SDM

Group Holdings Limited

2019 SDM
THIRD QUARTERLY REPORT
SDM Group Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

Stock code: 8363

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FINANCIAL HIGHLIGHTS

For the nine months ended 30 September 2019, unaudited operating results of the Company together with its subsidiaries (the "**Group**") were as follows:

— Revenue of the Group for the nine months ended 30 September 2019 was approximately HK$81.2 million (2018: approximately HK$50.4 million);

— loss for the period attributable to owners of the Company for the nine months ended 30 September 2019 amounted to approximately HK$21,580,000 (30 September 2018: HK$10,374,000); and

— basic loss per share for the nine months ended 30 September 2019 was approximately 6.09 HK cents (30 September 2018: 3.7 HK cents).

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The board of Directors (the "**Board**") of the Company is pleased to announce the unaudited condensed consolidated results of the Group for the three months ended 30 September 2019 and the nine months ended 30 September 2019, together with comparative unaudited figures for the corresponding period in 2018, as follows:

CONDENSED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three months and nine months ended 30 September 2019 (Unaudited)

	Notes	For the three months ended 30 September		For the nine months ended 30 September	
		2019	2018 (Reclassified)	**2019**	2018 (Reclassified)
		HK$'000	HK$'000	**HK$'000**	HK$'000
Revenue	4	**28,161**	21,534	**81,195**	50,410
Other income		**8,133**	1,588	**18,429**	8,618
Changes in inventories of finished goods		**413**	162	**(158)**	95
Finished goods purchased		**(2,118)**	(918)	**(2,901)**	(1,485)
Advertising and promotion expenses		**(2,420)**	(2,639)	**(5,073)**	(4,836)
Depreciation and amortisation		**(10,752)**	(880)	**(29,878)**	(2,657)
Rental expenses		**–**	(6,501)	**–**	(17,532)
Staff costs		**(17,744)**	(10,731)	**(52,103)**	(27,429)
Other operating expenses		**(9,110)**	(4,767)	**(27,537)**	(16,880)
Finance costs	5	**(2,908)**	(19)	**(7,449)**	(1,672)
Gain on disposal of a subsidiary		**–**	–	**–**	331
Share of profits of joint ventures		**(367)**	(179)	**(180)**	(52)
Loss before taxation		**(8,712)**	(3,350)	**(25,655)**	(13,089)
Income tax credit/(expense)	6	**(185)**	(7)	**(107)**	(7)
Loss for the period		**(8,897)**	(3,357)	**(25,762)**	(13,096)

	Notes	For the three months ended 30 September 2019 HK$'000	2018 (Reclassified) HK$'000	For the nine months ended 30 September 2019 HK$'000	2018 (Reclassified) HK$'000
Other comprehensive income					
Item 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**	–
Exchange differences arising on translation of foreign operations		**526**	–	**3**	–
Other comprehensive income for the period, net of tax		**526**	–	**134**	–
Total comprehensive expense for the period		**(8,371)**	(3,357)	**(25,628)**	(13,096)
Loss for the period attributable to:					
Owner of the Company		**(7,077)**	(2,086)	**(21,580)**	(10,374)
Non-controlling interests		**(1,820)**	(1,271)	**(4,182)**	(2,722)
		(8,897)	(3,357)	**(25,762)**	(13,096)
Total comprehensive expense for the period attributable to:					
Owner of the Company		**(6,551)**	(2,086)	**(21,446)**	(10,374)
Non-controlling interests		**(1,820)**	(1,271)	**(4,182)**	(2,722)
		(8,371)	(3,357)	**(25,628)**	(13,096)
		HK cents	HK cents	**HK cents**	HK cents
Loss per share:					
Basic and diluted	7	**2.0**	0.6	**6.09**	3.7

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended 30 September 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 the 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 in Hong Kong; (ii) operation of kindergartens and preschools 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 nine months ended 30 September 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 statement have been prepared on the historical costs basis except for certain financial instruments that are measured at fair values at the end of each reporting period. Historical costs is generally based on the fair value of the consideration given in exchange for goods 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 HKFS16 "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 at the date of initial application	65,856
Lease liability recognised as at 1 January 2019	**65,856**
Analysed as	
Current	**25,414**
Non-current	**37,125**
	65,856

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 and Other Comprehensive Income of the Group are set out as below.

	As per HKFRS 16 (Unaudited) HK$'000	**As per HKAS 17** (Unaudited) HK$'000	**Impact due to change** (Unaudited) HK$'000
Depreciation and amortization for nine months ended 30 September 2019	(29,878)	(4,398)	(25,480)
Rental expenses for the nine months ended 30 September 2019	–	(26,689)	26,689
Finance costs for the nine months ended 30 September 2019	(7,449)	(3,219)	(4,230)
Loss for the nine months ended 30 September 2019	(25,762)	(22,741)	(3,021)

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. During the nine months ended 30 September 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 chief operating decision maker ("**CODM**") (i.e. the chief executive officer of the Group) 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 preschools 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 30 September		For the nine months ended 30 September	
	2019	2018	**2019**	2018
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
	HK$'000	HK$'000	**HK$'000**	HK$'000
Dance academy business	**17,793**	17,351	**47,090**	46,227
Early childhood education business	**6,735**	3,597	**21,358**	3,597
Others				
— provision of swallowing and speech treatments	**800**	586	**5,441**	586
— provision of photographic services for children	**2,299**	–	**6,759**	–
— others	**534**	–	**547**	–
	28,161	21,534	**81,195**	50,410

Segment revenues and results

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

For the nine months ended 30 September 2019

	Dance academy business HK$'000	Early childhood education business HK$'000	Others HK$'000	Consolidated HK$'000
Revenue	**47,090**	**21,358**	**12,747**	**81,195**
Segment (loss) profit	**(4,336)**	**(8,842)**	**2,629**	**(10,549)**
Other income, other gains and losses				**10,855**
Central corporate expenses				**(25,781)**
Share of results of joint ventures				**(180)**
Loss before taxation				**(25,655)**

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 nine months ended 30 September 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	152	–	–	2,717	2,869
Amortisation of intangible assets	–	(420)	(379)	–	(799)
Depreciation of property, plant and equipment	(17,146)	(11,456)	(59)	(418)	(29,079)

Geographical Information

The Group's operations are located in Hong Kong and Singapore in the nine months ended 30 September 2019 (nine months ended 30 September 2018: Hong Kong, the PRC 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 30 September		For the nine months ended 30 September	
	2019	2018	**2019**	2018
			(Unaudited)	(Unaudited)
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong	**21,766**	19,248	**62,113**	47,499
PRC	**–**	(238)	**–**	387
Singapore	**6,395**	2,524	**19,082**	2,524
	28,161	21,534	**81,195**	50,410

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 30 September		For the nine months ended 30 September	
	2019	2018	**2019**	2018
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
	HK$'000	HK$'000	**HK$'000**	HK$'000
Interest on borrowings	**391**	–	**472**	–
Interest on corporate bonds	**887**	19	**2,747**	1,672
Interest on lease liabilities	**1,630**	–	**4,230**	–
	2,908	19	**7,449**	1,672

6. INCOME TAX CREDIT/(EXPENSE)

	For the three months ended 30 September		For the nine months ended 30 September	
	2019	2018	**2019**	2018
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
	HK$'000	HK$'000	**HK$'000**	HK$'000
Current tax				
— Hong Kong Profits Tax	**(220)**	–	**(220)**	–
— PRC tax	**–**	(7)	**–**	(7)
— Singapore Corporate Income Tax ("**CIT**")	**–**	–	**36**	–
Deferred tax	**35**	–	**77**	–
	(185)	(7)	**(107)**	(7)

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

Singapore CIT is calculated at 17% of the estimated assessable profit eligible for the current period (nine months ended 30 September 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 September 2019 and the loss for the nine months ended 30 September 2019 attributable to owners of the Company of approximately HK$7,077,000 and HK$21,580,000 respectively (2018: the loss for the three months ended 30 September 2018 and the loss for the nine months ended 30 September 2018 attributable to owners of the Company of approximately HK$2,086,000 and HK$10,374,000 respectively) 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 September 2019 and the loss for the nine months ended 30 September 2019 was the same as the basic loss per share.

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

8. DIVIDENDS

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

9. RESERVES

	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)	66,892	(493)	–	694	(39,088)	28,005	–	28,005
Loss for the period	–	–	–	–	(10,374)	(10,374)	–	(10,374)
Exchange differences arising on translation to presentation currency	–	474	–	–	–	474	–	474
Profit/(Loss) and total comprehensive expenses for the period	66,892	(19)	–	694	(49,462)	18,105	–	18,105
At 30 September 2018 (unaudited)	66,892	(19)	–	694	(49,462)	18,105	–	18,105
At 1 January 2019 (audited)	**66,892**	**608**	**–**	**3,546**	**(92,593)**	**(21,547)**	**(6,491)**	**(28,038)**
Loss for the period	**–**	**–**	**–**	**–**	**(21,580)**	**(21,580)**	**(4,182)**	**(25,762)**
Exchange differences arising on translation to presentation currency	**–**	**3**	**–**	**–**	**–**	**3**	**–**	**3**
Change in fair value on financial assets through other comprehensive income	**–**	**–**	**131**	**–**	**–**	**131**	**–**	**131**
Gain (Loss) and total comprehensive expense for the period	**–**	**3**	**131**	**–**	**(21,580)**	**(21,446)**	**(4,182)**	**(25,628)**
Acquisition of subsidiaries	**–**	**–**	**–**	**(1,592)**	**–**	**(1,592)**	**1,462**	**(130)**
At 30 September 2019 (unaudited)	**66,892**	**611**	**131**	**1,954**	**(114,173)**	**(44,585)**	**(9,211)**	**(53,796)**

10. EVENT AFTER THE REPORTING PERIOD

Grant of Share Options

On 4 October 2019, the Company granted an aggregate of 24,787,000 share options at an exercise price of HK$1.10 per share of the Company to the eligible persons under the share option scheme adopted by the Company on 26 September 2014 (the "**Share Option Scheme**"). The market price of the Company's shares at the date of grant was HK$0.95 per share. All of the share options are exercisable from 4 October 2019 to 3 October 2022 (both days inclusive). Each of the grantees has paid HK$1 to the Company on acceptance of the offer of share option. Details are set out in the Company's announcement dates 4 October 2019.

On 11 October 2019, the Company granted an aggregate of 10,623,000 share options at an exercise price of HK$1.00 per share of the Company to the eligible persons under the Share Option Scheme. The market price of the Company's shares at the date of grant was HK$0.94 per share. All of the share options are exercisable from 11 October 2019 to 10 October 2020 (both days inclusive). Each of the grantees has paid HK$1 to the Company on acceptance of the offer of share option. Details are set out in the Company's announcement dates 11 October 2019.

The Company is currently assessing the impact of the grants of options on the Group's consolidated financial statements for the year ending 31 December 2019 in accordance with the Group's accounting policy. Proper disclosure will be made in the coming annual results announcement and annual report for the year 2019.

Completion of Acquisition of Ability Education Pty Ltd

All conditions precedent in the sale and purchase agreement in relation to the acquisition of Ability Education Pty Ltd ("**Ability Education**") have been fulfilled and the completion of acquisition took place on 30 September 2019 (the "**Completion**"). Following the Completion, Ability Education became an indirect wholly-owned subsidiary of the Company and its financial information will be consolidated into the accounts of the Group.

Details are set out in the Company's announcements dated 14 January 2019, 29 January 2019, 29 March 2019, 21 May 2019 and 30 August 2019 and the Company's circular dated 3 September 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group continues focusing on engaging in the business of jazz and ballet and pop dance academy in Hong Kong and preschool education in Hong Kong and Singapore during the nine months ended 30 September 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 the 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 merger and acquisition opportunities or cooperation with strong potential partners that can maximize return of shareholders of the Company (the "**Shareholders**") 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$30.8 million from approximately HK$50.4 million for the corresponding period in 2018 to approximately HK$81.2 million for the Reporting Period. The increase was mainly due to the contribution from early childhood business which amounted to approximately HK$21.4 million and from provision of swallowing and speech treatments and photographic services for children which amounted to approximately HK$5.4 million and approximately HK$6.8 million respectively. Such businesses were acquired by the Group in the second half of 2018.

Other income of the Group increased by approximately HK$9.8 million or 114.0% from approximately HK$8.6 million for the corresponding period of the last year to approximately HK$18.4 million for the Reporting Period. Other income of the Group mainly comprises the management fee income, performance and examination handling fee income, bank interest income, investment income and rental income. The increase was mainly attributable to the increase in performance and examination handling fee income, bank interest income and investment income from approximately HK$1.7 million, HK$0.8 million and nil respectively for the nine months ended 30 September 2018 to approximately HK$2.7 million, HK$2.7 million and HK$2.3 million respectively in the 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$25,480,000 and HK$4,230,000 respectively for the Reporting Period. Rental expenses of the Group during the corresponding period was approximately HK$17.5 million.

Staff cost amounted to approximately HK$52.1 million during the Reporting Period (30 September 2018: approximately HK$27.4 million), representing an increase by approximately 1.9 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$27.5 million during the Reporting Period (nine months ended 30 September 2018: approximately HK$16.9 million), representing an increase of approximately 62.7% as compared to the corresponding period of last year. The reason for the increase was the increase in the professional fees 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$21.6 million for the Reporting period while the Group recorded a loss attributable to owners of the Company which amounted to approximately HK$10.4 million for the corresponding period of last year.

The net loss of the Group increased by HK$12.7 million from HK$13.1 million for the corresponding period in 2018 to HK$25.8 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 September 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 30 September 2019, the Group pledged its financial assets at fair value which amounted to HK$5.9 million against its outstanding securing margin account balances (30 September 2018: Nil).

ACQUISITION OF SUBSIDIARIES

(a) Acquisition of Ability Education and Institute Training

The Company paid a total deposit of Australian Dollars ("**AU$**") 200,000 (equivalent to HK$1,140,000) to the escrow account relating to the sale of the shares in Ability Education Pty Ltd. ("**Ability Education**") and Childrens' Services Education Pty Ltd. ("**Institute Training**"). The deposit would be used to cover part of the aggregate purchase price of Ability Education and Institute Training.

On 14 January 2019, sale and purchase agreements were entered into between Australian Apex Education Pty Ltd ("**Australian Apex**"), a wholly-owned subsidiary of the Company, as purchaser and MEGT (Australia) Pty Ltd. as vendor and the agreements were guaranteed by SDM Group Limited ("**SDMGL**"), a wholly owned subsidiary of the Company, to purchase all the shares of Ability Education and Institute Training at an aggregate consideration of AU$ 7,600,000 (equivalent to approximately HK$43,320,000) (the "**Sale and Purchase Agreements**"). On March 2019, the guarantor was changed to the Company under a deed of variation signed between the Company, Australian Apex, SDMGL, the vendor and the stakeholder of the deposits. Details are set out in the Company's announcements dated 14 January 2019, 29 January 2019, 29 March 2019, 21 May 2019 and 30 August 2019 and the Company's circular dated 3 September 2019.

(b) Acquisition of childcare business in Thailand

Pursuant to a term sheet dated 11 January 2019 entered into between SDM International Investments Pte Limited ("**SDMII**"), an indirect subsidiary of the Company, as purchaser and the individual sole shareholder of a limited company incorporated in Singapore as vendor, SDMII intended to acquire 51% of the equity interest of the limited liability company incorporated in Singapore, a company principally engaged in operating the childcare business in Thailand for a consideration of Singapore Dollars ("**S$**") 3,038,597 (equivalent to approximately HK$17,449,000). The amount of the consideration plus an initial deposit of S$20,000 (equivalent to approximately HK$115,000) have already been paid to the vendor as earnest money which in total amounted to S$3,058,597 (equivalent to approximately HK$17,564,000). 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 has not been fulfilled as at 30 September 2019, no definitive agreement was entered into up to the date of this report. Details are set out in the Company's announcement dated 5 July 2019.

(c) Acquisition of Sunflower Group

Pursuant to a memorandum of understanding dated 3 April 2019 entered into between SDM SF Global Limited ("**SDM SF**"), an indirect wholly-owned subsidiary of the Company, as purchaser and the shareholders of Sunflower Childcare Group Pte. Ltd. as vendors (the "**Sunflower Vendors**"), SDM SF intended to acquire 60% of the equity interest of Sunflower Childcare Group Pte. Ltd. ("**Sunflower Group**"), a company incorporated in Singapore with limited liability (the "**SF MOU**"). SDM SF had paid a deposit of S$750,000 (equivalent to approximately HK$4,350,000). Pursuant to a supplemental memorandum of understanding entered into between the same parties dated 17 July 2019, an additional deposit of S$5,250,000 (equivalent to approximately HK$30,240,000) were paid to the Sunflower Vendors as earnest money for the extension of the exclusivity period provided under the SF MOU. As the conditions precedent in the SF MOU has not been fulfilled as at 30 September 2019, no definitive agreement was entered into up to the date of this report. Details are set out in the Company's announcements dated 3 April 2019 and 17 July 2019.

(d) Acquisition of Moriah Group

Pursuant to a non-legally binding memorandum of understanding dated 19 June 2019, SDM Singapore Education Limited ("**SDMSEL**"), an indirectly wholly-owned subsidiary of the Company, intended to acquire all the assets of Moriah Schoolhouse LLP and Moriah Schoolhouse@FV LLP (collectively referred to as the "**Moriah Group**") incorporated in Singapore. SDMSEL had paid a refundable deposit of S$130,000 (equivalent to HK$751,000) to the vendors as at 30 September 2019.

On 30 September 2019, a sales and purchase agreement was entered into by SDMII and the vendors in relation to the acquisition of all the assets of Moriah Group at a total cash consideration of S$1,300,000 (equivalent to approximately HK$7,410,000). Moriah Group is principally engaged in the operation of two childcare centres in Singapore. Details are set out in the Company's announcement dated 30 September 2019.

(e) Acquisition of Happy Family Group

Pursuant to two sales and purchase agreements both dated 1 November 2018 entered into by a wholly-owned subsidiary of the Company and two independent third parties respectively, 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**") with a 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 preschools in Singapore.

(f) Acquisition of childcare business in Singapore

Pursuant to a term sheet dated 7 August 2019 entered into between SDMII as purchaser and the shareholders of target entities (the "**Target Entities 1**") which comprise six private companies limited by shares incorporated in Singapore as vendors, SDMII intended to acquire all of shares of Target Entities 1. The basic consideration of the sale shares shall be S$4,000,000 (equivalent to approximately HK$22,680,000). The remaining consideration is capped at S$3,800,000 (equivalent to approximately HK$21,546,000). Target Entities 1 are principally engaged in the operation of childcare centres in Singapore. As the conditions precedent in the memorandum of understanding has not been fulfilled as at 30 September 2019, no definitive agreement was entered into up to the date of this report. Details are set out in the Company's announcement dated 7 August 2019.

Pursuant to a term sheet signed on 31 August 2019 between SDMII as purchaser and the shareholders of the target entities (the "**Target Entities 2**") which comprise five private companies limited by shares incorporated in Singapore as vendors, SDMII intended to acquire all the ordinary shares of Target Entities 2. The basic consideration for 90% of the sale shares shall be S$5,000,000 (equivalent to approximately HK$28,256,000). The additional aggregate amount over the basic consideration as a bonus consideration is capped at S$2,200,000 (equivalent to approximately HK$12,433,000) to form the total consideration for 90% of the sale shares. The consideration for the remaining 10% of the sale shares shall not be lower than S$555,555 (equivalent to approximately HK$3,140,000) and it shall not exceed S$800,000 (equivalent to approximately HK$4,521,000). Target Entities 2 are principally engaged in the operation of two well-established childcare centres in prime locations in Singapore. 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 has not been fulfilled as at 30 September 2019, no definitive agreement was entered into up to the date of this report. Details are set out in the Company's announcement dated 31 August 2019.

Pursuant to a term sheet dated 23 September 2019 entered into between SDMII as purchaser and the sole shareholder of the target company (the "**Target Company 1**") as vendor, SDMII intended to purchase all the equity interests of the Target Company at a consideration of S$800,000 (equivalent to approximately HK$4,576,000). The Target Company 1 is principally engaged in the operation of a well-established childcare centre in prime location in Singapore. 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 has not been fulfilled as at 30 September 2019, no definitive agreement was entered into up to the date of this report. Details are set out in the Company's announcement dated 25 September 2019.

(g) Acquisition of child psychological development business in Hong Kong

Pursuant to a term sheet dated 26 March 2019 entered into between SDMGL as purchaser and the shareholders of the target company as vendors, SDMGL intended to acquire 46 ordinary shares of Child Psychological Development Association Limited ("**CPDA**"), representing 51% of the issued share capital of CPDA for a consideration not exceeding HK$10,200,000. CPDA is a limited liability company incorporated in Hong Kong. CPDA and its affiliated companies are principally engaged in the provision of professional psychological service to infants, toddlers, and their parents under the name of "Child Psychological Development Association" in Hong Kong. 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. No definitive agreement was entered as at the date of the report. Details are set out in the Company's announcement dated 27 May 2019.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

Looking forward, the Group will use its endeavours to strengthen its position in the dance institution industry in Hong Kong and 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 overseas through its proposed acquisitions of (i) professional psychological services business; (ii) several preschools and childcare centres in Singapore and Thailand and (iii) centres providing English courses and vocational training and education services courses for early childhood education and care in Australia (collectively referred to as the "**Potential Acquisitions**"). Please refer to "Acquisition of subsidiaries" in the section headed "MANAGEMENT DISCUSSION AND ANALYSIS" of this report for details.

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 the Group's 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 Acquisitions provide an excellent investment opportunity for the Group to further establish its position in targeting 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.

SUBSEQUENT EVENTS

Details of subsequent events are set out in note 10 to the Condensed Consolidated Financial Statements of this report.

CONTINGENT LIABILITIES

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

OTHER INFORMATION

Disclosure of Interests

(a) Interests of Directors and chief executives

As at 30 September 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 dealings 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 Director and chief executive	Nature of interest/ holding capacity	Number of ordinary shares held	Percentage of interests in the Company's issued share capital
Mr. Chiu Ka Lok ("**Mr. Chiu**")	Interest of a controlled corporation	198,750,000 (Note 1)	56.13% (Note 3)
Dr. Chun Chun	Family interest	198,750,000 (Note 2)	56.13% (Note 3)

Notes:

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

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

(3) As at 30 September 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 September 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 dealings by directors as referred to in rule 5.46 of the GEM Listing Rules.

(b) Interests of substantial shareholders of the Company

So far as is known to the Directors, as at 30 September 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 substantial 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	35,722,000	10.09% (Note 2)
Chen Jiaxin	Interest of a controlled corporation	28,000,000	7.91% (Note 2)
Tycoon Mind Limited	Beneficial owner	28,000,000	7.91% (Note 2)

Notes:

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

(2) As at 30 September 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 September 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 was conditionally adopted by a written resolutions of the Shareholders 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 Share Option 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 shares) (the "**Scheme Limit**"). Options lapsed in accordance with the terms of the Share Option Scheme will not be counted for the purpose of calculating the Scheme Limit.

The Company may renew the Share Option 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 Share Option 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.

A circular dated 6 May 2019 was sent to Shareholders 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 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 at the EGM.

There was no share option granted or agreed to be granted under the Share Option Scheme from the Date of Adoption to 30 September 2019.

As at the date of the report, the Company granted an aggregate of 24,787,000 share options at an exercise price of HK$1.10 per share and 10,623,000 share options at an exercise price of HK$1.00 per share, on 4 October 2019 and 11 October 2019 respectively, the details of which are disclosed in note 10 to the Condensed Consolidated Financial Statements of this report.

COMPETING INTERESTS

The Directors are not aware of any business or interest of the Directors or the controlling Shareholders 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 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 the 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 Shareholders 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 had complied with the Deed of Non-Competition.

CODE OF CORPORATE GOVERNANCE PRACTICES

The Company endeavors to adopt prevailing best corporate governance practices. For the nine months ended 30 September 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 of Dealings**"). The Company had also made specific enquiry of all the Directors and each of the Directors have confirmed that each of them was in compliance with the Code of Conduct and Required Standard of Dealings during the Reporting Period. Further, the Company was not aware of any non-compliance with the Required Standard of Dealings regarding securities transactions by the Directors for the nine months ended 30 September 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 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 nine months ended 30 September 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 November 2019