SDM Group Holdings Limited

# 2019 SDM
## FIRST QUARTERLY REPORT
## SDM Group Holdings Limited

(Incorporated in the Cayman Islands with limited liability )
Stock code : 8363

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

# FINANCIAL HIGHLIGHTS

For the three months ended 31 March 2019, unaudited operating results of the Group were as follows:

— Revenue of the Group for the three months ended 31 March 2019 was approximately HK$25.9 million (2018: HK$14.9 million);

— loss for the period attributable to the owners of the Company for the three months ended 31 March 2019 amounted to approximately HK$9.6 million (2018: HK$1.6 million); and

— basic loss per share for the three months ended 31 March 2019 was approximately 2.71 HK cents (2018: 0.44 HK cents).

## CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The board of Directors (the "**Board**") of the Company (together with its subsidiaries, the "**Group**") is pleased to present the unaudited condensed consolidated results of the Group for the three months ended 31 March 2019, together with the unaudited comparative figures for the corresponding period in 2018, as follows:

### CONDENSED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three months ended 31 March 2019

| | Notes | For the three months ended 31 March 2019 (Unaudited) HK$'000 | 2018 (Reclassified) (Unaudited) HK$'000 |
|---|---|---|---|
| Revenue | 4 | **25,876** | 14,869 |
| Other income | | **2,644** | 2,292 |
| Other gains and losses | | **127** | 1,562 |
| Changes in inventories of finished goods | | **178** | 82 |
| Finished goods purchased | | **(708)** | (414) |
| Advertising and promotion expenses | | **(1,097)** | (1,048) |
| Depreciation and amortisation | 3 | **(9,462)** | (529) |
| Rental expenses | 3 | **–** | (5,558) |
| Staff costs | | **(17,305)** | (8,005) |
| Other operating expenses | | **(8,920)** | (4,519) |
| Finance costs | 5 | **(2,107)** | (826) |
| Share of results of joint ventures | | **(171)** | – |
| Loss before taxation | | **(10,945)** | (2,094) |
| Income tax credit | 6 | **56** | – |
| Loss for the period | | **(10,889)** | (2,094) |
| Other comprehensive expense | | | |
| *Item that may be reclassified to profit or loss:* | | | |
| Exchange differences arising on translation of foreign operations | | **(11)** | – |
| **Loss and total comprehensive expense for the period** | | **(10,900)** | (2,094) |

| | Notes | For the three months ended 31 March 2019 (Unaudited) HK$'000 | 2018 (Reclassified) (Unaudited) HK$'000 |
|---|---|---|---|
| **Loss for the period attributable to:** | | | |
| Owners of the Company | | **(9,599)** | (1,562) |
| Non-controlling interests | | **(1,290)** | (532) |
| | | **(10,889)** | (2,094) |
| Total comprehensive expense attributable to: | | | |
| Owners of the Company | | **(9,610)** | (1,562) |
| Non-controlling interests | | **(1,290)** | (532) |
| | | **(10,900)** | (2,094) |
| Loss per share: | | **HK cents** | HK cents |
| Basic and diluted | 7 | **(2.71)** | (0.44) |

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended 31 March 2019

## 1. GENERAL INFORMATION

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

The Company is an investment holding company and its principal subsidiaries are mainly engaged in (i) business of jazz and ballet and pop dance academy in Hong Kong; (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 unaudited condensed consolidated financial statements are presented in Hong Kong dollars ("**HK$**"), which is the same as the functional currency of the Company.

## 2. BASIS OF PREPARATION

The unaudited condensed consolidated financial statement for the three months ended 31 March 2019 has been prepared in accordance with the Hong Kong Accounting Standards ("**HKAS**") 34 "**Interim financial reporting**" issued by the Hong Kong Institute of Certificate Public Accountants ("**HKICPA**") and the applicable disclosure requirements of the GEM Listing Rules. The unaudited condensed consolidated financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2018, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**").

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

## 3. APPLICATION OF NEW AND REVISED HKFRSs

In the current period, the Group has adopted all the new and revised HKFRSs issued by the HKICPA that are relevant to its operations and effective for its accounting period beginning on 1 January 2019. HKFRSs comprise HKFRS and HKAS and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's financial statements and amounts reported for the current period and prior years, except for the adoption of HKFRS16 "Leases" as set out below.

### Leases

HKFRS 16 was issued in May 2016 and is effective for annual periods beginning on or after 1 January 2019.

HKFRS 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than twelve months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. A lessee measures right-of-use assets similarly to other non-financial assets (such as property, plant and equipment) and lease liabilities similarly to other financial liabilities. As a consequence, a lessee recognises depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion.

HKFRS 16 substantially carries forward the lessor accounting requirements of the superseded HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The Group has reviewed the impact of HKFRS 16 on all its contracts that are, or that contain leases and has adopted HKFRS 16 with effect from 1 January 2019. The Group has opted for the modified retrospective application permitted by HKFRS 16 upon adoption of the new standard. Accordingly, the standard has been applied for the period beginning on 1 January 2019 (i.e. the initial application period). Modified retrospective application requires the recognition of the cumulative impact of adoption of HKFRS 16 on all contracts as at 1 January 2019 in equity.

Modified retrospective application of HKFRS 16 also requires the Group to recognise a lease liability at the date of initial application for leases previously classified as an operating lease under the superseded HKAS 17 measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application. As a practical expedient under HKFRS 16, the Group has not reassessed whether a contract is, or contains, a lease at the date of initial application. Instead, the Group applied HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 Leases and HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease, and did not apply HKFRS 16 to contracts that were not previously identified as containing a lease applying HKAS 17 and HK(IFRIC)-Int 4. The Group has applied a single discount rate to a portfolio of leases with reasonably similar characteristics for determination of present value of the remaining lease payments. The right-of-use assets have been recognised, on a lease-by-lease basis, at respective carrying amounts as if HKFRS 16 had been applied since the commencement date, but discounted using the Group's incremental borrowing rate of approximately 8% at the date of initial application.

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The impacts of HKFRS 16 on the Condensed Consolidated Statements of Profit or loss of the Group are set out as below.

| | **As per HKFRS 16** HK$'000 (Unaudited) | **As per HKAS 17** HK$'000 (Unaudited) | **Impact due to change** HK$'000 (Unaudited) |
|---|---|---|---|
| Depreciation and amortisation for three months ended 31 March 2019 | (9,462) | (1,462) | (8,000) |
| Rental expenses for the three months ended 31 March 2019 | – | (7,995) | 7,995 |
| Finance costs for the three months ended 31 March 2019 | (2,107) | (901) | (1,206) |
| Loss for the three months ended 31 March 2019 | (10,889) | (9,678) | (1,211) |

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

## 4. REVENUE AND SEGMENT INFORMATION

Revenue represents the fair value of amounts received and receivable for goods sold and services provided by the Group to outside customers, less discount during relevant periods. The Group's operation is derived from jazz and ballet and pop dance academy in Hong Kong and early childhood education in Hong Kong and Singapore during the current period. For the purpose of resources allocation and performance assessment, the chief operating decision maker (i.e. the chief executive officer of the Group) has reviewed the overall results and financial position of the Group as a whole. 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.

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".

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

| | For the three months ended 31 March | |
|---|---|---|
| | **2019** | 2018 |
| | **(Unaudited)** | (Unaudited) |
| | **HK$'000** | HK$'000 |
| Dance academy business | **15,174** | 14,864 |
| Early childhood education business | **7,080** | – |
| Others | | |
| — provision of swallowing and speech treatments | **2,406** | – |
| — provision of photographic services for children | **1,216** | – |
| — others | **–** | 5 |
| | **25,876** | 14,869 |

### Geographical Information

The Group's operations are located in Hong Kong and Singapore.

Information about the Group's revenue from external customers is presented based on the location of the operations.

| | For the three months ended 31 March | |
|---|---|---|
| | **2019** | 2018 |
| | **(Unaudited)** | (Unaudited) |
| | **HK$'000** | HK$'000 |
| Hong Kong | **19,671** | 14,869 |
| Singapore | **6,205** | – |
| | **25,876** | 14,869 |

### Information about major customer

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

## 5. FINANCE COSTS

| | For the three months ended 31 March | |
|---|---|---|
| | **2019** | 2018 |
| | **(Unaudited)** | (Unaudited) |
| | **HK$'000** | HK$'000 |
| Interest on borrowings | **13** | – |
| Interest on corporate bonds | **888** | 826 |
| Interest on lease liabilities | **1,206** | – |
| | **2,107** | 826 |

## 6. INCOME TAX CREDIT

| | For the three months ended 31 March | |
|---|---|---|
| | **2019** | 2018 |
| | **(Unaudited)** | (Unaudited) |
| | **HK$'000** | HK$'000 |
| Hong Kong Profit Tax | | |
| — Current tax | **–** | – |
| Singapore corporate income tax ("**CIT**") | | |
| — Current year | **–** | – |
| Deferred tax | **56** | – |
| | **56** | – |

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

Singapore CIT is calculated at 17% of the estimated assessable profit eligible for the current period (2018: not applicable). 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.

## 7. LOSS PER SHARE

The calculation of basic loss per share attributable to owners of the Company is based on the loss for the period attributable to owners of the Company of approximately HK$9,599,000 (2018: HK$1,562,000) and the weighted average number of ordinary shares of 354,100,000 (2018: 354,100,000) in issue during the period.

### Diluted loss per share

Diluted loss per share for the period ended 31 March 2019 was the same as the basic loss per share.

As there were no dilutive potential shares during the period ended 31 March 2018, the diluted loss per share were the same as basic loss per share.

## 8. DIVIDENDS

No dividend was paid or proposed during the three months ended 31 March 2019, nor has any dividend been proposed since the end of the reporting period (for the three months ended 31 March 2018: Nil).

## 9. RESERVES

| | Share premium HK$'000 | Exchange reserve HK$'000 | Other reserve HK$'000 | Accumulated profits (losses) HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| At 1 January 2018 (audited) | 66,892 | (493) | 694 | (39,088) | 28,005 |
| Loss for the period | – | – | – | (1,562) | (1,562) |
| Exchange differences arising on translation to presentation currency | – | 46 | – | – | 46 |
| Loss and total comprehensive expense for the period | – | 46 | – | (1,562) | (1,516) |
| At 31 March 2018 (unaudited) | 66,892 | (447) | 694 | (40,650) | 26,489 |
| At 1 January 2019 (Audited) | **66,892** | **608** | **3,546** | **(92,593)** | **(21,547)** |
| Loss for the period | **–** | **–** | **–** | **(9,599)** | **(9,599)** |
| Exchange difference arising on translation to presentation currency | **–** | **(11)** | **–** | **–** | **(11)** |
| Loss and total comprehensive expenses for the period | **–** | **(11)** | **–** | **(9,599)** | **(9,610)** |
| Acquisition of subsidiaries | **–** | **–** | **(1,615)** | **–** | **(1,615)** |
| At 31 March 2019 (unaudited) | **66,892** | **597** | **1,931** | **(102,192)** | **(32,772)** |

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

The Group continues to focus on engaging in business of jazz and ballet and pop dance academy in Hong Kong and pre-school education in Hong Kong and Singapore during the three months ended 31 March 2019 (the "**Reporting Period**").

During the Reporting Period, competition in the dance institution industry for children in Hong Kong was intense, the Group continued to maintain and attract 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 international kindergartens, primary and secondary schools operated 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 its 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 can maximize shareholders' return in the long term.

## FINANCIAL REVIEW

Revenue of the Group was mainly contributed from its dance academy business and early childhood education business in Hong Kong and Singapore. Total revenue increased by approximately HK$11.0 million from approximately HK$14.8 million for the corresponding period in 2018 to approximately HK$25.9 million for the Reporting Period. The increase was mainly due to the contribution from early childhood business amounted to approximately HK$7.1 million and from provision of swallowing and speech treatments and photographic services for children amounted to approximately HK$2.4 million and approximately HK$1.2 million respectively. Such businesses were acquired by the Group in the second half of 2018.

Other income of the Group was approximately HK$2.6 million (2018: HK$2.3 million). Other income of the Group mainly comprises the management fee income and rental income.

Due to the adoption of HKFRS 16 "Leases" effective from the annual periods beginning on 1 January 2019, the Group did not record rental expenses during the Reporting Period. Instead, the Group has recorded depreciation of right-of-use assets and interest on lease abilities amounted to approximately HK$8.0 million and HK$1.2 million respectively for the Reporting Period. Rental expenses of the Group during the corresponding period was approximately HK$5.6 million.

Staff costs amounted to approximately HK$17.3 million during the Reporting Period (2018: approximately HK$8.0 million), representing an increase of approximately 2.2 times. The increase was mainly due to increase in the headcount in Hong Kong and Singapore for business expansion since the second half year of 2018.

Other operating expenses of the Group was approximately HK$8.9 million during the Reporting Period (2018: approximately HK$4.5 million), representing an increase of approximately 97.8% as compared to the corresponding period of last year. The increase was mainly attributable to the professional fees, commission and overseas travelling expenses incurred for business acquisitions.

The Group recorded a loss attributable to owners of the Company amounted to approximately HK$9.6 million for the Reporting Period (2018: HK$1.6 million).

The net loss of the Group increased by HK$8.8 million from HK$2.1 million for the corresponding period in 2018 to HK$10.9 million for the Reporting Period mainly due to the increase in staff costs as discussed above.

## SHARE CAPITAL

As at 31 March 2019, the authorised share capital of the Company was HK$800,000,000, divided into 8,000,000,000 shares (the "**Shares**") of HK$0.1 each and the issued share capital of the Company was HK$35,410,000, divided into 354,100,000 shares of HK$0.1 each.

### CHARGES ON THE GROUP'S ASSETS

As at 31 March 2019, the Group pledged its held for trading investments amounted to HK$3.6 million against its outstanding security margin account balances.

As at 31 March 2018, the Group pledged its bank deposit of HK$0.3 million as securities for bank guarantee to the landlord of one of its dance centres over the lease term. The pledged bank deposit is interest bearing with a fixed interest rate of 0.25% per annum. The respective lease agreement has expired in 2018 and such deposit was matured in 2018.

## MATERIAL ACQUISITIONS

Pursuant to the sales and purchase agreement dated 1 November 2018 entered into by a wholly-owned subsidiary of the Company and two independent third parties, the Group acquired the assets and the business of Happy Family Child Care Centre Pte Ltd and Happy Family Preschool Pte Ltd (the "**Business**") with total cash consideration of S$250,000 and S$1,000,000 respectively (equivalent to approximately HK$1,415,000 and HK$5,660,000 respectively). The Business represented the operation of two pre-schools in Singapore. For further details, please refer to the announcement of the Company dated 1 November 2018. The acquisition of the Business was completed on 1 January 2019.

### FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

Looking forward, the Group will endeavor to strengthen its position in the dance institution industry in Hong Kong and overseas markets. 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 2019, the Group continued to seek for appropriate investment opportunities on the mainstream education market in the overseas through its proposed acquisitions of (i) several pre-schools in Singapore and (ii) the business of provision of English courses and vocational training and education services courses for early childhood education and care in Australia ("**Potential Acquisitions**"). For further details, please refer to the announcements of the Company dated 14 January 2019, 29 January 2019 and 3 April 2019.

The Potential Acquisitions are in line with the business development plan and expansion plan of the Group. The Board believes that the Potential Acquisitions provide 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 Potential Acquisitions provide excellent investment opportunities for the Group to further establish its position in targeting for early childhood development aged 2 to 12.

The Group will continue searching for suitable opportunities to expand its business into Hong Kong and overseas markets.

### CONTINGENT LIABILITIES

As at 31 March 2019, the Group did not have any significant contingent liabilities (2018: Nil).

## OTHER INFORMATION

### DISCLOSURE OF INTERESTS

**(a) Interests of Directors and Chief executives**

As at 31 March 2019, 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 Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) to be notified to the Company and the Stock Exchange pursuant to the required standards of dealing by directors as referred to in Rule 5.46 of the GEM Listing Rules were as follows:

*Long positions in the Shares of the Company*

| Name of Directors and chief executive | Nature of interest/ holding capacity | Number of ordinary shares held | Percentage of interest in the Company's issued share capital |
|---|---|---|---|
| Mr. Chiu Ka Lok ("**Mr. Chiu**") | Interest of a controlled corporation | 198,750,000 (Note 1) | 56.13% (Note 3) |
| Dr. Chun Chun | Family interest | 198,750,000 (Note 2) | 56.13% (Note 3) |

Notes:

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

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

(3) As at 31 March 2019, the total issued share capital of the Company was HK$35,410,000 divided into 354,100,000 Shares of HK$0.1 each.

Save as disclosed above, as at 31 March 2019, none of the Directors nor chief executives of the Company had or was deemed to have any other interests or short positions in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) to be notified to the Company and the Stock Exchange pursuant to the required standards of dealing by directors as referred to in Rule 5.46 of the GEM Listing Rules.

**(b) Interests of Substantial Shareholders of the Company**

So far as is known to the Directors, as at 31 March 2019, 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 that would fall to be disclosed to the Company and the Stock Exchange under the provision 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 |
|---|---|---|---|
| Wealthy Together | Beneficial owner | 198,750,000 (Note 1) | 56.13% (Note 2) |
| Hui Pui Cheung | Beneficial owner | 60,246,000 | 17.01% (Note 2) |
| Chen Jiaxin | Interest of a controlled corporation | 28,000,000 | 7.91% (Note 2) |
| Tycoon Mind Limited | Beneficial owner | 28,000,000 | 7.91% (Note 2) |

Notes:

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

(2) As at 31 March 2019, the total issued share capital of the Company was HK$35,410,000 divided into 354,100,000 Shares of HK$0.1 each.

Save as disclosed above, as at 31 March 2019, the Directors were not aware of any other persons (other than the Directors or the chief executive of the Company) who had, or was deemed to have, interest or short positions in the Shares or underlying Shares of the Company would fall to be required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

## SHARE OPTION SCHEME

The Company's share option scheme (the "**Scheme**") was conditionally adopted by a written resolutions of the shareholders of the Company on 26 September 2014 (the "**Date of Adoption**"), and is a share incentive scheme prepared in accordance with Chapter 23 of the GEM Listing Rules and is established to recognize and acknowledge the contribution of the Directors, other employees and other eligible participants who have made valuable contribution to the Group.

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

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

There was no share option granted or agreed to be granted under the Scheme from the Date of Adoption to 31 March 2019 and up till the date of this report.

A circular dated 6 May 2019 was sent to shareholders by the Company in relation to "Proposal for Refreshment of Share Option Scheme Mandate Limit and Notice of Extraordinary General Meeting" (the "**Circular**"). Pursuant to the Circular, the Company proposes to seek the approval of the shareholders of the Company to approve the Refreshment (as defined in the Circular) so that the total number of Shares (as defined in the Circular) which may be issued upon exercise of all options to be granted under the Share Option Scheme shall not exceed 35,410,000 Shares, representing 10% of the Shares in issue as at the date of approval of the Refreshment by the Shareholders at the Latest Practicable Date (as defined in the Circular), assuming that the number of Shares in issue remains unchanged prior to the date of the extraordinary general meeting to be held by the Company on 27 May 2019.

## COMPETING INTERESTS

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

## NON-COMPETITION UNDERTAKINGS

Each of the controlling shareholders of the Company has undertaken to the Company in the deed of non-competition (the "**Deed of Non-Competition**") that it/he will not, and procure its/his associates (other than members of our Group) not to directly or indirectly be involved in or undertake any business that directly or indirectly competes, or may compete, with the Group's business or undertaking, or hold shares or interest in any companies or business that compete directly or indirectly with the business engaged by the Group from time to time except where the controlling shareholders hold less than 5% of the total issued share capital of any company (whose shares are listed on the Stock Exchange or any other stock exchange) which is engaged in any business that is or may be in competition with any business engaged by any member of the Group.

For the year ended 31 December 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.

## CODE OF CORPORATE GOVERNANCE PRACTICES

The Company endeavors to adopt prevailing best corporate governance practices. For the three months ended 31 March 2019, the Company had complied with all the code provisions set out in the Corporate Governance Code as contained in Appendix 15 of the GEM Listing Rules and there has been no deviation in relation thereto.

## DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by the Directors (the "**Code of Conduct**") on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules (the "**Required Standard Dealings**"). The Company had also made specific enquiry of all the Directors and each of them was in compliance with the Code of Conduct and Required Standard Dealings during the Reporting Period. Further, the Company was not aware of any non-compliance with the required standard of dealings regarding securities transactions by the Directors for the three months ended 31 March 2019.

## PURCHASE, SALE OR REDEMPTION OF SHARES

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

## AUDIT COMMITTEE

The financial information in this report has not been audited by the auditor of the Company. The Company's Audit Committee, comprising Mr. Lau Sik Yuen, Dr. Yuen Man Chun Royce and Mr. Chak Chi Shing, being the independent non-executive Directors, has reviewed with the Company's management the accounting principles and practices adopted by the Group and financial reporting matters including a review of the unaudited consolidated results of the Group for the three months ended 31 March 2019. There were no disagreements within the Audit Committee in relation to the accounting treatments adopted by the Company.

## BOARD OF DIRECTORS

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

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

Hong Kong, 15 May 2019