SDM

Group Holdings Limited

2019 SDM

INTERIM REPORT

SDM Group Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

Stock code : 8363

FINANCIAL HIGHLIGHTS

For the six months ended 30 June 2019, unaudited operating results of the Group were as follows:

— revenue of the Group for the six months ended 30 June 2019 was approximately HK$53.0 million (2018: approximately HK$28.9 million);

— loss for the period attributable to the owners of the Company for the six months ended 30 June 2019 was approximately HK$14.5 million (2018: approximately HK$8.3 million); and

— basic loss per share for the six months ended 30 June 2019 was approximately 4.10 HK cents (2018: approximately 2.34 HK cents).

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The board of Directors (the "**Board**") of the Company (together with its subsidiaries, the "**Group**") is pleased to present the unaudited condensed consolidated results of the Group for the six months ended 30 June 2019, together with the unaudited comparative figures for the corresponding period in 2018, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	For the three months ended 30 June 2019 (Unaudited) HK$'000	For the three months ended 30 June 2018 (Reclassified) (Unaudited) HK$'000	For the six months ended 30 June 2019 (Unaudited) HK$'000	For the six months ended 30 June 2018 (Reclassified) (Unaudited) HK$'000
Revenue	4	**27,158**	14,007	**53,034**	28,876
Other income		**7,525**	3,176	**10,296**	7,030
Changes in inventories of finished goods		**(749)**	(149)	**(571)**	(67)
Finished goods purchased		**(75)**	(153)	**(783)**	(567)
Advertising and promotion expenses		**(1,556)**	(1,149)	**(2,653)**	(2,197)
Depreciation and amortisation	3	**(9,664)**	(1,248)	**(19,126)**	(1,777)
Rental expenses	3	**–**	(5,473)	**–**	(11,031)
Staff costs		**(17,054)**	(8,693)	**(34,359)**	(16,698)
Other operating expenses		**(9,507)**	(7,594)	**(18,427)**	(12,113)
Finance costs	5	**(2,434)**	(827)	**(4,541)**	(1,653)
Gain on disposal of a subsidiary		**–**	331	**–**	331
Share of profits of joint ventures		**358**	127	**187**	127
Loss before taxation		**(5,998)**	(7,645)	**(16,943)**	(9,739)
Income tax credit	6	**24**	–	**78**	–
Loss for the period		**(5,974)**	(7,645)	**(16,865)**	(9,739)

	Notes	For the three months ended 30 June 2019 (Unaudited) HK$'000	2018 (Reclassified) (Unaudited) HK$'000	For the six months ended 30 June 2019 (Unaudited) HK$'000	2018 (Reclassified) (Unaudited) HK$'000
Other comprehensive income					
Items that maybe reclassified to profit or loss					
Change in fair value on financial assets at fair value through other comprehensive income, net of tax		**131**	–	**131**	–
Exchange differences arising on translation of foreign operations		**(512)**	–	**(523)**	–
Other comprehensive income for the period, net of tax		**(381)**	–	**(392)**	–
Total comprehensive expense for the period		**(6,355)**	(7,645)	**(17,257)**	(9,739)
Loss for the period attributable to:					
Owners of the Company		**(4,902)**	(6,726)	**(14,503)**	(8,288)
Non-controlling interests		**(1,072)**	(919)	**(2,362)**	(1,451)
		(5,974)	(7,645)	**(16,865)**	(9,739)
Total comprehensive expense for the period attributable to:					
Owners of the Company		**(5,283)**	(6,726)	**(14,895)**	(8,288)
Non-controlling interests		**(1,072)**	(919)	**(2,362)**	(1,451)
		(6,355)	(7,645)	**(17,257)**	(9,739)
		HK cents	HK cents	**HK cents**	HK cents
Loss per share:					
Basic and diluted	7	**(1.38)**	(1.90)	**(4.10)**	(2.34)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	30 June 2019 (Unaudited) HK$'000	31 December 2018 (Audited) HK$'000
Non-current assets			
Property, plant and equipment	9	**6,214**	5,968
Goodwill	10	**53,465**	46,280
Intangible assets	10	**13,528**	13,988
Interests in joint ventures		**2,545**	156
Loans to joint ventures		**–**	2,202
Deposits for acquisition of subsidiaries/businesses	11	**24,691**	22,466
Other receivables, deposits and prepayments	12	**8,908**	14,276
Deferred tax assets		**331**	331
Right-of-use assets	3	**66,267**	–
		175,949	105,667
Current assets			
Inventories		**2,204**	1,633
Trade and other receivables, deposits and prepayments	12	**31,820**	13,555
Amounts due from related parties		**13,623**	10,418
Amounts due from non-controlling shareholders of subsidiaries		**1,416**	1,410
Financial assets at fair value	13	**32,369**	3,587
Tax recoverable		**21**	–
Bank balances and cash		**186,184**	54,966
		267,637	85,569
Current liabilities			
Trade and other payables, accrued charges and deferred income	14	**56,957**	50,062
Amounts due to related parties		**1,785**	236
Provisions		**100**	832
Tax payable		**37**	238
Consideration payable		**15,635**	15,635
Bank and other borrowings	15	**2,186**	3,052
Lease liabilities	3	**29,987**	–
		106,687	70,055
Net current assets		**160,950**	15,514
Total assets less current liabilities		**336,899**	121,181

	Notes	30 June 2019 (Unaudited) HK$'000	31 December 2018 (Audited) HK$'000
Capital and reserves			
Share capital		**35,410**	35,410
Reserves		**(38,057)**	(21,547)
Equity attributable to owners of the Company		**(2,647)**	13,863
Non-controlling interests		**(9,090)**	(6,491)
Total equity		**(11,737)**	7,372
Non-current liabilities			
Provisions		**2,199**	1,568
Obligation arising from put options written to non-controlling shareholders of a subsidiary		**9,145**	9,145
Deferred tax liabilities		**2,229**	2,306
Corporate bonds	16	**264,947**	–
Consideration payable		**31,565**	31,565
Lease liabilities	3	**38,344**	–
Bank and other borrowings	15	**207**	–
		348,636	113,809
		336,899	121,181

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the Company								
	Issued share capital HK$'000	Share premium HK$'000	Exchange reserve HK$'000	Investment revaluation reserve HK$'000	Other reserve HK$'000	Accumulated (losses) HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2018 (audited)	35,410	66,892	608	–	3,546	(92,593)	13,863	(6,491)	7,372
Loss for the period	–	–	–	–	–	(8,288)	(8,288)	(1,451)	(9,739)
Exchange differences arising on translation to presentation currency	–	–	614	–	–	–	614	–	614
Gain (Loss) and total comprehensive expense for the period	–	–	614	–	–	(8,288)	(7,674)	(1,451)	(9,125)
At 30 June 2018 (unaudited)	35,410	66,892	121	–	693	(47,376)	55,740	(3,036)	52,704
At 1 January 2019 (audited)	**35,410**	**66,892**	**608**	–	**3,546**	**(92,593)**	**13,863**	**(6,491)**	**7,372**
Loss for the period	**–**	**–**	**–**	**–**	**–**	**(14,503)**	**(14,503)**	**(2,362)**	**(16,865)**
Exchange differences arising on translation to presentation currency	**–**	**–**	**(523)**	**–**	**–**	**–**	**(523)**	**–**	**(523)**
Change in fair value on financial assets through other comprehensive income	**–**	**–**	**–**	**131**	**–**	**–**	**131**	**–**	**131**
Gain (Loss) and total comprehensive expense for the period	**–**	**–**	**(523)**	**131**	**–**	**(14,503)**	**(14,895)**	**(2,362)**	**(17,257)**
Acquisition of subsidiaries (Note 17)	**–**	**–**	**–**	**–**	**(1,615)**	**–**	**(1,615)**	**(237)**	**(1,852)**
At 30 June 2019 (unaudited)	**35,410**	**66,892**	**85**	**131**	**1,931**	**(107,096)**	**(2,647)**	**(9,090)**	**(11,737)**

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	For the six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Net cash used in operating activities	**(17,748)**	(9,716)
Net cash (used in) generated from investing activities	**(41,007)**	2,980
Net cash generated from financing activities	**190,213**	240
Net increase (decrease) in cash and cash equivalents	**131,458**	(6,496)
Cash and cash equivalents at 1 January	**54,966**	133,822
Effect of foreign exchange rate changes	**(240)**	–
Cash and cash equivalents at 30 June, represented by bank balances and cash	**186,184**	127,326
REPRESENTED BY:		
Bank balances and cash	**186,184**	127,326

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 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 the (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 statements for the six months ended 30 June 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 interim 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 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. Historical cost is generally based on the fair value of the consideration given in exchange for good and services.

3. ADOPTION OF NEW AND REVISED HKFRSs

In the current period, the Group has adopted all the new and revised HKFRSs issued by the HKICPA that are relevant to its operations and effective for its accounting period beginning on 1 January 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 HKFRS 16 "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.

The amount of lease liability recognized at the initial application of HKFRS 16 are set out as below.

	HK$'000
Operating lease commitments disclosed as at 31 December 2018	74,426
Discounted using the Group's incremental borrowing rate of at the date of initial application	(11,887)
Lease liability recognised as at 1 January 2019	**62,539**
Analysed as	
Current	**25,414**
Non-current	**37,125**
	62,539

The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always been applied. Other right-of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets 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 amortization for six months ended 30 June 2019	(19,126)	(2,692)	(16,434)
Rental expenses for the six months ended 30 June 2019	–	(16,839)	16,839
Finance costs for the six months ended 30 June 2019	(4,541)	(1,941)	(2,600)
Loss for the six months ended 30 June 2019	(16,865)	(14,670)	(2,195)

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

A. Revenue for the six months ended 30 June 2019

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 six months ended 30 June 2019 (six months ended 30 June 2018: jazz and ballet academy and pop dance in Hong Kong and the PRC).

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

	For the six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Dance academy business	**29,297**	28,876
Early childhood education business	**14,623**	–
Others		
— provision of swallowing and speech treatments	**4,641**	–
— provision of photographic services for children	**4,460**	–
— others	**13**	–
	53,034	28,876

B. Segment Information

During the six months ended 30 June 2018, 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. Accordingly, the Group has only one single operating segment and no further analysis of this single segment is presented for the six months ended 30 June 2018.

During the six months ended 30 June 2019, with the completion of the acquisition of subsidiaries during the year ended 31 December 2018, 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.

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 and results by operating and reportable segment.

Segment revenues and results

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

For the six months ended 30 June 2019

	Dance academy business HK$'000	Early childhood education business HK$'000	Others HK$'000	Consolidated HK$'000
Revenue	29,297	14,623	9,114	53,034
Segment (loss) profit	(2,039)	(5,098)	2,311	(4,826)
Other income, other gains and losses				5,688
Central corporate expenses				(17,992)
Share of results of joint ventures				187
Loss before taxation				(16,943)

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. 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.

Other segment information

For the six months ended 30 June 2019

	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	**6**	**–**	**–**	**2,610**	**2,616**
Amortisation of intangible assets	**–**	**(210)**	**(253)**	**–**	**(463)**
Depreciation	**(11,038)**	**(7,301)**	**(42)**	**(282)**	**(18,663)**

Geographical Information

The Group's operations during six months ended 30 June 2019 are located in Hong Kong and Singapore (six months ended 30 June 2018: Hong Kong and the PRC).

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

	Revenue from external customers for the six months ended 30 June		Non-current assets as at	
	2019 HK$'000	2018 HK$'000	**30 June 2019 HK$'000**	31 December 2018 HK$'000
Hong Kong	**40,347**	28,251	**82,930**	52,323
The PRC	**–**	625	**–**	–
Singapore	**12,687**	–	**92,538**	52,645
	53,034	28,876	**175,468**	104,968

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

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 six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Interest on borrowings	**81**	–
Interest on corporate bonds	**1,860**	1,653
Interest on lease liabilities	**2,600**	–
	4,541	1,653

6. INCOME TAX CREDIT

	For the three months ended 30 June		For the six months ended 30 June	
	2019	2018	**2019**	2018
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
	HK$'000	HK$'000	**HK$'000**	HK$'000
Current tax				
— Hong Kong Profits Tax	**–**	–	**–**	–
— Singapore Corporate Income Tax ("**CIT**")	**36**	–	**36**	–
Deferred tax	**(12)**	–	**42**	–
	24	–	**78**	–

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 (six months ended 30 June 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.

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

7. LOSS PER SHARE

The calculation of basic loss per share attributable to owners of the Company is based on the loss for the three months ended 30 June 2019 and six months ended 30 June 2019 attributable to owners of the Company of approximately HK$4,902,000 and HK$14,503,000 respectively (2018: the loss for the three months ended 30 June 2018 and six months ended 30 June 2018 attributable to owners of the Company of approximately HK$6,726,000 and HK$8,288,000) 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 three months ended 30 June 2019 and six months ended 30 June 2019 was the same as the basic loss per share.

As there were no dilutive potential shares during the three months ended 30 June 2018 and six months ended 30 June 2018, the diluted loss per share were the same as basic loss per share.

8. DIVIDENDS

No dividend was proposed during the six months ended 30 June 2019, nor has any dividend been proposed since the end of the reporting period (for the six months ended 30 June 2018: Nil).

9. PROPERTY, PLANT AND EQUIPMENT

During the period under review, the Group acquired property, plant and equipment of approximately HK$2,380,000 (2018: HK$1,743,000).

10. INTANGIBLE ASSETS

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. No impairment of goodwill was recognised during the six months ended 30 June 2019 (2018: Nil).

11. DEPOSITS FOR ACQUISITION OF SUBSIDIARIES/BUSINESS

The balance mainly included the following deposits:

(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 30 June 2019 (31 December 2018: AU$200,000 (equivalent to approximately HK$1,126,000)) to enable the Group to carry out the financial due diligence on the target businesses. On 14 January 2019, the sale and purchase agreements as varied by a deed of variation dated 29 March 2019 and a deed of variation dated 21 May 2019 were entered into by Australian Apex Education Pty Ltd ("**Purchaser**"), wholly-owned subsidiaries of the Company and the Company as guarantor (previously SDM Group Limited). Details are set out in the Company's reports dated 14 January 2019, 29 January 2019, 29 March 2019 and 21 May 2019.

(b) 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$3,070,000 (equivalent to HK$17,733,000) to the vendor up to 30 June 2019 (up to 31 December 2018: S$3,059,000 (equivalent to HK$17,747,000)). 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 30 June 2019, no definitive agreement was entered into up to the date of this report. Details are set out in the Company's report dated 5 July 2019.

(c) Pursuant to the memorandum of understanding dated 3 April 2019 signed between SDM SF Global Limited ("**SDM SF**"), an indirect wholly-owned subsidiary of the Company (as the purchaser) and the shareholders of Sunflower Childcare Group Pte. Ltd ("**Sunflower**"), a company incorporated in Singapore with limited liability for summarising the principal terms of a proposed acquisition of 60% equity interest of Sunflower, a company incorporated in Singapore, as the vendors (the "**SF MOU**"), SDM SF had paid an earnest money of S$750,000 (equivalent to HK$4,332,000) to the vendors up to 30 June 2019 (up to 31 December 2018: Nil). The terms set out in the term sheet are for the purpose of outlining those terms pursuant to which definitive agreement may be entered into. As the conditions precedent in the term sheet was not yet fulfilled as at 30 June 2019, no definitive agreement was entered into up to the date of this report. Details are set out in the Company's report dated 3 April 2019. Please also refer to note 20 to the Condensed Consolidated Financial Statements for further details.

(d) Pursuant to a memorandum of understanding signed on 19 June 2019 for summarising the principal terms of a proposed acquisition of all the assets of the target companies incorporated in Singapore as entered into by a subsidiary of the Company with the vendors, the subsidiary had paid a refundable deposit of S$130,000 (equivalent to HK$751,000) to the vendors up to 30 June 2019 (up to 31 December 2018: Nil). 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 memorandum of understanding was not yet fulfilled at 30 June 2019, no definitive agreement was entered into up to the date of this report. Details are set out in the Company's report dated 28 June 2019.

12. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	30 June 2019 (Unaudited) HK$'000	31 December 2018 (Audited) HK$'000
Trade receivables from third parties	**5,992**	1,656
Rental deposits	**11,552**	17,435
Staff loans (Note i)	**888**	888
Other deposits, receivables and prepayments	**22,296**	7,852
Total trade and other receivables, deposits and prepayments	**40,728**	27,831
Analysed as		
Current	**31,820**	13,555
Non-current	**8,908**	14,276
	40,728	27,831

Note:

(i) 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$738,000 (31 December 2018: HK$520,000) are required to be repaid within one year and HK$150,000 (31 December 2018: HK$368,000) are required to be repaid after one year. Accordingly, staff loans of HK$738,000 (31 December 2018: HK$520,000) are classified as current assets and staff loans of HK$150,000 (31 December 2018: HK$368,000) 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.

The following is an aged analysis of trade receivables from third parties net of allowance for doubtful debts presented based on the invoice date at the end of the reporting period, which approximated the respective revenue recognition dates:

	30 June 2019 (Unaudited) HK$'000	31 December 2018 (Audited) HK$'000
0 to 30 days	**5,992**	1,656
31 to 60 days	**–**	–
	5,992	1,656

As at 30 June 2019 and 31 December 2018, there was no trade receivables from third parties which are past due at the end of the reporting period.

13. FINANCIAL ASSETS AT FAIR VALUE

	30 June 2019 HK$'000	31 December 2018 HK$'000
Listed securities:		
Equity securities listed in Hong Kong, at fair value	**3,786**	3,587
Equity securities listed in United States, at fair value	**788**	–
Debt securities investments, at fair value	**27,795**	–
	32,369	3,587

For the six months ended 30 June 2019, the gain on change in fair value of financial assets at fair value through profit or loss amounted to HK$249,000 (30 June 2018: loss of HK$2,395,000).

The debt securities investments are listed in Singapore and denominated in United States Dollar ("**US$**"). As at 30 June 2019, the maturity dates of the listed debt securities were beyond one year after the end of reporting period. The Group considers the intention of the investments is to hold for trading.

The fair value of the financial assets at fair value through profit or loss are determined based on the quoted bid prices in the active markets available for trading the corresponding investments. The fair value measurements are categorized as level 1 of the fair value hierarchy since the fair value is derived from quoted prices (unadjusted) in active market for identical assets.

14. TRADE AND OTHER PAYABLES, ACCRUED CHARGES AND DEFERRED INCOME

	30 June 2019 (Unaudited) HK$'000	31 December 2018 (Audited) HK$'000
Accrued rental expenses	**1,404**	1,391
Accrued staff costs	**472**	412
Other payables and accrued charges (Note)	**12,777**	12,929
Deferred income	**42,304**	35,330
	56,957	50,062
Less: Non-current portion	**–**	–
Current portion	**56,957**	50,062

Note: Included in other payables and accrued charges amount of HK$1,775,000 represented corporate bonds' interest accrued for the six months ended 30 June 2019 (six months ended 30 June 2018: HK$1,775,000).

15. BANK AND OTHER BORROWINGS

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

	30 June 2019 HK$'000	31 December 2018 HK$'000
Bank overdraft (Note b)	–	627
Securities margin loan (Note a)	**1,974**	1,904
Bank borrowing (Note b)	**419**	521
	2,393	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:

	30 June 2019 HK$'000	31 December 2018 HK$'000
Within one year	**2,186**	2,738
Over one year but not exceeding two years	**207**	219
Over two years but not exceeding five years	–	95
	2,393	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 18. 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 (31 December 2018: prime rate plus 0.75% per annum).

(b) Bank overdraft and bank borrowing

As at 30 June 2019, bank borrowing of HK$419,000 (31 December 2018: HK$521,000) bears variable interest at Best Lending Rate plus 1% per annum (31 December 2018: Best Lending Rate plus 1% per annum). 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 (31 December 2018: a property of a non-executive director and also guaranteed by a non-executive director for unlimited amount).

16. 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.

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 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 bears 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) had 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 reports dated 27 December 2018 and 12 February 2019.

As at 30 June 2019, the corporate bonds and Convertible Note amounted to HK$264,947,000 in total (31 December 2018: HK$69,225,000) were recorded as non-current liabilities.

17. ACQUISITION OF SUBSIDIARIES

Acquisition of Happy Family Group (as defined in below)

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, companies incorporated in Singapore with limited liabilities (collectively referred to as the "**Happy Family Group**") at 1 January 2019 with total cash consideration of S$1,250,000 (equivalent to approximately HK$7,075,000). The Happy Family Group is principally engaged in the operation of two pre-schools in Singapore.

18. PLEDGE OF ASSETS

	30 June 2019 HK$'000	31 December 2018 HK$'000
Financial assets at fair value through profit or loss	**3,786**	–
Held for trading investments	**–**	3,587

19. RELATED PARTY TRANSACTIONS

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

	Foor the six months ended 30 June	
	2019 HK$'000	2018 HK$'000
Rental income from related companies (Note):		
— Rainbow Creative Arts Limited	**236**	369
— Dunn's Education Limited	**740**	740
— Sunshine Chinese Painting	**113**	113
— Red Vocal Limited	**270**	270
	1,359	1,492
Management fee income received from joint ventures	**1,000**	–

Note: Rainbow Creative Arts Limited is wholly-owned by Mr. Chiu Ka Lok, one of the executive Directors and a controlling shareholder of the Group. Dunn's Education Limited is owned as to 33.33% 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. Red Vocal Limited is 50% beneficially indirectly and controlled by Mr. Chiu Ka Lok.

As at 30 June 2019, borrowings of HK$419,000 (31 December 2018: 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 six months ended 30 June 2019 and 2018 were as follows:

	For the six months ended 30 June	
	2019	2018
	HK$'000	HK$'000
Short-term benefits	**1,079**	318
Post-employment benefits	**–**	–
	1,079	318

20. EVENT AFTER THE REPORTING PERIOD

On 17 July 2019, SDM SF entered into a supplemental memorandum of understanding to the SF MOU (the "**Supplemental SF MOU**") with the shareholders of Sunflower and share charges in respect of the charging of 96,048 ordinary shares in total of Sunflower by the shareholders in favour of SDM SF, representing on the date hereof 48% of the issued share capital of Sunflower.

Pursuant to the Supplemental SF MOU, an additional refundable deposit of S$5,250,000 (equivalent to HK$30,240,000) as earnest money has been paid to the shareholders of Sunflower as vendors upon signing of the Supplemental MOU. If the formal agreement for the acquisition shall not be signed by the last day of the exclusivity period which is from twelve (12) months from the date of SF MOU, the full amount of the deposit paid amounted to S$6,000,000 (equivalent to HK$34,590,000) in total (the "**Total Deposit**") shall be refunded by the vendors to the Purchaser without any deduction whatsoever. If completion of the acquisition occurs in accordance with the formal agreement, the Total Deposit shall be regarded and applied to as part payment of the Consideration. Details are set out in the Company's report dated 17 July 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group continues focusing 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 six months ended 30 June 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 has also expedited its expansion in the overseas childhood education 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$24.1 million from approximately HK$28.9 million for the corresponding period in 2018 to approximately HK$53.0 million for the Reporting Period. The increase was mainly due to the contribution from early childhood business in Singapore amounted to approximately HK$12.7 million and from provision of swallowing and speech treatments and photographic services for children amounted to approximately HK$4.6 million and approximately HK$4.5 million respectively. Such businesses were acquired by the Group in the second half of 2018.

Other income of the Group increased by approximately HK$3.3 million or 47.1% from approximately HK$7.0 million for the corresponding period of last year to approximately HK$10.3 million for the Reporting Period. Other income of the Group mainly comprises management fee income, bank interest income, investment income and rental income. The increase in other income was mainly due to the increase in bank interest income from HK$0.4 million for the six months ended 30 June 2018 to approximately HK$2.6 million in Reporting Period.

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$16.4 million and HK$2.6 million respectively for the Reporting Period. Rental expenses of the Group during the corresponding period was approximately HK$16.8 million.

Staff costs amounted to approximately HK$34.4 million during the Reporting Period (2018: approximately HK$16.7 million), representing an increase by approximately 2.1 times. The increment was mainly due to increase in the headcount in Hong Kong and Singapore for business expansion since the second half of 2018.

Other operating expenses of the Group was approximately HK$18.4 million during the Reporting Period (2018: approximately HK$12.1 million), representing a significant increase of approximately 52.1% 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 during the Reporting Period.

The Group recorded a loss attributable to owners of the Company amounted to approximately HK$14.5 million for the Reporting Period (2018: HK$8.3 million).

The net loss of the Group increased by HK$7.2 million from HK$9.7 million for the corresponding period in 2018 to HK$16.9 million for the Reporting Period mainly due to the increase in staff costs and other operating expenses as discussed above.

SHARE CAPITAL

As at 30 June 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.

SIGNIFICANT INVESTMENTS

As at 30 June 2019, except for short-term investments including the financial assets at fair value through profit or loss ("**FVTPL**") and financial assets at fair value through other comprehensive income ("**FVTOCI**") amounted to approximately HK$32.4 million (31 December 2018: held-for-trading investments of HK$3.6 million) as disclosed in note 13 to the Condensed Consolidated Financial Statements, there was no other significant investment held by the Group.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operation through internally-generated cash flows and bank facilities provided by the banks during the period. As at 30 June 2019, the total bank balances and cash of the Group amounted to approximately HK$186.2 million (As at 31 December 2018: approximately HK$55.0 million).

As at 30 June 2019, the current ratio (defined as total current assets divided by total current liabilities) was approximately 2.51 times as compared to that 1.22 times as at 31 December 2018.

CAPITAL STRUCTURE

The shares of the Company were successfully listed on the GEM Board of the Stock Exchange on 14 October 2014 (the "**Listing**"). The share capital of the Group only comprises of ordinary shares.

As at 30 June 2019, the authorised share capital of the Company was HK$800,000,000 divided into 8,000,000,000 shares of the Company of HK$0.1 each. As at 30 June 2019, the issued share capital of the Company was HK$35,410,000 divided into 354,100,000 Shares.

COMMITMENTS

The contractual commitments of the Group were primarily related to the leases of its dance centres and office premises. The Group's operating lease commitments was recognised as lease liabilities in the Condensed Consolidated Statement of Financial Position in accordance with HKFRS 16 as at 30 June 2019 (As at 31 December 2018: operating lease commitments of approximately HK$74.4 million).

FOREIGN EXCHANGE EXPOSURE

As at 30 June 2019, the Group have certain bank balances, other receivables and deposits, financial assets at FVTPL and financial assets at FVTOCI which have exchanged to foreign currency denominated in Renminbi ("**RMB**"), US$, AU$ and S$, which may expose the Group to foreign currency risk. The Group was exposed to certain foreign currency exchange risks but it does not anticipate future currency fluctuations to cause material operational difficulties or liquidity problems. The Group currently had no foreign currency hedging policy. However, the management will monitor foreign exchange position and will consider appropriate action should the circumstances change. The bank deposits, other receivables and deposits denominated in RMB, US$, AU$ and S$ as mentioned above are equivalent to approximately HK$176,000, HK$66,669,000, HK$26,025,000 and HK$94,335,000 respectively (31 December 2018: HK$2,799,000, HK$20,494,000, HK$4,658,000 and HK$11,312,000 respectively). The financial assets at FVTPL denominated in US$ as mentions above are equivalent to HK$788,000 (31 December 2018: Nil). The financial assets at FVTOCI denominated in US$ as mentioned above are equivalent to HK$27,795,000 (31 December 2018: Nil).

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, financial assets at FVTPL, financial assets at FVTOCI and bank balances. In view of the business nature of the Group, the Directors considered that the credit risks of trade receivables, financial assets at FVTPL, financial assets at FVTOCI 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 bank balances are deposited with banks which have good reputation.

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

CHARGE ON GROUP'S ASSETS

As at 30 June 2019, the Group pledged its financial assets at FVTPL amounted to HK$3.8 million (31 December 2018: held for trading investments of HK$3.6 million) against its outstanding security margin account balances as set out in Note 18 to the condensed consolidated financial statements.

EMPLOYEES AND REMUNERATION POLICIES

With increase in number of subsidiaries and dance centers, staff costs of the Group, including Directors' emoluments, were approximately HK$34.4 million for the six months ended 30 June 2019 (2018: approximately HK$16.7 million). Remuneration is determined with reference to market terms and the performance, qualification and experience of individual employee. In addition to basic salaries, year-end discretionary bonuses were offered to those staff with outstanding performance to attract and retain eligible employees to contribute to the Group. Apart from basic remuneration, the Company has adopted a share option scheme and share options may be granted to eligible employees by reference to the Group's performance as well as individual contribution.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

Looking forward, the Group will endeavor to strengthen its position in the dance institution industry in Hong Kong and the overseas. 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) professional psychological services business; (ii) several pre-schools and childcare centers in Singapore and Thailand and (iii) 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 reports of the Company dated 14 January 2019, 29 January 2019, 3 April 2019, 27 May 2019, 28 June 2019 and 7 August 2019.

The Potential Acquisition is in line with the business development plan and expansion plan of the Group. The Board believes that the Potential Acquisition provides an excellent development platform and opportunity to expand its early childhood education business in international markets. The Group's core business — jazz and ballet and pop dance academy can generate synergies with mainstream education to expand its business in overseas markets and enhance the competitiveness of the Group. The Board believes that the Potential Acquisition provides an excellent investment opportunity 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 in Hong Kong, the PRC and oversea markets.

CONTINGENT LIABILITIES

As at 30 June 2019, the Group did not have any significant contingent liabilities or guarantees (2018: Nil).

OTHER INFORMATION

DISCLOSURE OF INTERESTS

(a) Interests of Directors and Chief executives

As at 30 June 2019, the interests or short positions of the Directors and chief executives of the Company in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the "**SFO**")), which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) to be notified to the Company and the Stock Exchange pursuant to the required standards of dealing by directors as referred to in Rule 5.46 of the GEM Listing Rules were as follows:

Long positions in the Shares of the Company

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

Notes:

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

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

(3) As at 30 June 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 30 June 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 30 June 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 which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO were as follows:

Long positions in the Shares or underlying Shares of the Company

Name of Shareholder	Nature of interest/ holding capacity	Number of Shares/ underlying Shares	Percentage of interests in the Company's issued share capital
Wealthy Together	Beneficial owner	198,750,000 (Note 1)	56.13% (Note 2)
Hui Pui Cheung	Beneficial owner	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 30 June 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 30 June 2019, the Directors were not aware of any other persons (other than the Directors and the chief executive of the Company) who had, or was deemed to have, interests or short positions in the Shares or underlying Shares of the Company which fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

SHARE OPTION SCHEME

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

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

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

There was no share option granted or agreed to be granted under the Scheme from the Date of Adoption to 30 June 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 (the "**EGM**"). The Refreshment is approved by the Shareholders of the Company at the EGM.

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 six months ended 30 June 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 six months ended 30 June 2019.

PURCHASE, SALE OR REDEMPTION OF SHARES

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

AUDIT COMMITTEE

The interim results during the Reporting Period are unaudited and not reviewed by the external auditors of the Company. The Company's Audit Committee, comprising Mr. Lau Sik Yuen, Dr. Yuen Man Chun Royce and Mr. Chak Shi Shing, as the independent non-executive Directors, has reviewed with the Company's management the accounting principles and practices adopted by the Group and financial reporting matters including a review of the unaudited consolidated results of the Group for the six months ended 30 June 2019. There were no disagreements within the Audit Committee in relation to the accounting treatment adopted by the Company.

BOARD OF DIRECTORS

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

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

Hong Kong, 12 August 2019