total contributions to the retirement benefits scheme charged to the consolidated statement of profit or loss and other comprehensive income during the year was HK$2,188,000 (2017: HK$1,049,000).

31. RETIREMENT BENEFITS SCHEME/SHARE OPTION SCHEME (CONTINUED)

(b) The Company's share option scheme (the "**Scheme**") was adopted pursuant to a resolution passed on 26 September 2014 for the primary purpose of providing incentives to directors, eligible employees and customers. Under the Scheme, the Board of Directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company. Additionally, the Company may, from time to time, grant share options to outside third parties for settlement in respect of goods or services provided to the Company or to customers for maintaining business relationship. The Scheme will be valid and effective for a period of 10 years from the date of adoption.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

There is no general requirement that an option must be held for any minimum period before it can be exercised but the Board of Directors is empowered to impose at its discretion any such minimum period at the time of grant of any particular option. The exercise price is determined by the directors of the Company, and will not be less than the higher of (i) the closing price of the Company's shares on the date of grant, (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

No share option has been granted pursuant to the Scheme since its adoption by the Company up to 31 December 2018.

32. ACQUISITION AND DISPOSAL OF SUBSIDIARIES

(a) Acquisition of Global Win Group

Pursuant to the sales and purchase agreement dated 18 September 2017 and subsequent supplemental agreements on 30 March 2018 and 19 June 2018 (collectively referred to "**Global Win S&P Agreements**") 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 acquired the entire issued share capital of Global Win at 31 July 2018 with total consideration of HK$32,000,000 which shall be satisfied by way of issue of 80,000,000 new ordinary shares of the Company to each of the Vendors in proportion to their respective shareholdings in Global Win ("**Consideration Payable**"). The principal assets of Global Win is its investment in the wholly owned subsidiaries, Hong Kong Speech & Swallowing Therapy Co. Limited ("**Hong Kong Speech**") and Stage Photography (collectively refer to as the "**Global Win Group**"). Hong Kong Speech is engaged in the provision of swallowing and speech treatments. Stage Photography is engaged in the provision of photographic services for children.

	HK$'000
Consideration Transferred	
Consideration payable (Note)	36,000

Note: Pursuant to the Global Win S&P Agreements, the Consideration Payable, subject to adjustment, shall be paid in three installments, which shall be satisfied by the allotment and issue of the respective maximum number of new ordinary shares of the Company within five business days after the date of issuance of the audited financial statements for Global Win Group for the 1 to 12 full months, 13 to 24 months and 25 to 36 months following the completion of the acquisition of Global Win ("**Relevant Periods**").

Pursuant to the Global Win S&P Agreements, the Vendors jointly and severally and irrevocably and unconditionally guarantee to the Company that the audited consolidated net profit after taxation (excluding all income or loss generated from activities outside the ordinary and usual course of business) ("**Actual Net Profit**") of Global Win Group based on the audited financial statements for the respective Relevant Periods, shall not be less than the guaranteed profits ("**Guaranteed Profits**"). If the Actual Net Profit is less than the Guarantee Profits, the number of new ordinary shares of the Company to be issued as consideration should be adjusted in accordance with the terms of the Global Win S&P Agreements. The details of the Global Win S&P Agreements are set out in the circular issued by the Company dated 6 July 2018.

At the date of obtaining the control of Global Win and 31 December 2018, the directors of the Company considered that the Guaranteed Profits for each of the three Relevant Periods shall be achievable, 80,000,000 new ordinary shares of the Company should be issued in accordance with the Global Win S&P Agreements.

The Consideration Payable is recognised at fair value. Subsequent to the initial recognition, the Consideration Payable is measured at fair value with changes in fair value through profit or loss. The fair value of the Consideration Payable at the date of obtaining the control of Global Win of HK$36,000,000 is determined by reference to the quoted market price of HK$0.45 per each of the ordinary shares of the Company at the date of obtaining the control of Global Win. As at 31 December 2018, the fair value of the Consideration Payable is HK$47,200,000 which is determined by reference to the quoted market price of HK$0.59 per each of the ordinary shares of the Company at 31 December 2018. The Group recognised a loss on change in fair value of Consideration Payable of HK$11,200,000 in profit or loss during the year ended 31 December 2018.

The directors of the Company considered that 26,500,000 new ordinary shares of the Company will be issued within one year from 31 December 2018 and the remaining 53,500,000 new ordinary shares of the Company will be issued after one year from 31 December 2018 in accordance with the terms of the Global Win S&P agreements. Accordingly, the carrying amount of Consideration Payable of HK$15,635,000 is classified as current liabilities and the carrying amount of Consideration Payable of HK$31,565,000 is classified as non-current liabilities.

Acquisition-related costs amounting to HK$315,000 have been excluded from the consideration transferred and have been recognised and included in expense in the current year, within the "other expenses" line item, in the consolidated statement of profit or loss and other comprehensive income.

32. ACQUISITION AND DISPOSAL OF SUBSIDIARIES (CONTINUED)

(a) Acquisition of Global Win Group (Continued)

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

	HK$'000
Property, plant and equipment	135
Intangible assets	8,530
Trade and other receivables	1,695
Amounts due from related parties	4,739
Bank balances and cash	1,234
Trade and other payables and accrued charges	(1,912)
Amounts due to related parties	(271)
Tax payable	(53)
Deferred tax liabilities	(1,407)
Borrowings	(1,562)
Net assets recognised	11,128

The aggregate fair value of trade and other receivables and amounts due from related companies at the date of acquisition amounted to HK$6,434,000, which represented the best estimation of the contractual cash flow expected to be collected at the acquisition date.

	HK$'000
Goodwill arising on acquisition:	
Consideration transferred	36,000
Less: Net assets recognised	(11,128)
	24,872

Goodwill arose in the acquisition of Global Win Group because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of Global Win Group. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on these acquisitions is expected to be deductible for tax purposes.

32. ACQUISITION AND DISPOSAL OF SUBSIDIARIES (CONTINUED)

(a) Acquisition of Global Win Group (Continued)

	HK$'000
Net cash inflow arising on acquisition:	
Cash consideration	–
Add: bank overdraft acquired	(955)
Less: bank balances and cash acquired	1,234
	279

Included in the loss for the year ended 31 December 2018 is profit of HK$1,432,000 attributable to Global Win Group. Revenue for the year ended 31 December 2018 includes HK$5,285,000 generated from Global Win Group.

(b) Acquisition of Columbia Group (as defined in below)

Pursuant to the sales and purchase agreement dated 29 June 2018 ("**Columbia S&P Agreement**") entered into by a wholly owned subsidiary of the Company and two independent third parties, the Group acquired 90% issued share capital of Columbia Academy Pte Limited and Columbia Junior Academy Pte Limited, companies incorporated in Singapore with limited liabilities (collectively referred to as the "**Columbia Group**") at 3 July 2018 with total cash consideration of S$2,059,000 (equivalent to approximately HK$11,826,000). Columbia Group is principally engaged in the operation of two pre-schools under the brand "Columbia Academy" in Singapore.

	HK$'000
Consideration Transferred	
Cash	11,826

Acquisition-related costs amounting to HK$178,000 have been excluded from the consideration transferred and have been recognised and included in expense in the current year, within the "other expenses" line item, in the consolidated statement of profit or loss and other comprehensive income.

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

	HK$'000
Property, plant and equipment	271
Intangible assets	747
Trade and other receivables	1,305
Bank balances and cash	389
Trade and other payables and accrued charges	(1,148)
Tax payable	(135)
Deferred tax liabilities	(127)
	1,302
Non controlling interests	(130)
Net assets recognised	1,172

32. ACQUISITION AND DISPOSAL OF SUBSIDIARIES (CONTINUED)

(b) Acquisition of Columbia Group (as defined in below) (Continued)

The fair value of trade and other receivables at the date of acquisition amounted to HK$1,305,000 which represented the best estimation of the contractual cash to be collected at the acquisition date.

	HK$'000
Goodwill arising on acquisition:	
Consideration transferred	11,826
Less: Net assets recognised	(1,172)
	10,654

Goodwill arose in the acquisition of Columbia Group because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of Columbia Group. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on these acquisitions is expected to be deductible for tax purposes.

	HK$'000
Net cash outflow arising on acquisition:	
Cash consideration	(11,826)
Less: bank balances and cash acquired	389
	(11,437)

Included in the loss for the year ended 31 December 2018 is profit of HK$566,000 attributable to Columbia Group. Revenue for the year ended 31 December 2018 includes HK$4,884,000 generated from Columbia Group.

32. ACQUISITION AND DISPOSAL OF SUBSIDIARIES (CONTINUED)

(c) Acquisition of Tinkerland (as defined in below)

Pursuant to the sales and purchase agreement dated 3 October 2018 ("**Tinkerland S&P Agreement**") entered into by a wholly owned subsidiary of the Company and two independent third parties, the Group acquired 90% issued share capital of Tinkerland Private Limited, a company incorporated in Singapore with limited liabilities ("**Tinkerland**") at 3 October 2018 with total cash consideration of S$1,890,000 (equivalent to approximately HK$10,751,000). Tinkerland is principally engaged in the operation of a pre-school in Singapore.

	HK$'000
Consideration Transferred	
Cash	10,751

Acquisition-related costs amounting to HK$62,000 have been excluded from the consideration transferred and have been recognised and included in expense in the current year, within the "other expenses" line item, in the consolidated statement of profit or loss and other comprehensive income.

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

	HK$'000
Property, plant and equipment	76
Intangible assets	1,707
Trade and other receivables	932
Bank balance and cash	428
Trade and other payables and accrued charges	(923)
Tax payable	(3)
Deferred tax liabilities	(290)
	1,927
Non-controlling interests	(193)
Net assets recognised	1,734

32. ACQUISITION AND DISPOSAL OF SUBSIDIARIES (CONTINUED)

(c) Acquisition of Tinkerland (as defined in below) (Continued)

The fair value of trade and other receivables at the date of acquisition amounted to HK$932,000, which represented the best estimation of the contractual cash flow expected to be collected at the acquisition date.

	HK$'000
Goodwill arising on acquisition:	
Consideration transferred	10,751
Less: Net assets recognised	(1,734)
	9,017

Goodwill arose in the acquisition of Tinkerland because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of Tinkerland. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on these acquisitions is expected to be deductible for tax purposes.

	HK$'000
Net cash outflow arising on acquisition:	
Cash consideration	(10,751)
Less: bank balances and cash acquired	428
	(10,323)

Included in the loss for the year ended 31 December 2018 is profit of HK$319,000 attributable to Tinkerland. Revenue for the year ended 31 December 2018 includes HK$1,601,000 generated from Tinkerland.

32. ACQUISITION AND DISPOSAL OF SUBSIDIARIES (CONTINUED)

(d) Acquisition of BTT Group (as defined in below)

Pursuant to the sales and purchase agreement dated 12 November 2018 entered into by a wholly owned subsidiary of the Company and three independent third parties, the Group acquired the entire issued share capital of Between Two Trees Pte Limited and The Lighthouse Keepers Pte Limited, companies incorporated in Singapore with limited liabilities (collectively referred to as the "**BTT Group**") at 12 November 2018 with total cash consideration of S$1,350,000 (equivalent to approximately HK$7,651,000). BTT Group is principally engaged in the operation of a pre-school in Singapore.

	HK$'000
Consideration Transferred	
Cash	7,651

Acquisition-related costs amounting to HK$75,000 have been excluded from the consideration transferred and have been recognised and included in expense in the current year, within the "other expenses" line item, in the consolidated statement of profit or loss and other comprehensive income.

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

	HK$'000
Property, plant and equipment	51
Intangible assets	3,288
Trade and other receivables	621
Bank balances and cash	145
Trade and other payables and accrued charges	(1,463)
Deferred tax liabilities	(544)
Net assets recognised	2,098

The fair value of trade and other receivables at the date of acquisition amounted to HK$621,000, which represented the best estimation of the contractual cash flow expected to be collected at the acquisition date.

32. ACQUISITION AND DISPOSAL OF SUBSIDIARIES (CONTINUED)

(d) Acquisition of BTT Group (as defined in below) (Continued)

	HK$'000
Goodwill arising on acquisition:	
Consideration transferred	7,651
Less: Net assets recognised	(2,098)
	5,553

Goodwill arose in the acquisition of BTT Group because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of BTT Group. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on these acquisitions is expected to be deductible for tax purposes.

	HK$'000
Net cash outflow arising on acquisition:	
Cash consideration	(7,651)
Less: bank balances and cash acquired	145
	(7,506)

Included in the loss for the year ended 31 December 2018 is loss of HK$157,000 attributable to BTT Group. Revenue for the year ended 31 December 2018 includes HK$1,043,000 generated from BTT Group.

(e) Acquisition of Octopus Group

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.

32. ACQUISITION AND DISPOSAL OF SUBSIDIARIES (CONTINUED)

(e) Acquisition of Octopus Group (Continued)

	HK$'000
Consideration transferred	
Cash	500
Ordinary shares of the Company issued at fair value (Note 28(a))	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.

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
Bank balances and cash	162
Trade and other payables and accrued charges	(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.

32. ACQUISITION AND DISPOSAL OF SUBSIDIARIES (CONTINUED)

(e) Acquisition of Octopus Group (Continued)

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

(f) Disposal of Metro Noble Limited

On 11 April 2018, the Group disposed of 100% of the entity interest in Metro Noble Limited for a cash consideration of HK$7,200,000.

The completion of the disposal of the wholly owned subsidiary, Metro Noble Limited, took place on 11 April 2018.

	HK$'000
Consideration (note)	7,200
Analysis of assets and liabilities over which control was lost:	
Rental deposits	6,569
Trade and other receivables, deposits and prepayments	1,197
Bank balances and cash	4
Other payables and accrued charges	(901)
Net assets attributable to Metro Noble Limited disposed of	6,869
Gain on disposal of a subsidiary:	
Consideration	7,200
Net assets attributable to Metro Noble Limited disposed of	(6,869)
Gain on disposal	331
Net cash outflow arising from disposal:	
Bank balances and cash disposed of	(4)

Note: Pursuant to the relevant sale and purchase agreement of the disposal, the Group utilised the proceed of the disposal of HK$7,200,000 to make the prepayment of the services fees and rental to the buyer and included as "prepayments" at 31 December 2018.

During the period between 1 January 2018 and the date of disposal, Metro Noble Limited contributed no material profit or loss to the Group's results. Metro Noble Limited did not have a material effect on the Group's cash flows during the year.

32. ACQUISITION AND DISPOSAL OF SUBSIDIARIES (CONTINUED)

(g) Disposal of Octopus Group

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

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

	HK$'000
Consideration received:	
Cash received	500
Consideration receivable included in other receivables (Note 19)	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
Bank balances and cash	54
Trade and other payables	(4,703)
Net liabilities disposed of	(2,354)
Non-controlling interests	942
Net liabilities attributable to Octopus Group disposed of	(1,412)
Loss on disposal of subsidiaries	
Consideration received and receivable	1,460
Net liabilities attributable to Octopus 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: bank balances and cash disposed of	(54)
	446

During the period between 1 January 2017 and the date of disposal, Octopus Group contributed no material profit or loss to the Group's results. Octopus Group did not have a material effect on the Group's cash flow during the year ended 31 December 2017.

32. ACQUISITION AND DISPOSAL OF SUBSIDIARIES (CONTINUED)

If the above acquisitions of subsidiaries during the year ended 31 December 2018 had been completed on 1 January 2018, total group revenue and loss for the year would have been HK$91,632,000 and HK$51,414,000 respectively. The pro forma information is for illustrative purpose only and is not necessarily an indication of revenue and results of the operations of the Group that actually would have been achieved had above acquisition been completed on 1 January 2018, nor is it intended to be projection of future results.

If the above acquisition of a subsidiary during the year ended 31 December 2017 had been completed on 1 January 2017, there is no significant impact to total group revenue and loss for the year. The pro forma information is for illustrative purpose only and is not necessarily an indication of revenue and results of the operations of the Group that actually would have been achieved had above acquisition been completed on 1 January 2017, nor is it intended to be projection of future results.

33. PLEDGE OF ASSET

	2018 HK$'000	2017 HK$'000
Held for trading investments	**3,587**	–

34. 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:

	2018 HK$'000	2017 HK$'000
Within one year	**34,574**	22,521
In the second to fifth year inclusive	**39,105**	27,340
After five years	**747**	634
	74,426	50,495

34. COMMITMENTS (CONTINUED)

Operating Lease Commitments (Continued)

The Group as lessee (Continued)

The Group leases its office premises and dancing schools and pre-schools under operating lease arrangements. Leases for office premises, dancing schools and pre-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:

	2018 HK$'000	2017 HK$'000
Not later than one year	**176**	1,598
Later than one year and not later than five years	**–**	176
	176	1,774

Other commitments

(i) The Group has commitment to contribute a registered capital of RMB3,000,000 (2017: RMB3,000,000) to Guangzhou Delilong and a subsidiary, 廣州樂動心弦文化發展有限公司, respectively as at 31 December 2018.

(ii) Pursuant to Columbia S&P Agreement and Tinkerland S&P Agreement, the Group has commitment to acquire the remaining equity interest of Columbia Group and Tinkerland at a total cash consideration of S$324,000 (equivalent to HK$1,862,000).

(iii) Pursuant to Happy Family S&P Agreements, the Group has commitment to acquire the Happy Family Businesses at a consideration of S$1,250,000 (equivalent to HK$7,184,000). Up to 31 December 2018, the Group has paid S$575,000 (equivalent to approximately HK$3,305,000) to the Happy Family Vendors up to 31 December 2018.

35. 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 ended 31 December 2017.

36. 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 net debt, which includes borrowings net of cash and cash equivalents and 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.

37. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2018 HK$'000	2017 HK$'000
Financial assets		
Financial assets at amortised cost	**75,217**	–
Loans and receivables (including cash and cash equivalents)	**–**	144,915
Financial assets and FVTPL — Held for trading investments	**3,587**	7,423
Financial liabilities		
Financial liabilities at FVTPL		
— Obligation arising from put options written to non-controlling shareholders of a subsidiary	**9,145**	8,630
— Consideration payable	**47,200**	–
Amortised cost	**85,442**	72,683

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 and non-controlling shareholders of subsidiaries, bank balances and cash, trade and other payables and accrued charges, amounts due to related parties, bank and other borrowings, corporate bonds, obligation arising from put options written to non-controlling shareholders of a subsidiary and consideration payable. 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 and bank and other borrowings (Note 26). The Group's fair value interest rate risk relates primarily to its fixed rate corporate bonds (Note 30).

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 and bank and other borrowings (Note 26) is not expected to have significant impact to the Group in the near future, hence sensitivity analysis is not presented.

37. 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 other than the respective group entities, functional currencies at the end of the reporting period are as follows:

	Bank balances and cash		Other receivables and deposits	
	2018	2017	**2018**	2017
	HK$'000	HK$'000	**HK$'000**	HK$'000
United States Dollars ("**US$**")	**20,494**	–	**–**	–
Renminbi ("**RMB**")	**59**	1,022	**2,740**	6,613
HK$	**–**	–	**–**	291
S$	**11,312**	–	**–**	5,771
AU$	**3,363**	–	**1,295**	–

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.

The directors of the Company expect the foreign exchange exposure on US$ against HK$ to be minimal because HK$ is pegged with US$ under the Linked Exchanged Rate System. Accordingly, no sensitivity analysis is presented for it.

Foreign currency sensitivity analysis

The following table details the Group's sensitivity to a 5% increase in the exchange rates of functional currencies of the group entities against foreign currencies of respective group entities. 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 functional currencies of the group entities against foreign currencies of respective group entities. A (negative) positive number below indicates (increase) decrease in post-tax loss for the year, respectively, where the functional currencies of the group entities strengthen 5% against foreign currency of respective group entities. For a 5% weakening of the functional currencies of the group entities against foreign currencies of respective group entities, there would be an equal and opposite impact on the post-tax loss for the year.

	2018	2017
	HK$'000	HK$'000
Profit or loss		
RMB	**(140)**	(382)
HK$	**–**	(15)
S$	**(566)**	(289)
AU$	**(233)**	–

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.

37. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (Continued)

Credit risk

The Group's credit risk is primarily attributable to trade and other receivables, staff loans, amounts due from related parties and non-controlling shareholders of subsidiaries 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 and other 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 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 and non-controlling shareholders of subsidiaries (including joint ventures) are insignificant after considering the subsequent settlement and financial ability of the counterparties.

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

Impairment assessment on financial assets and other items subject to ECL model

Trade receivables

Trade receivables from third parties mainly represent receivables from financial institutions in relation to the payments settled by credit cards by customers of which the settlement period is normally one to two months from transaction date. No credit period is granted for tutoring and examination fee as they are normally received in advance.

The directors of the Company are of the opinion that the credit risks of these receivables are minimal as there are from creditworthy financial institutions with no history of defaults. The credit risk is insignificant. No impairment is made for these receivables.

Amounts due from related parties and non-controlling shareholders of subsidiaries

Details of the amounts due from related parties and non-controlling shareholders of subsidiaries are set out in notes 20 and 21 respectively. At the end of the reporting period, the directors of the Company have assessed the financial position of the debtors as well as the economic outlook of the industries in which the debtors operate, and concluded that there has been no significant increase in credit risk since initial recognition of the amounts due from related parties and non-controlling shareholders of subsidiaries. Accordingly, the loss allowance for amounts due from related parties and non-controlling shareholders of subsidiaries is measured at an amount equal to 12m ECL.

37. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (Continued)

Impairment assessment on financial assets and other items subject to ECL model (Continued)

The movement in the allowance for impairment in respect of amounts due from related parties and non-controlling shareholders of subsidiaries during the current year was as follows:

	Amounts due from related parties HK$'000	Amounts due from non-controlling shareholders of subsidiaries HK$'000
Balance at 1 January 2018*	–	–
Net remeasurement of loss allowance	363	90
Balance at 31 December 2018	363	90

* The Group has initially applied HKFRS 9 at 1 January 2018. Under the translation method chosen, comparative information is not restated.

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.

37. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

	Weighted average interest rate	Less than 3 months and on demand HK$'000	4 months to 1 year HK$'000	1 to 2 years HK$'000	More than 2 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amounts HK$'000
At 31 December 2018							
Non-derivative liabilities							
Trade and other payables	–	12,929	–	–	–	12,929	12,929
Amounts due to related parties	–	236	–	–	–	236	236
Bank and other borrowings	2%	3,052	–	–	–	3,052	3,052
Corporate bonds	5%	–	–	74,550	–	74,550	69,225
		16,217	–	74,550	–	90,767	85,442
Derivatives — gross settlement							
Obligation arising from put options written to non-controlling shareholders of a subsidiary	–	–	–	–	9,739	9,739	9,145
At 31 December 2017							
Non-derivative liabilities							
Trade and other payables	5%*	5,282	–	–	78,100	83,382	72,224
Amounts due to related parties	–	459	–	–	–	459	459
		5,741	–	–	78,100	83,841	72,683
Derivatives — gross settlement							
Obligation arising from put options written to non-controlling shareholders of a subsidiary	–	–	–	–	8,906	8,906	8,630

* It represents the weighted average interest rate for other payable within non-current liabilities with carrying amount of HK$67,450,000. The remaining amount of trade and other payables is non-interest bearing.

Maturity analysis bank borrowings with a repayable on demand clause based on schedule repayment:

	Less than 1 year HK$'000	1 to 2 years HK$'000	2 to 5 years HK$'000	Total undiscounts cash flows HK$'000	Total carrying amount HK$'000
As at 31 December 2018	2,763	232	97	3,092	3,052

The amount included above for variable interest rate instruments for non-derivative financial liabilities are subject to change, if changes in variable interest rates differ to those estimates of interest rates determined at the end of reporting period.

37. 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, obligation arising from put options written to non-controlling shareholders of a subsidiary and consideration payable 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 and financial liabilities 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 2018	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$3,587,000 (2017: HK$7,423,000)	Level 1	Quoted bid 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$6,334,000 (2017: HK$5,232,000)	Level 3	Discounted cash flows	Credit risk of comparable companies (Note 1)
	Put options — HK$2,811,000 (2017: HK$3,398,000)	Level 3	Binominal option pricing model	Volatility of the daily return of comparable stock (Note 2)
Consideration payable	HK$47,200,000 (2017: nil)	Level 1	Quoted bid prices in an active market	N/A

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$268,000 (2017: HK$267,000).

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$370,000 (2017: HK$139,000).

There is no transfer between different levels of the fair value hierarchy for the year ended 31 December 2018.

37. 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**
Change in fair value — unrealised	**1,102**	**(587)**	**515**
At 31 December 2018	**6,334**	**2,811**	**9,145**

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 27.

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.

38. 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 HK$'000	Proceeds from issuing two-year bonds received in advance HK$'000	Obligation arising from put options written to non-controlling shareholders of a subsidiary HK$'000	Corporate bonds HK$'000	Interest payable HK$'000	Bank and other borrowings HK$'000	Total HK$'000
At 1 January 2017	2,495	–	–	–	–	–	2,495
Financing cash flows	(2,036)	67,450	–	–	–	–	65,414
Initial recognition of redemption amount and put options	–	–	8,137	–	–	–	8,137
Fair value changes	–	–	493	–	–	–	493
At 31 December 2017	459	67,450	8,630	–	–	–	76,539
Transfer	–	(67,450)	–	67,450	–	–	–
Acquisition of subsidiaries	271	–	–	–	–	607	878
Financing cash flows	(494)	–	–	–	(262)	1,818	1,062
Fair value changes	–	–	515	–	–	–	515
Finance costs	–	–	–	1,775	3,812	–	5,587
At 31 December 2018	236	–	9,145	69,225	3,550	2,425	84,581

39. RELATED PARTY TRANSACTIONS

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

	2018 HK$'000	2017 HK$'000
Rental income from related companies:		
— Rainbow	**563**	830
— Dunn's Education	**1,402**	1,569
— Sunshine	**226**	180
— Red Vocal	**540**	–
	2,731	2,579

39. RELATED PARTY TRANSACTIONS (CONTINUED)

	2018 HK$'000	2017 HK$'000
Management fee income received from:		
Joint ventures:		
— Mutual Bright	**2,000**	1,620
— Well Team	**1,000**	800
	3,000	2,420

As at 31 December 2018, borrowings of HK$1,148,000 were guaranteed by Dr. Chun Chun, a non-executive director of the Company and pledged by a property owned by Dr. Chun Chun. Dr. Chun Chun did not charge the Group for the guarantee provided and pledge of her property. In addition, the repayment of Company's corporate bonds were guaranteed by Wealthy Together.

Compensation of key management personnel

The remuneration of directors and other members of key management of the Group during the years ended 31 December 2018 and 2017 were as follows:

	2018 HK$'000	2017 HK$'000
Short-term benefits	**5,216**	2,024
Post-employment benefits	**100**	36
	5,316	2,060

40. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries of the Group as at 31 December 2018 and 2017 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 2018 %	2017 %	Principal activities
Brilliant Together	BVI	Hong Kong	US$1	**100**	100	Investment holding
Cool Kids International Limited	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 (Note 1)	**100**	100	Jazz and ballet academy
SDM Chatsworth International Nursery Limited ("**SDM Chatsworth**")	Hong Kong	Hong Kong	HK$125	**80**	100	Investment holding
Prism	Hong Kong	Hong Kong	HK$15,018,500	**40** (Note 2)	65	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
Global Win	BVI	Hong Kong	US$100	**100**	–	Investment holding

40. PARTICULARS OF PRINCIPAL SUBSIDIARIES (CONTINUED)

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 2018 %	2017 %	Principal activities
Hong Kong Speech	Hong Kong	Hong Kong	HK$1,001,690	**100**	–	Provision of Swallowing and speech treatments
Stage Photography	Hong Kong	Hong Kong	HK$100	**100**	–	Provision of photographic services for children
Columbia Academy Pte Limited	Singapore	Singapore	S$100,000	**95**	–	Operation of a pre-school in Singapore
Columbia Junior Academy Pte Limited	Singapore	Singapore	S$500,000	**95**	–	Operation of a pre-school in Singapore
Tinkerland Pte Limited	Singapore	Singapore	S$100	**90**	–	Operation of a pre-school in Singapore
Between Two Trees Pte Limited	Singapore	Singapore	S$20	**100**	–	Holding licenses of a pre-school in Singapore
The Lighthouse Keepers Pte Limited	Singapore	Singapore	S$500,000	**100**	–	Operation of a pre-school in Singapore

Notes:

(1) No registered capital was paid as of 31 December 2018. 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.

(2) SDM Chatsworth held 60% voting power by virtue of the agreement with other investor and can exercise control over Prism accordingly.

All subsidiaries are owned indirectly by the Company except for Brilliant Together, Fortune Apex Enterprises Limited, SDM Art Limited, Tycoon Together and Global Win which are owned directly by the Company.

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.

The above table lists the principal subsidiaries of the Company which, in the opinion of the directors of the Company, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors of the Company, result in particulars of excessive length.

40. PARTICULARS OF PRINCIPAL SUBSIDIARIES (CONTINUED)

Changes in ownership interest in subsidiaries

During the years ended 31 December 2018 and 2017, the Group has the following changes in ownership interest in subsidiaries:

1. During the year ended 31 December 2018, SDM Chatsworth allotted and issued new ordinary shares of SDM Chatsworth to an investor, representing a total 20% of the enlarged entire issued ordinary share capital of SDM Chatsworth with a cash consideration of HK$25. The difference between the consideration received and the carrying amount of the Group's interest in SDM Chatsworth of HK$884,000 was credited to equity as other reserve during the year ended 31 December 2018.

2. On 31 July 2018, Prism entered into "**Investment Agreement II**" with two individual independent investors (the "**Two Investors**"). Pursuant to the Investment Agreement II, the Two Investors agreed to subscribe for and Prism agreed to allot and issue new ordinary shares of Prism to the Two Investors, representing a total of 15% of the enlarged entire issued ordinary share capital of Prism with a total cash consideration of HK$4,500,000. The difference between the consideration received and the carrying amount of the Group's interest in Prism of HK$2,574,000 was credited to equity as other reserve during the year ended 31 December 2018.

3. During the year ended 31 December 2018, the Group acquired additional 5% equity interest in Columbia Group a total cash consideration of S$114,000 (equivalent to HK$658,000) under Columbia S&P Agreement. The difference between the consideration paid and the carrying amount of the Group's additional interest in Columbia Group of HK$606,000 was debited to equity as other reserve during the year ended 31 December 2018.

4. 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, 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 32.

5. 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 27.

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		Loss allocated to non-controlling interests		Accumulated non-controlling interests	
	2018	2017	**2018**	2017	**2018**	2017
	%	%	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Prism	**60**	35	**(6,015)**	(961)	**(5,804)**	(967)
Individually immaterial subsidiaries with non-controlling interests			**(204)**	(278)	**(687)**	(618)
			(6,219)	(1,239)	**(6,491)**	(1,585)

40. PARTICULARS OF PRINCIPAL 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.

	2018 HK$'000	2017 HK$'000
Current assets	**4,820**	7,877
Non-current assets	**2,280**	3,260
Current liabilities	**(7,322)**	(5,210)
Non-current liabilities	**(9,451)**	(8,690)
Equity attributable to owners of the Company	**(3,869)**	(1,796)
Non-controlling interests	**(5,804)**	(967)

	2018 HK$'000	2017 HK$'000
Revenue	**1,937**	443
Expenses	**(12,851)**	(7,054)
Loss for the year	**(10,914)**	(6,611)
Loss and total comprehensive expense attributable to owners of the Company	**(4,899)**	(5,650)
Loss and total comprehensive expense attributable to non-controlling interests	**(6,015)**	(961)
Capital contribution by non-controlling interests	**4,500**	6,566
Net cash outflow from operating activities	**(8,655)**	(9,010)
Net cash inflow (outflow) from investing activities	**3,000**	(2,255)
Net cash inflow from financing activities	**2,234**	15,454
Net cash (outflow) inflow	**(3,421)**	4,189

41. 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 had a rental deposit of approximately HK$400,000 with the landlord. Based on legal opinion, the directors of the Company considered that the rental deposit was sufficient to cover the aforesaid damages but may not be fully recovered and, therefore, a provision of HK$400,000 was made during the year ended 31 December 2017.

42. EVENTS AFTER THE REPORTING PERIOD

(a) On 24 December 2018 and 12 February 2019, the Company, a wholly-owned subsidiary of the Company (the "**Issuer**") and an independent investor entered into a subscription agreement (the "**Subscription Agreement**") and an amendment deed to the Subscription Agreement (the "**Amendment Deed**") respectively. Pursuant to the Subscription Agreement and the Amendment Deed, the Issuer conditionally agreed to issue and the Investor has conditionally agreed to subscribe for the convertible note ("**Convertible Note**") in the principal amount of US$25,000,000 (equivalent to approximately HK$195,000,000). The Convertible Note will bear coupon interest at the rate of 8% per annum, payable upon redemption by the noteholder on the maturity date. The Convertible Note shall be converted into new preference shares of the Issuer upon the occurrence of certain events as detailed in the Subscription Agreement and the Amendment Deed.

All the conditions precedent to the Subscription Agreement (as amended and supplemented by the Amendment Deed) have been fulfilled and the completion took place on 12 February 2019. Accordingly, the Convertible Note in the principal amount of US$25,000,000 (equivalent to approximately HK$195,000,000) has been issued by the Issuer to the Investor. Details of which are set out in the Company's announcements dated 27 December 2018 and 12 February 2019. The Group is in the process to assess the financial impact of the transaction.

(b) On 14 January 2019, Australian Apex Education Pty Ltd ("**Purchaser**") and SDM Group Limited, both of which are wholly-owned subsidiaries of the Company, entered into sale and purchase agreements with an independent vendor ("**Vendor**") pursuant to which the Purchaser has conditionally agreed to acquire and the Vendor has conditionally agreed to sell the entire issued share capital of the two target companies, at an aggregate consideration of AUD7,600,000 (equivalent to approximately HK$43,320,000), subject to adjustment. The target companies are principally engaged in the provision of various English courses and courses for early childhood education. The transaction constitutes a very substantial acquisition of the Company under the Listing Rules and is not yet completed at the date of report. Further details of this transaction are set out in the Company's announcements dated 14 January 2019 and 29 January 2019.

(c) Subsequent to the end of the reporting period, the acquisition of Happy Family Businesses was completed. The Group is in the progress for the initial accounting of the acquisition.

43. FINANCIAL INFORMATION OF THE COMPANY

	2018 HK$'000	2017 HK$'000
Non-current assets		
Investments in subsidiaries	**32,001**	–
Other receivables and prepayments	**368**	888
Amounts due from subsidiaries	**100,115**	–
	132,484	888
Current assets		
Other receivables, deposits and prepayments	**576**	6,506
Amounts due from subsidiaries	**34,353**	49,487
Amounts due from related parties	**360**	360
Held for trading investments	**3,587**	7,423
Bank balances and cash	**246**	68,031
	39,122	131,807
Current liabilities		
Other payables and accrued charges	**5,700**	883
Amounts due to related parties	**200**	200
Amounts due to subsidiaries	**39,796**	5,867
Consideration payable	**15,635**	–
Bank and other borrowings	**1,904**	–
	63,235	6,950
Net current (liabilities) assets	**(24,113)**	124,857
Total assets less current liabilities	**108,371**	125,745
Capital and reserves		
Share capital	**35,410**	35,410
Reserves (Note)	**(27,829)**	22,885
Total equity	**7,581**	58,295
Non-current liabilities		
Other payables	**–**	67,450
Corporate bonds	**69,225**	–
Consideration payable	**31,565**	–
	100,790	67,450
	108,371	125,745

Particulars of the principal subsidiaries of the Company at 31 December 2018 and 2017 are set out in note 40.

43. 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 2017	17,407	816	(1,685)	(6,661)	9,877
Loss and total comprehensive expense 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**
Loss and total comprehensive expense for the year	**–**	**–**	**–**	**(50,714)**	**(50,714)**
As at 31 December 2018	**66,892**	**–**	**(1,685)**	**(93,036)**	**(27,829)**

FINANCIAL SUMMARY

For the five years ended 31 December 2014, 2015, 2016, 2017 and 2018

RESULTS

	2014 HK$'000	2015 HK$'000	2016 HK$'000	2017 HK$'000	**2018 HK$'000**
Revenue	56,195	56,254	61,663	64,326	**76,492**
Loss before taxation	(418)	(4,636)	(10,640)	(26,983)	**(59,554)**
Income tax (expense) credit	(1,899)	(42)	(43)	42	**(170)**
Loss for the year	(2,317)	(4,678)	(10,683)	(26,941)	**(59,724)**
Loss for the year attributable to:					
Owners of the Company	(2,317)	(4,528)	(10,429)	(25,702)	**(53,505)**
Non-controlling interests	–	(150)	(254)	(1,239)	**(6,219)**
	(2,317)	(4,678)	(10,683)	(26,941)	**(59,724)**

ASSETS AND LIABILITIES

	2014 HK$'000	2015 HK$'000	2016 HK$'000	2017 HK$'000	**2018 HK$'000**
Total assets	84,238	70,862	69,055	186,778	**191,236**
Total liabilities	(45,751)	(37,194)	(47,408)	(124,948)	**(183,864)**
Net assets	38,487	33,668	21,647	61,830	**7,372**
Equity attributable to owners of the Company	38,487	33,814	22,047	63,415	**13,863**
Non-controlling interests	–	(146)	(400)	(1,585)	**(6,491)**
Total equity	38,487	33,668	21,647	61,830	**7,372**

SDM Group Holdings Limited