SDM

Group Holdings Limited

2019 SDM

ANNUAL REPORT 年報

SDM Group Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

(於開曼群島註冊成立之有限公司)

Stock code 股份代號 : 8363

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Non-executive Directors

Dr. Chun Chun
Ms. Yeung Siu Foon

Independent Non-executive Directors

Mr. Lau Sik Yuen
Dr. Yuen Man Chun Royce
Mr. Lee Kwok Ho David (resigned on 15 May 2019)
Mr. Chak Chi Shing (appointed on 15 May 2019)

COMPANY SECRETARY

Mr. Au Wai Keung

COMPLIANCE OFFICER

Mr. Chiu Ka Lok

AUTHORISED REPRESENTATIVES

Mr. Chiu Ka Lok
Mr. Chun Chi Ngon Richard

AUDIT COMMITTEE

Mr. Lau Sik Yuen *(Chairman of Audit Committee)*
Dr. Yuen Man Chun Royce
Mr. Lee Kwok Ho David (resigned on 15 May 2019)
Mr. Chak Chi Shing (appointed on 15 May 2019)

REMUNERATION COMMITTEE

Mr. Chak Chi Shing (appointed on 15 May 2019)
(Chairman of Remuneration Committee)
Dr. Yuen Man Chun Royce
Mr. Chiu Ka Lok
Mr. Lee Kwok Ho David (resigned on 15 May 2019)

NOMINATION COMMITTEE

Dr. Yuen Man Chun Royce
(Chairman of Nomination Committee)
Mr. Lee Kwok Ho David (resigned on 15 May 2019)
Mr. Chun Chi Ngon Richard
Mr. Chak Chi Shing (appointed on 15 May 2019)

AUDITORS

KPMG
(Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance)

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 202B, 2/F
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Kwun Tong
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

PRINCIPAL BANKERS

Hang Seng Bank Limited
Bank of Singapore Limited
DBS Bank Limited
Commonwealth Bank of Australia

WEBSITE ADDRESS

www.sdm.hk

STOCK CODE

8363

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the Board of Directors (the "**Board**") of SDM Group Holdings Limited (the "**Company**"), it is my pleasure to present the audited consolidated financial statements of the Company and its subsidiaries (the "**Group**") for the year ended 31 December 2019.

BUSINESS REVIEW

The Group continues focusing on engaging in business of jazz and ballet and pop dance academy in Hong Kong and childcare services in Singapore. During the year 2019, the Group completed the acquisition of several companies which own pre-schools in Singapore in order to expand its presence in key overseas market in Asia.

For the Group's dance academy business, to cope with the intense competition and economy unsteadiness in the recent years, the Group had developed more resources to promote brand image and maintain quality services in order to consolidate our leading position in the industry. During the year 2019, the Group had 22 wholly-owned dance centres (the "**Centres**"). Through the development of the Centres, the Group further enhanced the competitive strengths of the Group by increasing the geographical coverage in Hong Kong.

In view of the immense growth in the early childhood education sector in Singapore, the Group has acquired several companies in the region which are principally engaged in the early childhood business since June 2018. Up to the end of 2019, the Group had seven pre-schools operated in Singapore. The Group believes that such acquisitions provide an excellent development platform and opportunity to establish its own early childhood education brand and curriculum in Singapore, which will maximize return for the Group and the Shareholders as a whole in the long term.

During the year 2019, the Group completed the acquisition of Ability Education Pty Limited ("**Ability Education**") which has two colleges in Sydney and Melbourne, Australia. Ability Education mainly provides English language intensive courses to international students holding student visas aged over 18 years old whose English is not their first language. The Group has been seeking for further investment opportunities in different education sectors. The business of Ability Education could help to enhance the Group's revenue stream and explore potential synergy effect with the Group's existing early childhood education business.

The shares of the Company were successfully listed on GEM of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 14 October 2014. It was a milestone for the Group which also boosted the confidence of the customers and the suppliers in efficiency of the operation and the provision of the quality services by the Group. Facing economic downturn the Group would therefore continue to adopt its previously stated strategy in broadening the development of the operation of day care centres, kindergartens, colleges and enrichment courses in order to generate a stable return for the Group.

To develop its kindergartens business, the Group cooperated with Chatsworth East Asia (BVI) Ltd, a corporation which operates international kindergartens, primary and secondary schools under the brand "Chatsworth" for over 20 years ("**Chatsworth**") to establish its kindergartens business in Hong Kong and Singapore.

CHAIRMAN'S STATEMENT

FORWARD

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

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

Meanwhile, the Company will also expedite its expansion in Singapore, Australia and other overseas markets to 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 could maximize Shareholders' return in the long term.

Going forward, the Group will implement a strategy to enhance the Group's current operation, which is to engage in the operation of day care centres, kindergartens, colleges and enrichment courses through acquisition.

A NOTE OF APPRECIATION

On behalf of the Board, I wish to take this opportunity to express my appreciation to our Shareholders, investors, business partners, suppliers, students and the parents for their continuous support and trust to the Group. I would also like to express our sincere thanks to the management and staff for their commitment and contribution throughout the years. I look forward to a productive year in 2020 despite a challenging year ahead due to the outbreak of Coronavirus Disease 2019 ("**COVID-19**") and a decline in economy.

MANAGEMENT DISCUSSION AND ANALYSIS

INTRODUCTION

The Group is one of the largest dance institutions for children in Hong Kong and operates under the brand of "SDM Jazz & Ballet Academie" (SDM爵士芭蕾舞學院) which has established goodwill and gained brand recognition in Hong Kong. The shares of the Company were successfully listed on GEM of the Stock Exchange on 14 October 2014 (the "**Listing**"). In the recent years, the Company has expedited its expansion into education markets in Singapore and Australia.

As at 31 December 2019, the Group had 22 wholly-owned dance centres, three joint venture dance centres, two kindergartens in Hong Kong, seven international pre-schools in Singapore and two colleges in Australia. Besides offering wide range of dance courses for children generally between the age of 1 and 16, the Group also develops operations of day care centres, kindergartens and enrichment courses in Singapore and colleges in Australia. The vision of the Group is to provide social and life experience to children at a young age through their participation in dance courses and pre-school activities, thereby nurturing their social interaction skills and confidence.

BUSINESS REVIEW

The Group continues focusing on engaging in business of jazz and ballet and pop dance academy in Hong Kong and childcare business in Singapore. During the year 2019, the Group completed the acquisition of Ability Education which has two colleges in Sydney and Melbourne, Australia. Ability Education mainly provides English language intensive courses to international students holding student visas aged over 18 years old whose English is not their first language.

During the year under review, 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.

A challenging year is expected for 2020 due to the outbreak of COVID-19. The Company has implemented various measures, including launch of online teaching platforms, to cope with the adverse changes in environment.

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

FINANCIAL REVIEW

Revenue of the Group was mainly contributed by (i) dance academy business in Hong Kong (the "**Dance Business**"), (ii) early childhood education business in Hong Kong and Singapore (the "**Childhood Education Business**") and (iii) two colleges in Australia (the "**College Business**"). Total revenue increased by approximately HK$52.2 million from approximately HK$76.5 million for 2018 to approximately HK$128.7 million for 2019. The increase was mainly due to the contribution by the Childhood Education Business amounting to approximately HK$30.9 million (2018: HK$9.5 million) and by the College Business amounting to approximately HK$15.2 million (2018: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

With the expansion of the Childhood Education Business and the College Business, the portion of revenue contributed by the Dance Business to the Group's revenue has been diluted since 2018. On the other hand, due to the expansion of the market share, the Childhood Education Business and the College Business will contribute to the growth of the Group's revenue in the future.

Other income of the Group increased significantly from approximately HK$12.7 million for the year ended 31 December 2018 to approximately HK$31.2 million for the year ended 31 December 2019. Other income of the Group mainly comprises the management fee income, performance and examination handling fee income, interest income and rental income. The increase was mainly attributable to the increase in management fee income, interest income and income arising from an indemnity from approximately HK$3.0 million, HK$2.1 million and nil respectively for 2018 to approximately HK$10.2 million, HK$7.5 million and HK$2.9 million respectively for 2019.

The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at as 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17. After initial recognition of right-of-use assets as at 1 January 2019, the Group as a lessee is required to recognise the depreciation of right-of-use assets and interest on lease liabilities, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term, in the consolidated statement of profit or loss and other comprehensive income. The amount of depreciation of right-of-use assets and interest on lease liabilities totalled HK$36.6 million and HK$3.7 million respectively for 2019 as compared to rental expenses of HK$24.8 million last year; part of the increase was related to new lease arrangements entered into during the year or arising from acquisitions.

The Group recorded a loss attributable to the Shareholders amounting to approximately HK$98.8 million for the year ended 31 December 2019 while the Group recorded a loss attributable to the Shareholders amounting to approximately HK$53.5 million for the year ended 31 December 2018. Such increase in loss was mainly due to (i) the increase in loss on change in fair value of consideration payable by HK$27.2 million; (ii) the recognition of share options expenses amounting to HK$8.6 million (2018: Nil); (iii) the recognition of impairment loss on prepayments of HK$7.2 million (2018: Nil); (iv) the recognition of loss on change in fair value of convertible note of HK$9.6 million (2018: Nil) and (v) the increase in staff and teaching consultants services costs by approximately HK$39.2 million due to the increasing headcount in Hong Kong, Singapore and Australia for business expansion during the year.

As at 31 December 2019, the Group had goodwill and intangible assets in the amount of HK$83.6 million (2018: HK$46.3 million) and HK$13.3 million (2018: HK$14.0 million) respectively. They are mainly arisen from the acquisition of subsidiaries in 2018 and 2019. Purchase price allocation for the acquisitions is performed by an independent professional valuer to determine the values of goodwill and intangible assets at the date of acquisition. Impairment assessment is made by the management at the end of the reporting period by comparing the recoverable amount of each cash-generating unit ("**CGU**") to the carrying amount. The recoverable amount of the relevant CGUs is determined based on a value in use calculation. Other than discount rate and terminal growth rate, other key assumptions related to the estimation of cash inflow and outflow which include projected revenues and operating expenses (e.g. selling expenses, rental expenses, staff costs and other general expenses). Apart from those disclosed in Note 14 to the consolidation financial statements, reasonably possible change in the key assumptions on which the management had based its determination of the CGU's recoverable amount would not cause an impairment loss.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operation through internally-generated cash flows, private funds, individual investors and banking facilities during the year. As at 31 December 2019, the total bank balances and cash of the Group amounted to approximately HK$76.2 million (2018: approximately HK$55.0 million).

There were bank and other borrowings of HK$5.5 million borrowed by the Group and corporate bonds of HK$71.0 million issued by the Company which was classified as current liabilities as at 31 December 2019. As at 31 December 2019, the current ratio (defined as total current assets divided by total current liabilities) was approximately 0.64 times as compared to 1.22 times as at 31 December 2018. The corporate bonds were subsequently matured and fully repaid in January 2020.

In addition, the Group has issued convertible note with a face value of US$25,000,000 (equivalent to HK$195,400,000) which was classified as non-current liabilities as at 31 December 2019.

CAPITAL STRUCTURE

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

As at 31 December 2019 and 2018, the authorised share capital of the Company was HK$800,000,000 divided into 8,000,000,000 shares of the Company of HK$0.1 each ("**Share(s)**"). As at 31 December 2019 and 2018, the issued share capital of the Company was HK$35,410,000 divided into 354,100,000 shares.

As at 31 December 2019, the Group had issued outstanding corporate bonds with carrying amount of approximately HK$71 million (2018: approximately HK$69.2 million). The corporate bonds (with face value of HK$1,000,000 for each of the bonds) carry interest at 5% per annum and would mature on the day falling on the second anniversary of the date of issue. The repayment of the bonds is guaranteed by Wealthy Together Limited ("**Wealthy Together**"), a company which is wholly and beneficially owned by Mr. Chiu Ka Lok.

As at 31 December 2019, the Group had outstanding convertible note with carrying amount of approximately HK$204.5 million (2018: Nil). The convertible note with face value of US$25 million (equivalent to HK$195.4 million) carries interest at 8% per annum and will mature on 31 March 2023. The repayment of the bonds is guaranteed by the Company.

COMMITMENTS

The contractual commitments of the Group were primarily related to the leases of its dance centres, kindergartens, pre-schools and office premises. Upon the adoption of HKFRS 16, *Leases*, the operating lease commitment (2018: approximately HK$74.4 million) previously disclosed under previous standards were recognised as lease liabilities in the Consolidated Statement of Financial Position as at 31 December 2019.

Details of other commitments are set out in Note 37 to the consolidated financial statements.

MATERIAL ACQUISITIONS AND DISPOSALS

Details of material acquisitions and disposals are set out in Note 35 to the consolidated financial statements.

MANAGEMENT DISCUSSION AND ANALYSIS

SIGNIFICANT INVESTMENTS

As at 31 December 2019, except for the financial investments which amounted to HK$49.6 million (2018: HK$3.6 million) as disclosed in this report, there was no other significant investment held by the Group.

FUTURE PLAN FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

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

The Group has been proactive in seeking appropriate investment opportunities to expand its business scope and to diversify its existing business. In 2018, the Group officially stepped foot on the mainstream education market overseas through its proposed acquisition of several pre-schools in Singapore ("**Acquisition**") and education business in Australia.

The Acquisition are in line with the business development plan and expansion plan of the Group. The Board believes that the Acquisition provides an excellent development platform and opportunity to expand its early childhood education business into international markets. The Group's core business — jazz and ballet and pop dance academy can generate synergies with mainstream education to expand its business into the overseas market and enhance the competitiveness of the Group. The Board believes that the Acquisition provides an excellent investment opportunity for the Group to further establish its position in targeting children from 2 to 12 years old.

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

CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 31 December 2019 (2018: Nil).

FOREIGN EXCHANGE EXPOSURE

As at 31 December 2019, as set out in Note 39 to the consolidated financial statements the Group has certain bank deposits, other receivables and deposits which has exchanged to foreign currency denominated in Renminbi ("**RMB**"), United Stated Dollar ("**US$**"), Singapore Dollar ("**S$**") and Australian Dollar ("**AU$**") which may expose the Group to foreign currency risk. The Group was exposed to certain foreign currency exchange risks but it does not anticipate future currency fluctuations to cause material operational difficulties or liquidity problems. The Group currently had no foreign currency hedging policy. However, the management will monitor foreign exchange position and will consider appropriate action should the circumstances change.

TREASURY POLICIES

The Group adopts a conservative approach towards its treasury policies. The Group's credit risk is primarily attributable to debt investment, trade and other receivables, staff loans, amounts due from related parties and non-controlling shareholders of subsidiaries, pledged bank deposit and bank balances. In the view of the business nature of the Group, the Directors considered that the credit risks of trade receivables are immaterial after considering the credit quality and financial ability of the relevant financial institutions and there is no history of delay or default in settlement by them as well as the good settlement records from students and organisational customers of the swallowing and speech treatment. The management considered there was no recoverability problem from the related parties of the Group. The pledged bank deposit and the bank balances are deposited with banks which have good reputation.

MANAGEMENT DISCUSSION AND ANALYSIS

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

CHARGE ON GROUP'S ASSETS

As at 31 December 2019, the Group pledged its financial investments amounting to HK$4.1 million (2018: HK$3.6 million) against its outstanding security margin account balances (included in bank and other borrowings) amounting to HK$0.6 million (2018: HK$1.9 million).

The time deposits of HK$9,835,000 (2018: HK$Nil) were pledged to secure guarantees by banks issued to the landlords of properties leased by the Group for own use.

In addition, the entire shares in SDM Asia Limited held by the Group were pledged as securities for the outstanding convertible note with carrying amount of HK$204.5 million.

EMPLOYEES AND REMUNERATION POLICIES

With the increase in the number of subsidiaries, staff and teaching consultants services costs of the Group, including Directors' emoluments, were approximately HK$84.6 million for the year ended 31 December 2019 (2018: approximately HK$45.4 million). Remuneration is determined with reference to market terms and the performance, qualification and experience of individual employee. In addition to basic salaries, year-end discretionary bonuses were offered to those staff with outstanding performance to attract and retain eligible employees to contribute to the Group. Apart from basic remuneration, the Company has adopted a share option scheme and share options may be granted to eligible employees by reference to the Group's performance as well as individual contribution.

MATERIAL EVENTS AFTER THE REPORTING DATE

Details of events after the reporting period of the Group are set out in Note 44 to the consolidated financial statement.

USE OF PROCEEDS

(a) In respect of the net proceeds of approximately HK$39.5 million raised from the open offer in February 2017, up to the date of this report, (i) approximately HK$3.4 million has been used for the professional fee of relevant compliance procedures in relation to the premise with the Building Department, Lands Department and Town Planning Board of the Hong Kong Government; (ii) approximately HK$5.3 million has been used for the payments of rental expenses; (iii) approximately HK$6.6 million paid for rental deposit (iv) approximately HK$1.2 million paid for renovation of the kindergartens; (v) approximately HK$1 million paid for deposit paid for renovation of the kindergartens; (vi) approximately HK$0.3 million paid for purchasing furniture and equipment; (vii) approximately HK$1.6 million paid for other operating expenses for opening the kindergartens as the intended use of proceeds as stated in the prospectus dated 25 January 2017. The remaining proceeds amounted to HK$20.1 million and is kept at our banks for further development of early childhood education business as at 31 December 2019. Details are set out in the Company's announcement dated 3 December 2019.

(b) In respect of the net proceeds of approximately HK$67.3 million raised from the placing of unlisted bonds completed in March 2018, up to the date of this report, (i) approximately HK$30.2 million has been used in acquisition of overseas pre-school education businesses; (ii) HK$3.0 million was used for acquisition of early childhood education centres in Hong Kong; and (iii) approximately HK$34.1 million was used for general working capital for dance academy business and early childhood education business in Hong Kong.

CORPORATE GOVERNANCE REPORT

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

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

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

DIRECTORS' SECURITIES TRANSACTIONS

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

THE BOARD OF DIRECTORS

As at 31 December 2019, the Board comprised seven Directors, including two executive Directors, namely Mr. Chiu Ka Lok and Mr. Chun Chi Ngon Richard, the two non-executive Directors are Dr. Chun Chun and Ms. Yeung Siu Foon, and the three independent non-executive Directors are Mr. Lau Sik Yuen, Dr. Yuen Man Chun Royce and Mr. Chak Chi Shing.

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

RESPONSIBILITIES OF THE BOARD

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

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

CORPORATE GOVERNANCE REPORT

The biographical details of the Directors are set out in the section headed "**Biographical Details of Directors and Senior Management**" on pages from 29 to 33 of this report.

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

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

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Pursuant to the code provision A.2.1 of the CG Code, the roles of Chairman and CEO should be separate and should not be performed by the same individual. During the year ended 31 December 2019, the roles of the Chairman and the CEO are segregated and was held by Mr. Chiu Ka Lok and Mr. Chun Chi Ngon Richard respectively. There is clear division of responsibilities between the Chairman and CEO which provides a balance of power and authority.

BOARD DIVERSITY POLICY

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

Summary of the Board Diversity Policy

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

Measurable Objectives

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

Implementation and Monitoring

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

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

BOARD MEETING

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

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

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

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

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

Participation of individual Directors at Board meetings in 2019 is as follows:

Name of Directors	Number of attendance/ number of Board meetings since respective appointment date
Number of meetings	12
Executive Directors:	
Mr. Chiu Ka Lok	12/12
Mr. Chun Chi Ngon Richard	12/12
Non-executive Directors:	
Dr. Chun Chun	11/12
Ms. Yeung Siu Foon	12/12
Independent non-executive Directors:	
Mr. Lau Sik Yuen	12/12
Dr. Yuen Man Chun Royce	11/12
Mr. Lee Kwok Ho David (resigned on 15 May 2019)	0/5
Mr. Chak Chi Shing (appointed on 15 May 2019)	8/8

CORPORATE GOVERNANCE REPORT

GENERAL MEETING

For the year ended 31 December 2019, the attendance record of each Director at general meetings is as follows:

Name of Directors	Number of attendance/number of general meeting since respective appointment date
Mr. Chiu Ka Lok	2/3
Mr. Chun Chi Ngon Richard	3/3
Dr. Chun Chun	2/3
Ms. Yeung Siu Foon	3/3
Mr. Lau Sik Yuen	3/3
Dr. Yuen Man Chun Royce	0/3
Mr. Lee Kwok Ho David (resigned on 15 May 2019)	0/1
Mr. Chak Chi Shing (appointed on 15 May 2019)	1/2

Our chairman has attended the annual general meeting in 2019. The Notice of general meeting has been sent to the Shareholders at least 20 clear business days before the annual general meeting.

BOARD COMMITTEES & CORPORATE GOVERNANCE FUNCTIONS

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

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

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

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

Audit Committee

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

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

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

The Audit Committee held five meetings during the year. The Group's unaudited quarterly results for the three months ended 31 March 2019 and the nine months ended 30 September 2019, unaudited interim results for the six months ended 30 June 2019 and audited annual results for the year ended 31 December 2018 have been reviewed by the Audit Committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made. Deloitte Touche Tohmatsu resigned from the office of auditor of the Company with effect from 8 January 2020. The Audit Committee has received the proposal for change of auditors from KPMG. The Board, with the recommendation from the Audit Committee, has resolved to appoint KPMG as the auditor of the Company to fill the casual vacancy following the resignation of Deloitte and to hold office until the conclusion of the next annual general meeting of the Company.

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

	Number of attendance/number of meetings since respective appointment date		
Name of Directors	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**
Number of meetings	5	1	1
Mr. Lau Sik Yuen	5/5	N/A	N/A
Dr. Yuen Man Chun Royce	5/5	1/1	1/1
Mr. Chiu Ka Lok	N/A	1/1	N/A
Mr. Chun Chi Ngon Richard	N/A	N/A	1/1
Mr. Lee Kwok Ho David (resigned on 15 May 2019)	0/2	0/0	0/0
Mr. Chak Chi Shing (appointed on 15 May 2019)	3/3	1/1	1/1

The Directors acknowledge their responsibilities for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Company Ordinance and the GEM Listing Rules. The Directors have selected appropriate accounting policies and applied them consistently; made judgement and estimate that are prudent and reasonable. As at 31 December 2019, the Board was not aware of any material uncertainties relating to events or conditions that might cast significant doubt upon the Group's ability to continue as a going concern. The Directors' responsibilities in the preparation of the consolidated financial statements and the auditors' responsibilities are set out in the Independent Auditor's Report from pages 46 to 52 of this report.

Remuneration Committee

The Remuneration Committee of the Company was established on 26 September 2014 in accordance with CG Code. The Remuneration Committee comprises one executive Director, namely Mr. Chiu Ka Lok and two independent nonexecutive Directors, namely Mr. Chak Chi Shing and Dr. Yuen Man Chun Royce. Mr. Chak Chi Shing is the chairman of Remuneration Committee. The terms of reference of the Remuneration Committee are available on the websites of the Stock Exchange and the Company.

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

Details of the Directors' emolument and remuneration paid to the senior management (excluding the Directors) for the year ended 31 December 2019 are set out in Note 10 to the consolidated financial statements.

Nomination Committee

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

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

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

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

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

TERMS OF APPOINTMENT AND RE-ELECTION OF DIRECTORS

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

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

CONTINUOUS PROFESSIONAL DEVELOPMENT

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

All our Directors are encouraged to participate in continuing professional development seminars and/or courses to update their skills and knowledge on the latest development or changes in the relevant statutes, GEM Listing Rules and corporate governance practices. The Company provides continuing briefings and professional development to Directors to update on the latest development in relation to the GEM Listing Rules and other applicable regulatory requirements as well as the Group's business and governance. The relevant materials were also sent to the Directors who were not available to attend the briefing session for their information. A summary of the continuous professional developments in relation to regulatory update, the duties and responsibilities of the Directors and the business of the Group received by the Directors for the year ended 31 December 2019 is as follows:

Name of Directors	Training on corporate governance, regulatory development and Directors other relevant topics
Executive Directors:	
Mr. Chiu Ka Lok	✓
Mr. Chun Chi Ngon Richard	✓
Non-executive Directors:	
Dr. Chun Chun	✓
Ms. Yeung Siu Foon	✓
Independent non-executive Directors:	
Mr. Lau Sik Yuen	✓
Dr. Yuen Man Chun Royce	✓
Mr. Lee Kwok Ho David (resigned on 15 May 2019)	✓
Mr. Chak Chi Shing (appointed on 15 May 2019)	✓

INTERNAL CONTROL AND RISK MANAGEMENT

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

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

(a) the Group has an internal audit function;

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

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

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

AUDITORS' REMUNERATION

The fees in respect of audit services provided by the independent auditors to the Group for the year ended 31 December 2019 amounted approximately HK$2,640,000 (2018: approximately HK$2,400,000). Non-audit services incurred during the year amounted approximately HK$29,000 (2018: approximately HK$91,000).

COMPANY SECRETARY

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

Mr. Au Wai Keung ("**Mr. Au**") is the Company Secretary who is an external service provider and its primary corporate contact person at the Company is Mr. Chiu Ka Lok, Chairman of the Company. Mr. Au has taken no less than 15 hours of relevant professional training for the year ended 31 December 2019.

SHAREHOLDERS' RIGHTS

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

Right to Convene Extraordinary General Meeting

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

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

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

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

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

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

Right to Put Forward Proposals at General Meetings

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

Right for Raising Enquiries to the Board

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

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

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

DIVIDEND POLICY

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

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

INVESTORS RELATIONS

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

CONSTITUTIONAL DOCUMENTS

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

ENVIRONMENTAL, SOCIAL, AND GOVERNANCE REPORT

The Group is pleased to present the Environmental, Social and Governance ("**ESG**") Report in accordance with the Environment, Social and Governance Reporting Guide ("**ESG Guide**") set out in Appendix 20 to the GEM Listing Rules published by the Stock Exchange. For the information of our corporate governance, please refer to the "Corporate Governance Report" in the annual report.

This ESG report mainly covers the major activities of the Group in Hong Kong presenting our sustainability approach and performance in environmental and social aspects of our business for the reporting period from 1 January 2019 to 31 December 2019 ("**This year**"). The Key Performance Indicators ("**KPI**") disclosure of This year will be focused on our head office, gradually expanded to the dance centres and education business in overseas markets in the future. The Group continues strengthening information collection in order to enhance our performance in environmental realm and to disclose relative information of sustainable development.

VISION ON ENVIRONMENTAL, SOCIAL, AND GOVERNANCE

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

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

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

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

A. ENVIRONMENTAL

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

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

A1.1 Emissions Data from Gaseous Fuel Consumption

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

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

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

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

	2019	2018	Unit	% Increase/ (Decrease)
NOx	**1,008**	12,863	Grams	(92%)
SOx	**20**	21	Grams	(5%)
PM	**74**	1,233	Grams	(94%)
Total	**1,102**	14,117	Grams	(94%)

There was significantly decrease in motor vehicle emission due to a decrease in usage during this year. There were no non-compliance cases noted in relation to environmental laws and regulations for This year.

A1.2 Greenhouse Gas Emission

	2019	2018	Unit	% Increase (Decrease)
Scope 1				
Direct emission	**3,632**	3,839	Kg	(5%)
Scope 2				
Indirect emission	**556,401**	264,666	Kg	110%
Scope 3				
Other indirect emission	**36,872**	12,486	Kg	195%
Total	**596,905**	280,991	Kg	112%

During This year, there was 596,905 Kg (2018: 280,991 Kg) of carbon dioxide equivalent greenhouse gases (mainly carbon dioxide, methane and nitrous oxide) emitted from the Group's operation. Indirect emission mainly raised from electricity consumption while the other indirect emission came from business air travel. Total no. of facilities for the Group was 36 in 2019 (2018: 31). The annual emission intensity was 16,580 KgCO2e/facility (2018: 9,064 KgCO2e/facility). The increase was mainly due to increase in the number of kindergarten in Hong Kong, childcare centre in Singapore and college campuses in Australia. Also some of the childcare centres which were acquired in the second half of 2018 operated for full year of 2019.

Note 1. Total no. of facilities in 2019 includes one headquarter, 22 self-operated dance centres, 2 kindergarten and one speech centre in Hong Kong, one headquarter and 7 childcare centres in Singapore, and 2 campuses in Australia.

A1.3 Non-hazardous Waste

During this year, the Group generated 5 tonnes (2018: 3 tonnes) non-hazardous waste in its operation. Hazardous waste from the Group's operations was mainly office paper but the management of the Group believed that the wastage of this aspect was insignificant.

ENVIRONMENTAL, SOCIAL, AND GOVERNANCE REPORT

A2.1 Use of resource

Energy

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

	2019	2018	Unit	% Increase (Decrease)
Total energy consumption	**803,614**	443,855	kWh	81%
Fuel consumed	**12,285**	535	kWh	2,196%
Total	**815,899**	444,390	kWh	84%
No. of facilities	**36**	31	facility	16%
Energy consumed per facilities	**22,664**	14,335	kWh/facility	58%

Water

The total water consumed is set out below.

	2019	2018	Unit	% Increase (Decrease)
Water consumed	**3,806**	60	m^3	6,243%
No. of facilities	**36**	31	facility	16%
Water consumed per facilities	**105.7**	2.5	m^3/facility	4,128%

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

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

A3 Environmental and Natural Resources

Air Quality

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

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

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

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

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

B. SOCIAL

B1 Employment and Labour Practices

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

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

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

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

There were no non-compliance cases noted in relation to employment and labour standards laws and regulations for This year. As at 31 December 2019, the Group employed a total of 526 (2018: 268) members of staff, including operating staff in dancing centres, kindergarten, speech centre, childcare centres and colleges and management and supporting staff in headquarters. All staff members are allocated in Hong Kong, Singapore and Australia.

(a) *Employee's Age and Gender Distribution*

Age group	2019	2018
<30	**24%**	49%
30-50	**60%**	32%
>50	**16%**	19%

By gender	2019	2018
Male	**22%**	4%
Female	**78%**	96%

(b) *Turnover Rate by Age Group and Gender*

=Age group	2019	2018
<30	**10%**	15%
30-50	**19%**	14%
>50	**4%**	0%

By gender	2019	2018
Male	**15%**	10%
Female	**85%**	90%

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

B2 Employee Health and Safety

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

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

(a) Occupational Health and Safety Data

Health and Safety	2019 Male	2019 Female	2018 Male	2018 Female
Number of work-related fatalities	**0%**	**0%**	0%	0%
Lost days due to work injury	**0%**	**0%**	0%	0.03%
No. of staff injured	**0**	**0**	0	1

There were no lost days due to work injury (2018: 22 lost days) during This year.

B3 Development and Training

To encourage employees' development and continuous training, the Group provides various training programs to employees for long-term development, and updates their knowledge and skills to maintain their professional competence and enrich the quality of services. For example, orientation and trainings related to team building and sales skills were held This year. The Group also provides the annual overseas retreat for teachers for their professional development. During This year, they had paid several visits to the famous dancing academies in Thailand, Singapore and Australia. During This year, Directors and staff have attended a series of training programmes.

B4 Labour Standard

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

The Group lists specific requirements on advertisement to hire the most suitable candidate. All resumes, original identification cards and original certificates should be first checked by human resources ("**HR**") department during interview. HR department also contacts candidate's previous employers for reference.

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

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

B5 Supply Chain Management

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

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

B6 Product Responsibility

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

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

The Group emphasises the importance of protecting and safe-guarding its customers' privacy. Thereby, the Group has been very cautious when collecting, processing and using customers' personal data in order to comply with the provisions of the Personal Data (Privacy) Ordinance. There were no non-compliance cases noted in relation to data privacy related laws and regulations during This year.

B7 Anti-corruption

The Group has an established procedure for dealing with students, parents and business partners. The Group emphasises integrity and prevents unethical pursuit from occurring in complying with relevant laws and regulations. Thus, whistle-blowing channels are implemented for this purpose. The Group encourages reporting suspected wrongdoings and business irregularities, e.g. breach of duty, abusing the power or receiving bribes.

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

B8 Community Involvement

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

During This year, the Group continued to encourage its employees to join Green Monday for promoting low-carbon and sustainable lifestyle. The Group participated in Speech Therapy Service for Elderly & Community organised by Hong Kong Sheng Kung Hui Tseung Kwan O Aged Care Complex - Jockey Club District Elderly Community Centre cum Day Care Unit, in order to support the charities.

Also, donations were made to different charities, including Pok Oi Hospital, Green Monday Foundation Limited, and Po Leung Kuk Choi Kai Yau School.

The Group kept on working closely with various charitable organizations like Hong Kong Sheng Kung Hui Tseung Kwan O Aged Care Complex- Jockey Club District Elderly Community Centre cum Day Care Unit and Earthfest Singapore This year.

In addition, the Group does not focus on individual activities only, but is also keen on participating in all-rounded community engagement services, from community services to environmental protection activities.

Our students have chances to get involved in these meaningful events and delivered positive messages to others.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Chiu Ka Lok (趙家樂) ("Mr. Chiu"), aged 44, is our chairman and executive Director. He was appointed as our Director on 12 February 2014 and was re-designated as an executive Director on 24 March 2014. Mr. Chiu is also the member of the remuneration committee of the Company. Mr. Chiu founded our Group in May 2006. Mr. Chiu is primarily responsible for the overall corporate strategies, management and business development of our Group. Prior to establishing Shelly De Mozz, Mr. Chiu was engaged in the production and sales of education software to primary and secondary school teachers. Mr. Chiu was awarded the "Quality Education Fund" from the Government of Hong Kong in 1997 for a "Teachers Learning Programme" project. Since then, Mr. Chiu has continued to develop his career and team in the education industry. Mr. Chiu has approximately ten years of experience in children education and management. Mr. Chiu is the chief executive officer of the Hong Kong Speech and Swallowing Therapy Centre, a company principally engaged in providing swallowing and speech treatment, responsible for business development. He is also a director of Pok Oi Hospital, a charitable organisation providing various services to the local community including child care and education. Mr. Chiu graduated from The University of Science & Technology, Hong Kong, in November 1998, with a bachelor's degree in computer engineering.

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

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

Mr. Chun Chi Ngon Richard (秦志昂) ("Mr. Chun"), aged 72, is our chief executive officer and executive Director.

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

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

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

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

NON-EXECUTIVE DIRECTORS

Dr. Chun Chun (秦蓁) ("Dr. Chun"), aged 44, was appointed as our non-executive Director on 24 March 2014. Dr. Chun has approximately 13 years of experience in speech & swallowing therapy. Dr. Chun has worked as a consultant of Hong Kong Speech & Swallowing Therapy Centre, a company principally engaged in providing swallowing and speech treatment. She was responsible for the provision of assessment and treatment for patients and training for internal staff since June 2006. Dr. Chun also worked in various hospitals or bureau. From August 2003 to December 2004, she was the speech and language consultant of the Hong Kong Education Department. From December 2001 to December 2002 and November 1999 to October 2001, Dr. Chun was the speech therapist of Tung Wah Eastern Hospital and Pamela Youde Nethersole Eastern Hospital, respectively. Dr. Chun obtained a bachelor's degree and doctorate's degree in Speech and Hearing Sciences from The University of Hong Kong, Hong Kong, in December 1999 and December 2007, respectively. Dr. Chun is a certified VitalStim Therapy Provider, Deep Pharyngeal Neuromuscular Stimulation Provider and an administrator of the Lee Silverman Voice Treatment.

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

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

Ms. Yeung Siu Foon (楊少寬) ("Ms. Yeung"), aged 69, was appointed as our non-executive Director on 24 March 2014. Ms. Yeung has approximately 16 years of experience in education sector as a teacher. From July 1968 to January 1970, Ms. Yeung worked as a panel teacher in Chiu Kwong Kindergarten. From January 1970 to August 1985, Ms. Yeung worked as a panel teacher and kindergarten officer in Rainbow Middle School. Ms. Yeung graduated from Macao Saint Joseph's Kindergarten College, Macao, in June 1967, with a secondary certificate in kindergarten teacher.

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

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lau Sik Yuen (劉錫源) ("Mr. Lau"), aged 53, was appointed as our independent non-executive Director on 26 September 2014. Mr. Lau has over 21 years of experience in auditing and financial accounting. Mr. Lau currently is the company secretary and chief financial officer of Xinyi Glass Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code: 0868) from April 2003, responsible for their financial, management and cost accounting, taxation, treasury and investor relations strategy and operation. Currently, Mr. Lau also serves as an independent non-executive director of China Qinfa Group Ltd. (stock code: 0866) from June 2009, Dragon Crown Group Holdings Limited (stock code: 0935) from November 2010 and CTEH INC. (stock code: 1620) from May 2018, all of which are companies listed on the Main Board of the Stock Exchange. Mr. Lau had worked with PricewaterhouseCoopers over five years, responsible for auditing. Mr. Lau was the financial controller of a subsidiary of NWS Holdings Limited, a company listed on the Stock Exchange (stock code: 0659), for over three years. Mr. Lau graduated from Oregon State University, United States, with Bachelor of Science in business administration. Mr. Lau is a fellow member of the Hong Kong Institute of Certified Public Accountants and a member of the American Institute of Certified Public Accountants.

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

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Dr. Yuen Man Chun Royce (袁文俊) ("Dr. Yuen"), aged 55, was appointed as our independent non-executive Director on 26 September 2014. Dr. Yuen is also the chairman of the nomination committee of the Company and the member of the audit committee and remuneration committee of the Company. Dr. Yuen has over 25 years of experiences in brand-building and marketing management. Dr. Yuen has been the chief executive officer of New Brand New Limited, a company principally engaged in marketing and brand consulting, since August 2013. Dr. Yuen was the chairman of Ogilvy & Mather Advertising, a company principally engaged in offering integrated marketing communications solutions, from April 2003 to January 2010, he was responsible for the management of the operation and profit and loss of Ogilvy's Group. From January 2010 to June 2011, Dr. Yuen was an executive director of Fantastic Natural Cosmetics Limited (FANCL), a company principally engaged in the sale of skincare and health supplements, he was responsible for leading its global strategic planning and brand development. Dr. Yuen is also the chairman of The Association of Accredited Advertising Agencies of Hong Kong, from December 2005 to December 2009, an association that deals with issues concerning the future of the advertising industry and the business of member agencies. Dr. Yuen obtained an Honour Diploma in Communications from Hong Kong Baptist University, Hong Kong, in December 1987, a master's degree in Marketing from Macquarie University, Australia, in September 1996 and a doctorate's degree in business administration from Hong Kong Polytechnic University, Hong Kong, in November 2000. Dr. Yuen is a visiting associate professor of The University of Hong Kong and a professor of The Hong Kong Polytechnic University. Dr. Yuen is council member of the Hong Kong Trade Development Council and the Hong Kong Academy for Performing Arts, and an advisory board member for many not-for-profit and government bodies, including the Hong Kong Museum of History.

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

Mr. Chak Chi Shing (翟志勝) ("Mr. Chak"), aged 39, was appointed as our independent non-executive Director on 15 May 2019. Mr. Chak is also the chairman of the remuneration committee of the Company and the member of the audit committee and nomination committee of the Company. Mr. Chak obtained a bachelor's degree in accounting and finance from Curtin University of Technology in Australia. Mr. Chak is a member of CPA Australia and Hong Kong Institute of Certified Public Accountants. Mr. Chak has over 13 years of professional experience in auditing, accounting, corporate finance and financial management and also has years of experience in company secretarial and corporate governance. Mr. Chak is currently the chief financial officer, company secretary and an authorised representative of Tokyo Chuo Auction Holdings Limited (stock code: 1939) from 13 September 2019 and the company secretary and an authorised representative of Hao Wen Holdings Limited (stock code: 8019) from 2 January 2020. Mr. Chak was the executive director of China Shenghai Food Holdings Company Limited (stock code: 1676) from December 2018 to September 2019. Mr. Chak served as the company secretary of Bolina Holdings Co., Ltd. (stock code: 1190) from March 2017 to August 2018, and the company secretary of the Company from March 2016 to July 2016.

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

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Ms. Chan Yuen Hong (陳遠航) ("Ms. Chan"), aged 46, joined our Group in April 2007 as marketing officer and was promoted as our general manager and dean of SDM Jazz & Ballet on July 2007. She is primarily responsible for overall school operation including strategic planning, development of curriculum, marketing and general business operation of SDM Jazz & Ballet Academie. Ms. Chan has approximately 15 years of experience in management and marketing. From June 2005 to February 2006, she was the development executive of MV Destination Limited, a company principally engaged in providing event management services, responsible for marketing, promotion and event co-ordination. From July 1998 to July 2003, she was the senior marketing manager of Gold Royal International Enterprise Ltd., a company principally engaged in providing healthcare and beauty services, responsible for product development and training, brand building and marketing. From October 1996 to June 1998, Ms. Chan was a management trainee of The Marco Polo Hong Kong Hotel, responsible for providing assistance to various departments including human resources, marketing, food and beverage, housekeeping, front office and accounts. Ms. Chan graduated from Hong Kong Polytechnic University in November 1996, Hong Kong, with a bachelor's degree in hotel and catering management. Ms. Chan is currently the chairman of the Hong Kong Children Dance Promotion Association.

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

Ms. Yu Sze Wan (余思韻) ("Ms. Yu"), aged 42, was appointed as assistant to general manager in July 2007, as administration and human resources manager in February 2008 and was promoted as head of administrations and deputy general manager in July 2013. Ms. Yu is responsible for coordinating the operation of various departments, human resources planning, and personnel recruitment. Ms. Yu has over 15 years of experience in management. Prior to joining us, Ms. Yu worked as administration assistant in Manulife (International) Limited, a company principally engaged in insurance, investment, asset management and financial planning, responsible for administrative matters, from April 1997 to November 1997. She was a consultant in World Sky International Limited, a company principally engaged in trading and marketing of health products, where she was responsible for providing assistance to improve the workflow, training memo, policies and practices, analyzing training needs, designing employee development programme and conducting product training, from November 1997 to February 2007. Ms. Yu obtained a certificate in secretarial studies from Sacred Heart Canossian Commercial School, Hong Kong, in June 1996. Ms. Yu is the administrative officer of the Hong Kong Children Dance Promotion Association. Ms. Yu obtained certificates in personnel administration and operations as well as in human resources management from the Hong Kong Management Association in 2011.

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

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Yu Wing Lok Garry (余永祿) ("Mr. Yu"), aged 56, joined our Group in October 2019 as chief operating officer. He is in charge of overall operations of the Group in different geographical locations. Mr. Yu has numerous years of executive managerial and business development experience, especially in automotive, insurance and finance industry. From May 1992 to October 2007, he was the CEO – managing director of Cosmo Motors Limited which was an auto dealer group in Canada. From June 2008 to July 2013, he was the director – head of business development of Haitong International Securities Group Limited. He was mainly responsible for managing a team of over 140 financial consultants, liaison with major insurance providers, high-net-worth clients' portfolio management, asset management and conducting various business development projects. From August 2013 to July 2015, he was the head of Independent Financial Advisor of Core Pacific-Yamaichi International (H.K.) Limited which is engaged in provision of comprehensive financial services in global markets. From August 2015 to October 2016, he was the chief distribution officer – head of automobile brokers (China) of Allianz Group. From October 2016 to April 2019, he was the chief executive officer of Canew Tech (Shenzhen) Co., Limited which is a high-tech company with research and development, production and sales of super Nano energy-saving aerogel materials and other new materials. He was responsible for general oversight of all business activities, management of the day-to-day operations and assuring a smoothly functioning and efficient organization. In addition, Mr. Yu is a successful entrepreneur. In 1992, he found his own automobile dealership business in Vancouver, Canada. By 2005, the year he sold that business, his company had grown from a single-brand SME to a 4-import brands corporation. Mr. Yu is a holder of Executive Master of Business Administration (EMBA) from The University of Hull in United Kingdom and a bachelor's degree majoring management and organizational studies from Western University in Canada.

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

REPORT OF DIRECTORS

DIRECTORS' REPORT

The Directors hereby present their report and the audited consolidated financial statements of the Group for the year ended 31 December 2019.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are set out in Note 42 to the consolidated financial statements. During the year, the Group entered into the adult education and training business.

SEGMENTAL INFORMATION

An analysis of the Group's revenue and contribution to the loss from operations by principal activities and geographical area of operations for the year ended 31 December 2019 is set out in Note 5 to the consolidated financial statements.

RESULTS AND DIVIDENDS

The Group's results for the year ended 31 December 2019 are set out in the consolidated statement of profit or loss and other comprehensive income on pages 53 and 54.

No final dividend for the year ended 31 December 2019 is proposed by the Board (2018: Nil).

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

FINANCIAL SUMMARY

The summary of the results and of the assets and liabilities of the Group is set out on page 180 of this report.

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL

Details of the movements during the year in the share capital of the Company are set out in Note 30 to the consolidated financial statements.

SHARE OPTION SCHEME

The Company's share option scheme (the "**Share Option Scheme**") was conditionally adopted by a written resolution 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 recognise and acknowledge the contribution of the Directors, other employees, other eligible participants who have made valuable contribution to the Group. Up to 31 December 2019 and the date of this report, there was 35,410,000 share options and 44,090,000 share options, respectively, granted or agreed to be granted under the Scheme from the Date of the Adoption.

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

(a) Purpose

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

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

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

(b) The Participants of the Share Option Scheme

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

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

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

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

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

(c) Maximum number of shares

The maximum number of shares which may be issued upon exercise of all share options to be granted under the Share Option Scheme shall not, in the absence of Shareholders' approval, in aggregate exceed 10% in nominal amount of total number of shares in issue immediately following the completion of the offering for the Listing of the Shares of the Company (i.e. 20,000,000) (the "**Scheme Limit**"). Options lapsed in accordance with the terms of the Share Option 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 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 Company's 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 "**May Circular**"). Pursuant to the May Circular, the Company proposes to seek the approval of the Shareholders to approve the Refreshment (as defined in the May Circular) so that the total number of Shares (as defined in the May 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 on 2 May 2019, 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 "**2019 May EGM**"). The Refreshment is approved by the Shareholders at the 2019 May EGM.

Pursuant to the 2019 May EGM, 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, details of which are set out in the Company's announcements dated 4 October 2019 and 11 October 2019.

The Company issued another circular dated 18 December 2019 to the Shareholders in relation to "Proposal for Refreshment of Share Option Scheme Mandate Limit and Notice of Extraordinary General Meeting" (the "**December Circular**"). Pursuant to the December Circular, the Company proposes to seek the approval of the Shareholders to approve the Refreshment (as defined in the December Circular) so that the total number of Shares (as defined in the December 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 on 13 December 2019, 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 10 January 2020 (the "**2020 January EGM**"). The Refreshment is approved by the Shareholders at the 2020 January EGM.

Pursuant to the 2020 January EGM, the Company granted 6,380,000 share options at an exercise price of HK$1.20 per share on 11 February 2020 and 2,300,000 share options at an exercise price of HK$1.44 per share on 25 February 2020 to certain eligible participants, subject to the acceptance of the grantees, under the Share Option Scheme adopted by the Company on 26 September 2014, details of which are set out in the Company's announcements dated 11 February 2020 and 25 February 2020.

(d) Maximum number of options to any one individual

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

(e) Price of Shares

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

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

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

(iii) the nominal value of a share.

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

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

As at 31 December 2019 the Company had 35,410,000 outstanding share options under the Share Option Scheme carrying rights for the holders thereof to subscribe for an aggregate of 35,410,000 new Shares, details of movements of which are set out below:

		Number of share options 購股權數目							
Date of grant	Owners/Grantees	At 1 January 2019	Granted	Exercised	Lapsed	Cancelled	At 31 December 2019	Exercise period	Exercise Price HK$
4 October 2019	**Directors**							4 October 2019 to 3 October 2022	1.10
	– Mr. Chiu Ka Lok	–	3,541,000	–	–	–	3,541,000	4 October 2019 to 3 October 2022	1.10
	– Mr. Chun Chi Ngon, Richard	–	3,541,000	–	–	–	3,541,000	4 October 2019 to 3 October 2022	1.10
	– Ms. Yeung Siu Foon	–	3,541,000	–	–	–	3,541,000	4 October 2019 to 3 October 2022	1.10
	– Dr. Chun Chun	–	3,541,000	–	–	–	3,541,000	4 October 2019 to 3 October 2022	1.10
	Employees	–	10,623,000	–	–	–	10,623,000	4 October 2019 to 3 October 2022	1.10
11 October 2019	**Consultants**	–	10,623,000	–	–	–	10,623,000	11 October 2019 to 10 October 2020	1.00
		–	35,410,000	–	–	–	35,410,000		

PRE-EMPTIVE RIGHTS

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

RESERVES

Details of movements in the reserves of the Company and of the Group during the year are set out in Note 46 to the consolidated financial statements and pages 57 and 58 in the consolidated statement of changes in equity respectively.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2019, the Company had no distributable reserve (2018: Nil) calculated in accordance with the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, due to nature of our business, sales to the Group's five largest customers accounted for approximately 0.5% (2018: approximately 0.5%) of the total sales for the year ended 31 December 2019, which is less than 30% of total revenue and the sales to the largest customer included therein amounted to approximately 0.1% (2018: approximately 0.2%) of the total sales for the year ended 31 December 2019.

Due to our business nature being a dance and education institution, the landlords of our leased properties are essential to the Group's operations. During the year ended 31 December 2019, the lease rental payments accounted for approximately 31.9% (2018: rental expenses of approximately 32.5%) of the total revenue.

None of the Directors, or any of their close associate(s) or any shareholders of the Company (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's 5 largest customers and 5 largest landlords during the year ended 31 December 2019.

DIRECTORS

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

Executive Directors

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

Non-executive Directors

Dr. Chun Chun
Ms. Yeung Siu Foon

Independent non-executive Directors

Mr. Lau Sik Yuen
Dr. Yuen Man Chun Royce
Mr. Lee Kwok Ho David (resigned on 15 May 2019)
Mr. Chak Chi Shing (appointed on 15 May 2019)

In accordance with the Company's articles of association, Mr. Chiu Ka Lok, Mr. Lau Sik Yuen and Mr. Chak Chi Shing will retire at the forthcoming annual general meeting. Mr. Chiu Ka Lok and Mr. Chak Chi Shing, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

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

REPORT OF DIRECTORS

BIOGRAPHICAL DETAILS OF DIRECTORS

Brief biographical details of the Directors of the Group are set out on pages from 29 to 33 of this report.

DIRECTORS' SERVICE CONTRACTS

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

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

DIRECTORS' INTERESTS IN CONTRACTS

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

CONTROLLING SHAREHOLDER'S INTEREST IN CONTRACTS

Save as disclosed in the paragraphs headed "**Continuing Connected Transactions**" in this report and Related Party Transactions in Note 41 to the consolidated financial statements, no contract of significance, to which the company, its holding company or subsidiaries was a party and in which a controlling shareholder of the company had a material interest, whether directly or in directly, subsisted at the end of the year or at any time during the year.

EMOLUMENT POLICY

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

COMPETING INTERESTS

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

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES

As at 31 December 2019, the interests or short positions of the Directors and chief executives of the Company in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the "**SFO**")), which are required (a) to be notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) have to be notified to the Company and the Stock Exchange pursuant to the required standards of dealing by directors as referred to in Rule 5.46 of the GEM Listing Rules were as follows:

Long positions in the Shares of the Company

Name of Directors and chief executive	Nature of interest/ Holding capacity	Number of ordinary shares held	Number of underlying Shares held	Percentage of issued share capital (Note 1)
Mr. Chiu Ka Lok	Interest of a controlled corporation, beneficial owner and family interest	198,750,000 (Note 2)	7,082,000	58.13%
Dr. Chun Chun	Beneficial owner and family interest	198,750,000 (Note 3)	7,082,000	58.13%
Mr. Chun Chi Ngon Richard	Beneficial owner and family interest	–	7,082,000 (Note 4)	2.00%
Ms. Yeung Siu Foon	Beneficial owner and family interest	–	7,082,000 (Note 4)	2.00%

Notes:

(1) As at 31 December 2019, the Company's issued ordinary share capital was HK$35,410,000 divided into 354,100,000 Shares of HK$0.1 each.

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

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

(4) Mr. Chun Chi Ngon Richard, an executive Director and the chief executive officer of the Company, and Ms. Yeung Siu Foon, a non-executive Director, are both beneficially deemed to be interested in 3,541,000 Shares each which may be issued to them upon the exercise of the share options granted to them on 4 October 2019 under the Share Option Scheme. Also, as Mr. Chun Chi Ngon Richard and Ms. Yeung Siu Foon are the spouse of each other, they are both deemed to be interested in all the underlying Shares held/owned by each other by virtue of the SFO.

Save as disclosed above, as at 31 December 2019, none of the Directors and chief executive of the Company had any other interests or short positions in any shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of listed issuer referred to rule 5.46 of the GEM Listing Rules.

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

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

Name of Shareholder	Nature of interest/ holding capacity	Number of shares	Percentage of interests in the Company's issued share capital (Note 1)
Wealthy Together	Beneficial owner	198,750,000 (Note 2)	56.13%
Hui Pui Cheung	Beneficial owner	45,566,000	12.86%
Chen Jiaxin	Interest of a controlled corporation	28,000,000	7.91%
Tycoon Mind Limited	Beneficial owner	28,000,000	7.91%

Notes:

(1) As at 31 December 2019, the Company's issued ordinary share capital was HK$35,410,000 divided into 354,100,000 Shares of HK$0.1 each.

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

Save as disclosed above, the Directors were not aware of any other persons, other than the Directors or the chief executive of the Company who held an interest or short positions in the shares and underlying shares of the Company as at 31 December 2019 which required to be recorded pursuant to Section 336 of SFO.

RELATED PARTY TRANSACTIONS

Details of related party transactions of the Group during the year ended 31 December 2019 are set out in Note 41 to the consolidated financial statements. Save as the building management fees, rent and rates received from other related companies, which constitute continuing connected transactions and are exempted from the reporting, announcement and independent shareholders' approval requirements under Chapter 20 of the GEM Listing Rules, none of these related party transactions constitute connected transactions as defined under the GEM Listing Rules.

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

CONTINUING CONNECTED TRANSACTIONS

The Group has entered into certain sub-lease agreements (the "**Sub-lease Agreements**") with Dunn's Education Limited, Rainbow Creative Arts Limited and Sunshine Chinese Painting and Red Vocal Limited. Dunn's Education Limited is owned as to 33.33% by Mr. Chiu Ka Lok, Rainbow Creative Arts Limited is wholly-owned by Mr. Chiu Ka Lok, Sunshine Chinese Painting is a sole proprietorship of Ms. Yeung Siu Foon, the non-executive Director and the mother-in-law of Mr. Chiu Ka Lok, and Red Vocal Limited is 50% beneficially indirectly and controlled by Mr. Chiu Ka Lok, one of the executive Directors and a controlling Shareholder. Accordingly, each of Dunn's Education Limited, Rainbow Creative Arts Limited and Sunshine Chinese Painting is a connected person of the Company under the GEM Listing Rules. Hence any transactions entered into between the Group and Dunn's Education Limited, Rainbow Creative Arts Limited and/or Sunshine Chinese Painting will constitute connected transactions for the Company under Chapter 20 of the GEM Listing Rules. Details of such connected transactions are as below.

For the years ended 31 December 2018 and 2019 the total rental and fees paid to our Group by Dunn's Education Limited under the Sub-lease Agreements amounted to approximately HK$1,402,000 and HK$1,480,000, respectively, of which approximately HK$631,000 and HK$631,000, respectively, were in relation to the sub-leasing of the Taikoo Centre.

For the years ended 31 December 2018 and 2019 the total rental and fees paid to our Group by Rainbow Creative Arts Limited under the Sub-lease Agreements amounted to approximately HK$563,000 and HK$473,000, respectively, of which approximately HK$288,000 and HK$288,000, respectively, were in relation to the sub-leasing of the Taikoo Centre.

For the years ended 31 December 2018 and 2019 the total rental and fees paid to our Group by Sunshine Chinese Painting under the Sub-lease Agreements amounted to approximately HK$226,000 and HK$226,000, respectively.

For the year ended 31 December 2019 the total rental and fees paid to our Group by Red Vocal Limited under the Sublease Agreements amounted to approximately HK$405,000 (2018: approximately HK$540,000).

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

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

AUDIT COMMITTEE

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

Currently the audit committee comprises three independent non-executive directors, who have reviewed the consolidated financial statements for the year ended 31 December 2019.

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 2019, the Company has received an annual written confirmation from each controlling shareholder of the Company in respect of its/his and its/his associates' compliance with the Deed of Non-Competition. The independent non-executive Directors have also reviewed and were satisfied that each of the controlling shareholders of the Company had complied with the Deed of Non-Competition.

CORPORATE GOVERNANCE

During the year ended 31 December 2019, the Company has complied with the code provisions as set out in the CG Code contained in Appendix 15 of the GEM Listing Rules.

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

SUFFICIENCY OF PUBLIC FLOAT

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

MATERIAL EVENTS AFTER THE REPORTING PERIOD

Save as disclosed in "EVENTS AFTER THE REPORTING PERIOD" in Note 44 to the consolidated financial statements, the Group had no material events after the reporting period.

CHANGE OF AUDITOR

Deloitte Touche Tohmatsu resigned from the office of auditor of the Company with effect from 8 January 2020 whereas KPMG has been appointed as the auditor of the Company to fill the casual vacancy. Deloitte has confirmed in their letter of resignation dated 8 January 2020 that from their perspective there are no matters in respect of their resignation that need to be brought to the attention of the Shareholders. Details are set out in the Company's announcement dated 8 January 2020.

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

By order of the Board
Mr. Chiu Ka Lok
Chairman

Hong Kong, 15 May 2020

INDEPENDENT AUDITOR'S REPORT

KPMG

To the shareholders of SDM Group Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of SDM Group Holdings Limited and its subsidiaries ("**the Group**") set out on pages 53 to 179, which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

Assessment of the Group's ability to continue as a going concern	
Refer to note 3 to the consolidated financial statements	
The key audit matter	**How the matter was addressed in our audit**
As at 31 December 2019, the Group had net liabilities of HK$91,309,000 and net current liabilities of HK$95,563,000. The Group also incurred a net loss of HK$106,311,000 and net cash outflow from operating activities of HK$5,421,000 for the year ended 31 December 2019. The Group is dependent upon the future cash flows to be generated from operations and the ability of the Group to renew or obtain financing facilities to cover its operating costs and to meet its financing commitments. The directors of the Company made their assessment of the Group's ability to continue as a going concern by preparing a cash flow forecast which was based on some key assumptions and events subsequent to 31 December 2019. These included the projection for income and expenses; the proceeds subsequently obtained from third party borrowings; and the plan to realise certain financial assets as and when necessary. Based on the assessment, the directors expect the Group will have sufficient bank balances and cash to cover its operating cash outflow and to meet its financing commitments for the next twelve months and concluded that there are no material uncertainties related to events or conditions which, individually or collectively, may cast significant doubt on the Group's ability to continue as a going concern. We identified the assessment of the Group's ability to continue as a going concern as a key audit matter because the assessment is dependent upon certain management assumptions and judgements, in particular in relation to the future cash flows to be generated from operations as and when necessary.	Our audit procedures to assess whether a material uncertainty relating to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern exists include the following: • obtaining and inspecting the Group's cash flow forecast prepared by management and on which the assessment of the Group's ability to continue as a going concern is based; • challenging and evaluating the key assumptions adopted by management in preparing the cash flow forecast, including receipt of revenue, payment of operating expenses, capital expenditure and cash outflows arising from future acquisitions and expiring financing facilities, with reference to our understanding of the businesses, expansion plan and historical trends of the Group; • performing sensitivity analyses on key assumptions adopted in the cash flow forecast and considering the resulting impact on the going concern assumption; and • assessing the disclosures in the consolidated financial statements in respect of the directors' assessment of the Group's ability to continue as a going concern with reference to the requirements of the prevailing accounting standards.

Accounting for the acquisitions of businesses	
Refer to accounting policies in note 3 and notes 14, 15 and 35 to the consolidated financial statements	
The key audit matter	**How the matter was addressed in our audit**
During the year ended 31 December 2019, the Group acquired a number of education related businesses in Singapore and Australia, and paid aggregate consideration of HK$26,571,000. Goodwill arising from these acquisitions amounted to HK$36,032,000, which represented the excess of the consideration paid over the Group's share of the fair value of the identifiable net assets, including the intangible assets of customer relationships amounting to HK$737,000. The fair values of the identifiable assets and liabilities acquired in these acquisitions were assessed by management based on valuations prepared by an external valuer. The assessment of fair values required the exercise of significant judgement and estimation, particularly in relation to the forecast of future performance of the business acquired. We identified the accounting for the acquisitions of businesses as a key audit matter because these acquisitions have significant impact on the consolidated financial statements and because assessing the fair values of the assets and liabilities acquired can be inherently subjective and requires significant judgement and estimation which increase the risk of error or potential management bias.	Our audit procedures to assess the accounting for the acquisitions included the following: • reading the sale and purchase agreements and evaluating management's accounting treatment for the acquisitions with reference to the terms set out in the sale and purchase agreements and the prevailing accounting standards; • assessing the competence, capabilities and objectivity of the external valuer engaged by the Group; • obtaining and inspecting the valuation reports prepared by the external valuer and on which management's assessment of the fair values of the identifiable net assets acquired was based; • with the assistance of our internal valuation specialists, assessing the valuation methodology adopted by the external valuer with reference to industry standards, and challenging significant estimates and assumptions which impacted the valuation by comparing these significant estimates and assumptions with the available market information or the historical performance of the acquired businesses; • evaluating the assumptions adopted in the preparation of discounted cash flow forecasts for the purpose of the intangible asset valuation, including future growth rates for income and expenses, with reference to our understanding of the businesses and historical trends; and • assessing the disclosures in the consolidated financial statements in respect of the acquisitions with reference to the requirements of the prevailing accounting standards.

<table>
<tr><th colspan="2">Impairment assessment of goodwill, intangible assets, property, plant and equipment and right-of-use assets</th></tr>
<tr><td colspan="2">Refer to accounting policies in note 3 and notes 13 to 15 to the consolidated financial statements</td></tr>
<tr><th>The key audit matter</th><th>How the matter was addressed in our audit</th></tr>
<tr><td>As at 31 December 2019, the carrying values of the Group's goodwill, intangible assets, property, plant and equipment and right-of-use assets amounted to HK$83,577,000, HK$13,271,000, HK$30,700,000 and HK$129,682,000, respectively, which the total carrying amount represented 48% of the Group's total assets.

Management performs impairment assessments on goodwill annually whether or not there is any indication of impairment. In addition, impairment assessments are performed by management on intangible assets, property, plant and equipment and right-of-use assets if there is any indication of impairment.

In performing impairment assessments, management compared carrying amount of each of the identifiable cash generating units ("CGUs") or a group of CGUs where the goodwill is related to multiple CGUs with their respective value in use based on discounted cash flow forecasts to determine if any impairment loss should be recognised. Based on the impairment assessments, impairment loss of HK$717,000 was recognised for the year.

The preparation of discounted cash flow forecasts involves estimating future cash flows, revenue growth rates and discount rates which can be inherently uncertain.

We identified the assessment of impairment of goodwill, intangible assets, property, plant and equipment and right-of-use assets as a key audit matter because the impairment assessment prepared by management is complex and involves a significant degree of management judgement in forecasting future cash flows and estimating value in use of the relevant CGUs which are inherently uncertain and may be subject to management bias.</td><td>Our audit procedures to assess impairment of goodwill, intangible assets, property, plant and equipment and right-of-use assets included the following:

• evaluating the appropriateness of management's identification of CGUs and the allocation of goodwill, intangible assets, property, plant and equipment, right-of-use assets and other assets to each CGU or a group of CGUs and the valuation methodology adopted by management in preparing the cash flow forecasts;

• challenging and evaluating the assumptions adopted in the preparation of discounted cash flow forecasts on which the value in use calculations were based, including future growth rates for income and expenses, with reference to our understanding of the businesses and historical trends;

• assessing discount rates applied in the discounted cash flow forecasts by benchmarking against those of other similar companies in the same industry;

• comparing the revenue and operating costs included in prior year's discounted cash flow forecasts with the current year's performance in order to assess the reasonableness of prior year's forecast and making enquiries of management as to the reasons for any significant variation identified; and

• performing sensitivity analyses of both the discount rates and revenue growth rates and assessing the impact of changes in these key assumptions to the conclusions reached in the impairment assessments and whether there were any indicators of management bias in the selections of assumptions.</td></tr>
</table>

Valuation of convertible bond	
Refer to accounting policies in note 3 and notes 33 and 39 to the consolidated financial statements	
The key audit matter	**How the matter was addressed in our audit**
During the year ended 31 December 2019, SDM Asia Limited ("**SAL**"), a subsidiary of the Group, issued a convertible bond of US$25,000,000. As at 31 December 2019, the convertible bond is stated at its fair value of $204,466,000, which accounted for 33% of the Group's total liabilities. The valuation of the convertible bond was determined by management with reference to the valuation report issued by an external valuer, which requires using appropriate valuation technique and the exercise of significant management judgement for the key assumptions adopted, which are the business valuation of SAL and the volatility of it. The business valuation of SAL is based on a discounted cash flow calculation, which uses a number of assumptions, including discount rate (for business valuation), growth rates and future cash flows, which are inherently uncertain and subject to management bias. We identified the valuation of the convertible bond as a key audit matter due to its significance to the consolidated financial statements and because its valuation requires the exercise of significant management judgement.	Our audit procedures to assess the valuation of the convertible bond included the following: • assessing the competence, capabilities and objectivity of the external valuer engaged by the Group; • with the assistance of our internal valuation specialists, assessing the valuation technique and significant estimates and assumptions applied in the valuation of the convertible bond with reference to the requirements of the applicable accounting standards; and • challenging and evaluating the assumptions adopted in the preparation of cash flow forecast for the purpose of the business valuation of SAL, including future growth rates for income and expenses, with reference to our understanding of the business and historical trends.

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Lee Ling Tak, Maggie.

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

15 May 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019
(Expressed in Hong Kong dollars)

	Note	**2019** **HK$'000**	2018 (Note) HK$'000
Revenue	5	**128,724**	76,492
Other income	6	**31,160**	12,687
Other net gains and losses	6	**1,120**	(6,824)
Changes in inventories of finished goods		**501**	230
Finished goods purchased		**(4,070)**	(2,630)
Advertising and promotion expenses		**(10,587)**	(7,968)
Depreciation	9	**(43,586)**	(4,114)
Amortisation		**(1,501)**	(528)
Rental expenses	9	**(1,309)**	(24,845)
Staff and teaching consultants services costs	9	**(84,555)**	(45,394)
Other expenses		**(45,976)**	(36,233)
Gain on disposal of a subsidiary	35	**–**	331
Impairment loss on goodwill	14	**–**	(4,000)
Net impairment loss recognised on financial assets and prepayments	9	**(8,539)**	(453)
Impairment loss on property, plant and equipment and right-of-use assets	13	**(717)**	–
Loss on change in fair value of consideration payable	35(f)	**(38,400)**	(11,200)
Loss on change in fair value of convertible note		**(9,636)**	–
Share options expenses	34(b)	**(8,647)**	–
Finance costs	7	**(10,003)**	(5,587)
Share of results of joint ventures		**105**	482
Share of results of an associate		**32**	–
Loss before taxation		**(105,884)**	(59,554)
Income tax expense	8	**(427)**	(170)
Loss for the year	9	**(106,311)**	(59,724)
Other comprehensive income for the year			
Items that may be subsequently reclassified to profit or loss:			
Exchange differences arising on translation of foreign operations (nil tax effect)		**(60)**	1,101

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019
(Expressed in Hong Kong dollars)

	Note	2019 HK$'000	2018 (Note) HK$'000
Change in fair value on financial investments at fair value through other comprehensive income (nil tax effect)		**119**	–
Other comprehensive income for the year		**59**	1,101
Total comprehensive income for the year		**(106,252)**	(58,623)
Loss for the year attributable to:			
Equity shareholders of the Company		**(98,807)**	(53,505)
Non-controlling interests		**(7,504)**	(6,219)
		(106,311)	(59,724)
Total comprehensive income attributable to:			
Equity shareholders of the Company		**(98,752)**	(52,404)
Non-controlling interests		**(7,500)**	(6,219)
		(106,252)	(58,623)
Loss per share (presented in HK cents)	12		
Basic		**(27.90)**	(15.11)
Diluted		**N/A**	N/A

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See Note 2.

The notes on pages 62 to 179 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

(Expressed in Hong Kong dollars)

	Note	**31 December 2019 HK$'000**	31 December 2018 (Note) HK$'000
Non-current assets			
Property, plant and equipment	13	**30,700**	5,968
Right-of-use assets	13	**129,682**	–
Goodwill	14	**83,577**	46,280
Intangible assets	15	**13,271**	13,988
Interests in joint ventures	16	**156**	156
Loans to joint ventures	16	**2,307**	2,202
Interest in an associate	17	**1,252**	–
Deposits for acquisitions of subsidiaries/businesses	18	**68,037**	22,466
Lease receivables	29(a)	**17,500**	–
Other receivables, deposits and prepayments	20	**17,959**	14,276
Deferred tax assets	31	**357**	331
		364,798	105,667
Current assets			
Inventories	19	**2,134**	1,633
Lease receivables	29(a)	**3,941**	–
Trade and other receivables, deposits and prepayments	20	**28,629**	13,555
Amounts due from related parties	21	**7,705**	10,418
Amounts due from non-controlling shareholders of subsidiaries	22	**4,528**	1,410
Financial investments	23	**49,624**	3,587
Bank balances and cash	24	**76,223**	54,966
		172,784	85,569
Current liabilities			
Trade and other payables and accrued charges	25	**34,562**	14,732
Deferred income	25	**51,939**	35,330
Amounts due to related parties	21	**1,220**	236
Amounts due to non-controlling shareholders of subsidiaries	22	**116**	–
Provisions	26	**1,960**	832
Tax payable		**801**	238
Corporate bonds	32	**71,000**	–
Consideration payable	35(f)	**56,710**	15,635
Bank and other borrowings	27	**5,454**	3,052
Lease liabilities	29(b)	**44,585**	–
		268,347	70,055
Net current (liabilities)/assets		**(95,563)**	15,514

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019
(Expressed in Hong Kong dollars)

	Note	31 December 2019 HK$'000	31 December 2018 (Note) HK$'000
Total assets less current liabilities		**269,235**	121,181
Non-current liabilities			
Provisions	26	**7,283**	1,568
Obligation arising from put options written to non-controlling shareholders of a subsidiary	28	**9,459**	9,145
Deferred tax liabilities	31	**2,201**	2,306
Corporate bonds	32	**–**	69,225
Consideration payable	35(f)	**28,890**	31,565
Convertible note	33	**204,466**	–
Lease liabilities	29(b)	**108,245**	–
		360,544	113,809
NET (LIABILITIES)/ASSETS		**(91,309)**	7,372
CAPITAL AND RESERVES			
Share capital	30	**35,410**	35,410
Reserves		**(114,690)**	(21,547)
Equity attributable to equity shareholders of the Company		**(79,280)**	13,863
Non-controlling interests	42	**(12,029)**	(6,491)
Total equity		**(91,309)**	7,372

Approved and authorised for issue by the board of directors on 15 May 2020.

Chiu Ka Lok
Director

Chun Chi Ngon Richard
Director

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See Note 2.

The notes on pages 62 to 179 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019
(Expressed in Hong Kong dollars)

	Attributable to equity shareholders of the Company							
	Share capital HK$'000	Share premium HK$'000	Exchange reserve HK$'000	Other reserve HK$'000 (Note i)	Accumulated losses HK$'000 (Note ii)	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2018	35,410	66,892	(493)	694	(39,088)	63,415	(1,585)	61,830
Loss for the year	–	–	–	–	(53,505)	(53,505)	(6,219)	(59,724)
Other comprehensive income	–	–	1,101	–	–	1,101	–	1,101
Total comprehensive income for the year	–	–	1,101	–	(53,505)	(52,404)	(6,219)	(58,623)
Capital contribution from non-controlling shareholders of a subsidiary (Note 42)	–	–	–	3,458	–	3,458	1,042	4,500
Acquisitions of subsidiaries (Note 35)	–	–	–	–	–	–	323	323
Acquisitions of additional interests in subsidiaries (Note 42)	–	–	–	(606)	–	(606)	(52)	(658)
At 31 December 2018	35,410	66,892	608	3,546	(92,593)	13,863	(6,491)	7,372

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019
(Expressed in Hong Kong dollars)

	Attributable to equity shareholders of the Company									
	Share capital HK$'000	Share premium HK$'000	Exchange reserve HK$'000	Fair value reserve HK$'000	Share options reserve HK$'000	Other reserve HK$'000 (Note i)	Accumulated losses HK$'000 (Note ii)	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2019	35,410	66,892	608	–	–	3,546	(92,593)	13,863	(6,491)	7,372
Loss for the year	–	–	–	–	–	–	(98,807)	(98,807)	(7,504)	(106,311)
Other comprehensive income	–	–	(64)	119	–	–	–	55	4	59
Total comprehensive income for the year	–	–	(64)	119	–	–	(98,807)	(98,752)	(7,500)	(106,252)
Capital contribution from non-controlling shareholders	–	–	–	–	–	–	–	–	10	10
Acquisitions of subsidiaries (Note 35)	–	–	–	–	–	–	–	–	772	772
Acquisitions of additional interests in subsidiaries (Note 42)	–	–	–	–	–	(1,615)	–	(1,615)	(243)	(1,858)
Grant of share options	–	–	–	–	8,647	–	–	8,647	–	8,647
Deemed partial disposal of a subsidiary without loss of control (Note 42)	–	–	–	–	–	(1,423)	–	(1,423)	1,423	–
At 31 December 2019	35,410	66,892	544	119	8,647	508	(191,400)	(79,280)	(12,029)	(91,309)

Notes:

(i) The other reserve represents: (i) the difference between the nominal value of the share capital of SDM Jazz & Ballet Academie Co. Limited ("**SDM Jazz & Ballet**"), SDM Academie Limited ("**SDM Academie**"), SDM Group Limited ("**SDM Group**"), SDM Management Limited ("**SDM Management**") and Metro Noble Limited ("**Metro Noble**") at the dates on which they were acquired by Brilliant Together Limited ("**Brilliant Together**") and Tycoon Together Limited ("**Tycoon Together**") by issuance of 3 shares by the Company and the cash consideration of HK$20,000 pursuant to the reorganisation underwent in preparation for the listing of the shares of SDM Group Holdings Limited (the "**Company**") on GEM of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"); (ii) gain on deemed partial disposal of Prism International Pre-school Limited ("**Prism**", a subsidiary of the Company) without loss of control; (iii) difference between amounts of non-controlling interests acquired and the fair value of consideration paid; (iv) difference between capital contribution from non-controlling shareholders and increase in non-controlling interests during the year ended 31 December 2018 as explained in Note 42; and (v) increase in non-controlling interest arising from deemed partial disposal of a subsidiary without loss of control during the year ended 31 December 2019 as explained in Note 42.

(ii) The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See Note 2.

The notes on pages 62 to 179 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019
(Expressed in Hong Kong dollars)

	Note	**2019** **HK$'000**	2018 (Note) HK$'000
Operating activities			
Loss before taxation		**(105,884)**	(59,554)
Adjustments for:			
Depreciation		**43,586**	4,114
Amortisation of intangible assets		**1,501**	528
(Gain)/loss on change in fair value of financial investments	6	**(473)**	5,783
Income arising from indemnity	6	**(2,948)**	–
Write-back of payables	6	**(2,380)**	–
Net exchange gains		**(2,545)**	(421)
Net impairment loss recognised on financial assets and prepayments	9	**8,539**	453
Interest income		**(7,505)**	(2,085)
Impairment loss on goodwill		**–**	4,000
Share of results of joint ventures		**(105)**	(482)
Share of results of an associate		**(32)**	–
Gain on disposal of a subsidiary	35	**–**	(331)
Loss on disposal of property, plant and equipment	6	**–**	1,235
Gain on a subleasing arrangement classified as finance lease as a lessor	6	**(720)**	–
Impairment loss on property, plant and equivalent and right-of-use assets		**717**	–
Loss on change in fair value of consideration payable		**38,400**	11,200
Loss on change in fair value of convertible note		**9,636**	–
Share options expenses		**8,647**	–
Loss on change in fair value of obligation arising from put options written to non-controlling shareholders of a subsidiary		**–**	515
Finance costs	7	**10,003**	5,587
Operating cash flows before movements in working capital		**(1,563)**	(29,458)
Increase in inventories		**(476)**	(348)
(Increase)/decrease in trade and other receivables, deposits and prepayments		**(1,167)**	6,256
Decrease/(increase) in amounts due from related parties		**3,319**	(63)
Increase in held for trading investments		**–**	(1,947)
Decrease in trade and other payables and accrued charges		**(16)**	(437)
Decrease in deferred income		**(5,112)**	(3,926)
(Decrease)/increase in provisions		**(300)**	327
Cash used in operations		**(5,315)**	(29,596)
Income tax refunded		**–**	30
Income tax paid		**(106)**	(211)
Net cash used in operating activities		**(5,421)**	(29,777)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019
(Expressed in Hong Kong dollars)

	Note	**2019** HK$'000	2018 (Note) HK$'000
Investing activities			
Interest received		**7,505**	2,085
Proceeds from income arising from indemnity		**2,000**	–
Payment for acquisition of an associate	17	**(1,210)**	–
Purchase of property, plant and equipment		**(18,436)**	(3,870)
Deposits paid for acquisitions of subsidiaries/businesses		**(49,727)**	(22,466)
Net cash outflow arising from acquisitions of subsidiaries	35	**(16,495)**	(28,987)
Net cash outflow from disposal of a subsidiary	35	**–**	(4)
Advances to related parties and joint ventures		**(20)**	(1,148)
Repayment from non-controlling shareholders of subsidiaries		**–**	4
Loan to holding company of an associate		**(9,886)**	–
Proceeds received from subleasing arrangement as a lessor		**1,266**	–
Payment for purchase of financial investments		**(258,686)**	–
Proceeds received from disposal of financial investments		**214,189**	–
Net placement of time deposits with original maturity more than three months		**(9,835)**	–
Net cash used in investing activities		**(139,335)**	(54,386)
Financing activities			
Advances from related parties		**240**	–
Advances from joint ventures		**744**	–
Repayment to related parties		**–**	(494)
Repayment to non-controlling shareholders of a subsidiary	40	**(432)**	–
Proceeds from issue of convertible note	40	**195,400**	–
Advance receipt from a new convertible note to be issued	40	**7,800**	–
Proceeds from bank and other borrowings		**–**	1,904
Repayment of bank and other borrowings	40	**(1,471)**	(86)
Capital contribution from non-controlling shareholders of a subsidiary		**10**	3,000
Acquisitions of additional interests in subsidiaries		**(1,858)**	(658)
Capital element of lease rentals paid		**(36,092)**	–
Interest element of lease rentals paid		**(3,654)**	–
Finance cost paid	40	**(4,260)**	(262)
Net cash generated from financing activities		**156,427**	3,404

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019
(Expressed in Hong Kong dollars)

	Note	2019 HK$'000	2018 (Note) HK$'000
Net increase/(decrease) in cash and cash equivalents		**11,671**	(80,759)
Cash and cash equivalents at the beginning of the year		**54,339**	133,822
Effect of foreign exchange rate changes		**378**	1,276
Cash and cash equivalents at the end of the year	24	**66,388**	54,339

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets and lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. Previously, cash payments under operating leases made by the Group as a lessee of HK$24,845,000 were classified as operating activities in the consolidated statement of cash flows. Under HKFRS 16, except for short-term lease payments, payments for leases of low value assets and variable lease payments not included in the measurement of lease liabilities, all other rentals paid on leases are now split into capital element and interest element (see Note 40(b)) and classified as financing cash outflows. Under the modified retrospective approach, the comparative information is not restated. Further details on the impact of the transition to HKFRS 16 are set out in Note 2.

The notes on pages 62 to 179 form part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

1 GENERAL

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

The Company is an investment holding company and its principal subsidiaries are mainly engaged in (i) business of jazz and ballet and pop dance academy in Hong Kong; (ii) operation of kindergartens and pre-schools in Hong Kong and Singapore; (iii) provision of swallowing and speech treatments in Hong Kong; (iv) provision of photographic services in Hong Kong; and (v) provision of adult language courses in Australia.

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

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

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

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

- HKFRS 16, *Leases*
- Amendments to HKAS 19, *Plan amendment, curtailment or settlement*
- Amendments to HKAS 28, *Long-term interests in associates and joint ventures*
- Annual improvement to HKFRSs 2015-2017 Cycle
- HK (IFRIC) 23, *Uncertainty over income tax treatments*

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

New and amendments to HKFRSs that are mandatorily effective for the current year (Continued)

Except as described below, the application of the new and amendments to HKFRSs in the current year has had no material impact on the Group's consolidated financial performance and consolidated financial positions for the current and prior years.

HKFRS 16, *Leases*

HKFRS 16 replaces HKAS 17, *Leases*, and the related interpretations, HK(IFRIC) 4, *Determining whether an arrangement contains a lease*, HK(SIC) 15, *Operating leases – incentives,* and HK(SIC) 27, *Evaluating the substance of transactions involving the legal form of a lease*. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("**short-term leases**") and leases of low-value assets. The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged.

HKFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

The Group has initially applied HKFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019. Comparative information has not been restated and continues to be reported under HKAS 17.

Further details of the nature and effect of the changes to previous accounting policies and the transition options applied are set out below:

a. New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The change in the definition of a lease does not have any material impact on the Group's lease arrangements.

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

New and amendments to HKFRSs that are mandatorily effective for the current year (Continued)

b. Lessee accounting and transitional impact

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets which are exempt. As far as the Group is concerned, these newly capitalised leases are primarily in relation to the premises used for offices, dance centres, pre-schools and colleges as disclosed in Note 13. For an explanation of how the Group applies lessee accounting, see Note 3.

At the date of transition to HKFRS 16 (i.e. 1 January 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 January 2019. The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was approximately 4%.

To ease the transition to HKFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of HKFRS 16:

(i) the Group elected not to apply the requirements of HKFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of HKFRS 16, i.e. where the lease term ends on or before 31 December 2019;

(ii) when measuring the lease liabilities at the date of initial application of HKFRS 16, the Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment); and

(iii) when measuring the right-of-use assets at the date of initial application of HKFRS 16, the Group relied on the previous assessment for onerous contract provisions as at 31 December 2018 as an alternative to performing an impairment review.

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

New and amendments to HKFRSs that are mandatorily effective for the current year (Continued)

b. Lessee accounting and transitional impact (Continued)

The following table reconciles the operating lease commitments as disclosed in Note 37 as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019:

	1 January 2019 HK$'000
Operating lease commitments at 31 December 2018 (Note 37)	74,426
Less: commitments relating to leases exempt from capitalisation:	
– short-term leases and other leases with remaining lease term ending on or before 31 December 2019	(1,281)
– leases with commencement date later than 1 January 2019	(11,957)
– commitments related to building management fees and utilities	(9,186)
Add: leases previously not included in operating lease commitments	14,934
Remaining lease payments	66,936
Less: total future interest expenses	(4,405)
Present value of remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and total lease liabilities recognised at 1 January 2019	62,531

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated statement of financial position at 31 December 2018.

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

New and amendments to HKFRSs that are mandatorily effective for the current year (Continued)

b. Lessee accounting and transitional impact (Continued)

The following table summarises the impacts of the adoption of HKFRS 16 on the Group's consolidated statement of financial position:

	Carrying amount at 31 December 2018 HK$'000	Capitalisation of operating lease contracts HK$'000	Carrying amount at 1 January 2019 HK$'000
Line items in the consolidated statement of financial position impacted by the adoption of HKFRS 16:			
Right-of-use assets	–	62,154	62,154
Total non-current assets	**105,667**	**62,154**	**167,821**
Trade and other payables and accrued charges	(14,732)	377	(14,355)
Lease liabilities (current)	–	(26,018)	(26,018)
Current liabilities	**(70,055)**	**(25,641)**	**(95,696)**
Net current assets/(liabilities)	**15,514**	**(25,641)**	**(10,127)**
Total assets less current liabilities	**121,181**	**36,513**	**157,694**
Lease liabilities (non-current)	–	(36,513)	(36,513)
Total non-current liabilities	**(113,809)**	**(36,513)**	**(150,322)**
Net assets	**7,372**	**–**	**7,372**

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

New and amendments to HKFRSs that are mandatorily effective for the current year (Continued)

c. Impact on the financial result, segment results and cash flows of the Group

After the initial recognition of right-of-use assets and lease liabilities as at 1 January 2019, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. This results in a positive impact on the reported loss before taxation excluding finance costs in the Group's consolidated statement of profit or loss and other comprehensive income, as compared to the results if HKAS 17 had been applied during the year.

In the consolidated statement of cash flows, the Group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element (see Note 40). These elements are classified as financing cash outflows, similar to how leases previously classified as finance leases under HKAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under HKAS 17. Although total cash flows are unaffected, the adoption of HKFRS 16 therefore results in a significant change in presentation of cash flows within the consolidated statement of cash flows.

d. Lessor accounting

The accounting policies applicable to the Group as a lessor remain substantially unchanged from those under HKAS 17.

Under HKFRS 16, when the Group acts as an intermediate lessor in a sublease arrangement, the Group is required to classify the sublease as a finance lease or an operating lease by reference to the right-of-use asset arising from the head lease, instead of by reference to the underlying asset. The adoption of HKFRS 16 does not have a significant impact on the Group's consolidated financial statements as at 1 January 2019 in this regard.

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

	Effective for accounting periods beginning on or after
Amendments to HKFRS 3, *Definition of a business*	1 January 2020
Amendments to HKAS 1 and HKAS 8, *Definition of material*	1 January 2020

In addition to the above new and amendments to HKFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, the Amendments to References to the Conceptual Framework in HKFRSs, will be effective for annual periods beginning on or after 1 January 2020.

The directors of the Company anticipate that the application of the above new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

3 SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs, which collective term includes all applicable individual Hong Kong Financing Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and interpretations issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the GEM of The Stock Exchange of Hong Kong Limited ("**Listing Rules**") and by the Hong Kong Companies Ordinance.

As at 31 December 2019, the Group had net liabilities of HK$91,309,000 (2018: net assets of HK$7,372,000) and net current liabilities of HK$95,563,000 (2018: net current assets of HK$15,514,000). The Group also incurred a net loss of HK$106,311,000 (2018: HK$59,724,000) and net cash outflow from operating activities of HK$5,421,000 (2018: HK$29,777,000) for the year ended 31 December 2019.

As disclosed in Notes 27, 32 and 33, the Group had bank and other borrowings of HK$5,454,000 (2018: HK$3,052,000), corporate bonds of HK$71,000,000 (2018: HK$69,225,000) and convertible note payable of HK$204,466,000 (2018: HK$Nil), with the related finance costs (including the change in fair value of convertible note) of HK$19,639,000 (2018: HK$5,587,000) incurred for the year then ended. The Group is dependent upon the future cash flows to be generated from operations and the ability of the Group to renew or obtain financing facilities to cover its operating costs and to meet its financing commitments.

The directors have made an assessment of the Group's ability to continue as a going concern for at least the next twelve months from the end of the reporting period and to meet its obligations, as and when they fall due, by preparing a cash flow forecast and having regard to the following:

(i) as disclosed in Notes 44(a) and (b), the Group has subsequently obtained net proceeds from the issuances of new corporate bond and an additional convertible note of HK$49,900,000 and HK$31,200,000, respectively, which will be due in 2022 and 2024, respectively;

(ii) as disclosed in Note 35(f), the Group had consideration payable of HK$85,600,000, of which HK$56,710,000 was expected to be settled within the next twelve months from the end of the reporting period. Such consideration payable will not result in a cash outflow as this will be settled by future issuance of ordinary shares by the Group; and

(iii) as disclosed in Note 23, the Group had liquid financial assets of HK$49,624,000 as at 31 December 2019, the Group's purpose for such investments are to generate a higher return for the Group's idle cash, the directors consider these investments can be disposed of to generate cash inflow as and when necessary.

After taking into account (i) to (iii) above, the Group expects it will have sufficient bank balances and cash to cover its operating cash outflow and to meet its financing commitments for the next twelve months.

Management therefore has concluded that there are no material uncertainties related to events or conditions which, individually or collectively, may cast significant doubt upon the Group's ability to continue as a going concern and has prepared the financial statements on a going concern basis.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in the consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2, *Shared-based payment*, leasing transactions that are within the scope of HKAS 16, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 *Inventories* or value in use in HKAS 36 *Impairment of assets*.

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

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

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

– Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries and the Group's interest in joint ventures and an associate. Control is achieved when the Company:

– has the power over the investee;

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

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

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

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

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

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

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

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

Changes in the Group's ownership interests in existing subsidiaries

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Changes in the Group's ownership interests in existing subsidiaries (Continued)

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

Business combinations

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

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

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

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

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations (Continued)

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

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

Goodwill

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

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

A CGU (or group of CGUs) to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the CGU to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the CGU (or group of CGUs) is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit (or group of CGUs). An impairment of goodwill is not reversed.

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments in associates and joint ventures

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

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

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

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

The Group assesses whether there is an objective evidence that the interests in associates or joint ventures may be impaired. When any objective evidence exists, the entire carrying amount of the investment is tested for impairment in accordance with HKAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue from contracts with customers

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

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

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

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

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

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

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. Contract liabilities are presented as deferred income in the Group's consolidated statement of financial position.

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue from contracts with customers (Continued)

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

Output method

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

Further details of the Group's revenue recognition policies are disclosed in Note 5.

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

Management fee income is recognised when the services are rendered.

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

The Group's accounting policy for recognition of revenue from operating leases is described in the accounting policy for leased asset as a lessor below.

Property, plant and equipment

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

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

Construction in progress represents a pre-school under construction, and is stated as cost less impairment losses. Cost comprises direct cost of construction and the initial estimate, where relevant, of the cost of dismantling and removing the item and restoring the site on which it is located. Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when the asset is substantially ready for its intended use, at which time it commences to be depreciated in accordance with the depreciation policy set out above.

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leased assets

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. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

As a lessee

(A) Policy applicable from 1 January 2019

Where the contract contains lease component(s) and non-lease component(s), the Group has elected to separate non-lease components and accounts for each lease component and any associated non-lease components for all leases.

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation (see the accounting policy in respect of property, plant and equipment) and impairment losses.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets lease liabilities separately in the consolidated statement of financial position.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leased assets (Continued)

As a lessee (Continued)

(B) Policy applicable prior to 1 January 2019

In the comparable period as a lesses the Group classified leases as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases were classified as operating leases. Operating lease payments were recognised as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases were recognised as an expense in the period in which they were incurred. In the event that lease incentives were received to enter into operating leases, such incentives were recognised as a liability. The aggregate benefit of incentives was recognised as a reduction of rental expense on a straight-line basis.

As a lessor

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to the ownership of an underlying assets to the lessee. If this is not the case, the lease is classified as an operating lease.

When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. The rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

When the Group is an intermediate lessor, the sub-leases are classified as a finance lease or as an operating lease with reference to the right-of-use asset arising from the head lease. If the head lease is a short-term lease to which the Group applies the exemption described above, then the Group classifies the sub-lease as an operating lease.

Foreign currencies

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Borrowing costs

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

Retirement benefit costs and employee benefits

Payments to state-managed retirement benefit schemes in the People's Republic of China ("**PRC**"), the Mandatory Provident Fund Scheme ("**MPF Scheme**") in Hong Kong, the Central Provident Fund in Singapore and Superannuation Funds in Australia as defined contribution plan are recognised as an expense when employees have rendered service entitling them to the contributions.

Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the binomial lattice model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is included in the amount recognised in share capital for the shares issued) or the option expires (when it is released directly to retained profits).

Short-term employee benefits

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

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

Taxation

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation (Continued)

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

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

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

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

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

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

Intangible assets acquired in a business combination

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

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

Inventories

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Provisions

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

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

Financial instruments

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

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured accordance with HKFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss ("**FVTPL**") are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

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

Financial assets

Classification and subsequent measurement of financial assets

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets (Continued)

Classification and subsequent measurement of financial assets (Continued)

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

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

A financial asset is classified as held for trading if:

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

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

(i) Amortised cost and interest income

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

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Cash and cash equivalents are assessed for ECL in accordance with the Group's accounting policy set out below.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets (Continued)

Classification and subsequent measurement of financial assets (Continued)

(ii) Financial assets at FVTPL

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

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

Impairment of financial assets

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

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

Due to the nature of business, most of the trade receivables of the Group are from financial institutions in relation to payments settled by credit cards by customers and schools, which both are considered credit worthy. As such, the Group always recognises lifetime ECL for trade receivables. The ECL on these assets are assessed individually. For trade receivables from students of adult education and training business, the Group measured ECL equal to 12m ECL. For details, please refer to note 39.

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

(i) Significant increase in credit risk

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets (Continued)

Impairment of financial assets (Continued)

(i) Significant increase in credit risk (Continued)

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

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor; and
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

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

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

(ii) Definition of default

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

(iii) Credit-impaired financial assets

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

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets (Continued)

Impairment of financial assets (Continued)

(iii) Credit-impaired financial assets (Continued)

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

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

(iv) Write-off policy

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

(v) Measurement and recognition of ECL

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

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

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

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets (Continued)

Impairment of financial assets (Continued)

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt securities that are measured at FVOCI (recycling), for which the loss allowance is recognised in other comprehensive income and accumulated in the fair value reserve (recycling).

Derecognition of financial assets

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

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

Financial liabilities and equity instruments

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

Equity instruments

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

Financial liabilities at amortised cost

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

Derivative financial instruments

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities and equity instruments (Continued)

Financial liabilities at amortised cost (Continued)

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

An obligation arising from put options written to non-controlling shareholders of a subsidiary, which will be settled by a variable amount subject to a cap, results in a gross financial liability. The gross financial liability is initially recognised and measured at the present value of the maximum possible redemption amount (i.e. the cap) with the corresponding debit to the non-controlling interests. In subsequent periods, the present value of the maximum possible redemption price measured at amortised cost is recognised in profit or loss.

Financial liabilities at FVTPL

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

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

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

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

Upon application of HKFRS 9, for financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities and equity instruments (Continued)

Financial liabilities at FVTPL (Continued)

Convertible notes

Convertible notes that contain an equity component

Convertible notes that can be converted into ordinary shares at the option of the holder, where the number of shares to be issued is fixed, are accounted for as compound financial instruments, i.e. they contain both a liability component and an equity component.

At initial recognition the liability component of the convertible notes is measured at fair value based on the future interest and principal payments, discounted at the prevailing market rate of interest for similar non-convertible instruments. The equity component is the difference between the initial fair value of the convertible notes as a whole and the initial fair value of the liability component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds.

The liability component is subsequently carried at amortised cost. Interest expense recognised in profit or loss on the liability component is calculated using the effective interest method. The equity component is recognised in the capital reserve until either the notes are converted or redeemed.

If the notes are converted, the capital reserve, together with the carrying amount of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the notes are redeemed, the capital reserve is released directly to retained profits.

Other convertible notes

Convertible notes which do not contain an equity component are accounted for as follows:

At initial recognition the derivative component of the convertible notes is measured at fair value and presented as part of derivative financial instruments. Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the host liability component. Transaction costs that relate to the issue of the convertible note are allocated to the host liability and derivative components in proportion to the allocation of proceeds. The portion of the transaction costs relating to the host liability component is recognised initially as part of the liability. The portion relating to the derivative component is recognised immediately in profit or loss.

The host liability component is subsequently carried at amortised cost. Interest expense recognised in profit or loss on the host liability component is calculated using the effective interest method.

If the notes are converted, the shares issued are measured at fair value and any difference between the fair value of shares issued and the carrying amounts of the derivative and liability components are recognised in profit or loss. If the notes are redeemed, any difference between the amount paid and the carrying amounts of both components is recognised in profit or loss.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities and equity instruments (Continued)

Financial liabilities at FVTPL (Continued)

Convertible notes (Continued)

Derecognition of financial liabilities

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

Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

- (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
- (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

4 KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Notes 33, 34 and 39 contain financial information about the assumptions and their risk factors relating to fair value of convertible notes, share options granted and financial instruments. Other key sources of estimation uncertainty are as follows:

Impairment of goodwill, property, plant and equipment, right-of-use assets and intangible assets

Goodwill, property, plant and equipment, right-of-use assets and intangible assets as at 31 December 2019 amounted to HK$83,577,000 (2018: HK$46,280,000), HK$30,700,000 (2018: HK$5,968,000), HK$129,682,000 (2018: HK$Nil) and HK$13,271,000 (2018: HK$13,988,000), respectively. Determining whether an impairment loss of these assets is required requires an estimate of the recoverable amount of the relevant CGUs to which these assets belong to. The recoverable amount is determined based on a value in use calculation. Significant judgement and assumptions, such as the use of appropriate discount rates and growth rates, were required in the process of the estimation of value in use of the relevant CGUs for impairment testing purpose. Where the actual outcome of growth rates are less than expected, a material impairment loss may arise. Details of the recoverable amount calculation for the CGUs are set out in Note 14.

5 REVENUE AND SEGMENT INFORMATION

(a) Revenue for the year ended 31 December 2019

(i) Disaggregation of revenue from contracts with customers

	For the year ended 31 December 2019				
	Dance academy business HK$'000	Early childhood education business HK$'000	Adult education and training business HK$'000	Others HK$'000	Total HK$'000
Types of goods or service					
Dance academy business					
Elementary courses	27,722	–	–	–	27,722
CSTD jazz courses	24,281	–	–	–	24,281
RAD ballet courses	2,966	–	–	–	2,966
Other courses	8,622	–	–	–	8,622
Sale of dance uniforms, shoes and accessories	3,270	–	–	–	3,270
Sub-total	66,861	–	–	–	66,861
Early childhood education business					
Elementary and enrichment courses	–	30,759	–	–	30,759
Sale of uniforms and accessories	–	141	–	–	141
Sub-total	–	30,900	–	–	30,900
Adult education and training	–	–	15,186	–	15,186
Others					
Provision of swallowing and speech treatments	–	–	–	7,244	7,244
Provision of photographic services for children	–	–	–	8,509	8,509
Others	–	–	–	24	24
Sub-total	–	–	–	15,777	15,777
Total	66,861	30,900	15,186	15,777	128,724
Geographical markets					
Australia	–	–	15,186	–	15,186
Hong Kong	66,861	4,326	–	15,777	86,964
Singapore	–	26,574	–	–	26,574
Total	66,861	30,900	15,186	15,777	128,724
Timing of revenue recognition					
At point in time	3,270	141	–	8,509	11,920
Over time	63,591	30,759	15,186	7,268	116,804
Total	66,861	30,900	15,186	15,777	128,724

5 REVENUE AND SEGMENT INFORMATION (CONTINUED)

(a) Revenue for the year ended 31 December 2019 (Continued)

(ii) Performance obligations for contracts with customers

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

Tuition fees from kindergarten, pre-schools and colleges (provision of adult language courses) are generally paid in advance and revenue is recognised over the period of tuition service because the students simultaneously receive and consume the benefits provided by the Group's performance as the Group performs.

Revenue from sales of uniforms, shoes and accessories is recognised when the goods are delivered to the customers and control of the goods is transferred. Fair value of uniforms, shoes and accessories are estimated by adding a reasonable gross profit margin to the cost of relevant products.

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

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

All of the Group's revenue is recognised in accordance with HKFRS 15.

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

As at 31 December 2019, the aggregated amount of the transaction price allocated to the remaining performance obligations under the Group's existing contracts is HK$51,910,000 (2018: $30,634,000). This amount represents revenue expected to be recognised in the future from dance academy classes contracts and adult language courses contracts entered into by the customers with the Group. The Group will recognise the expected revenue in future when or as the courses is completed, which is expected to occur over the next 12 to 24 months (2018: next 12 to 24 months).

All tuition for kindergarten and pre-schools, sales of uniforms, shoes and accessories, swallowing and speech treatment services and photographic services are for a period of one year or less. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

5 REVENUE AND SEGMENT INFORMATION (CONTINUED)

(b) Revenue for the year ended 31 December 2018

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

5 REVENUE AND SEGMENT INFORMATION (CONTINUED)

(c) Segment Information

During the year ended 31 December 2018, the Group's operation was mainly derived from jazz and ballet and pop dance academy in Hong Kong and the PRC and operation of kindergartens and pre-schools in Hong Kong and Singapore.

During the year ended 31 December 2019, upon the completion of acquisition of Ability Education Pty Ltd ("**Ability Education**"), a new operating and reportable segment of provision of adult language courses in Australia is identified by the chief operating decision maker ("**CODM**") for the purpose of allocating resources to segments and assessing its performance focuses on types of goods or services delivered or provided.

For the purpose of resources allocation and performance assessment, the CODM reviewed the overall results of the Group by reportable segments. The details of each operating segments are set out below.

Dance academy business	jazz and ballet and pop dance academy in Hong Kong and the PRC.
Early childhood education business	operation of kindergartens and pre-schools in Hong Kong and Singapore.
Adult education and training business	provision of adult language courses in Australia.

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

5 REVENUE AND SEGMENT INFORMATION (CONTINUED)

Segment revenues and results

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

For the year ended 31 December 2019

	Dance academy business HK$'000	Early childhood education business HK$'000	Adult education and training business HK$'000	Others HK$'000	Consolidated HK$'000
Revenue	66,861	30,900	15,186	15,777	128,724
Segment profit/(loss)	1,229	(11,470)	(4,004)	5,902	(8,343)
Other income and net gains and losses					16,440
Central corporate expenses					(58,532)
Share options expenses					(8,647)
Loss on change in fair value of consideration payable					(38,400)
Share of results of joint ventures					105
Share of results of an associate					32
Net impairment loss recognised on financial assets and prepayments					(8,539)
Loss before taxation					(105,884)

5 REVENUE AND SEGMENT INFORMATION (CONTINUED)

For the year ended 31 December 2018 (Note)

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

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See Note 2.

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

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

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

5 REVENUE AND SEGMENT INFORMATION (CONTINUED)

Other segment information

For the year ended 31 December 2019

	Dance academy business HK$'000	Early childhood education business HK$'000	Adult education and training business HK$'000	Others HK$'000	Unallocated HK$'000	Consolidated HK$'000
Amounts credited/(charged) included in the measure of segment results						
Interest income	11	63	170	1	7,260	7,505
Amortisation of intangible assets	(89)	(905)	–	(507)	–	(1,501)
Depreciation of property, plant and equipment	(2,938)	(3,154)	(551)	(155)	(224)	(7,022)
Depreciation of right-of-use assets	(17,960)	(13,374)	(3,174)	–	(2,056)	(36,564)
Impairment loss on property, plant and equipment and right-of-use assets	–	(717)	–	–	–	(717)
Interest on lease liabilities	(1,553)	(1,393)	(574)	–	(134)	(3,654)

For the year ended 31 December 2018 (Note)

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

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See Note 2.

5 REVENUE AND SEGMENT INFORMATION (CONTINUED)

Geographical information

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

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

	Revenue from external customers for the year ended 31 December		Non-current assets as at 31 December	
	2019	2018	**2019**	2018
	HK$'000	HK$'000	**HK$'000**	HK$'000
Australia	**15,186**	–	**83,147**	–
Hong Kong	**86,964**	68,691	**96,283**	52,323
The PRC	**–**	273	**–**	–
Singapore	**26,574**	7,528	**155,318**	52,645
	128,724	76,492	**334,748**	104,968

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See Note 2.

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

Information about major customers

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

6 OTHER INCOME AND NET GAINS AND LOSSES

	2019 HK$'000	2018 HK$'000
Other income		
Management fee income	**10,228**	3,000
Examination and competition handling fee income	**1,844**	1,542
Performance and show income	**1,390**	1,905
Lease income that are fixed or depend on an index or a rate	**2,696**	3,024
Income arising from an indemnity	**2,948**	–
Interest income	**7,505**	2,085
Write-off of payables	**2,380**	–
Others	**2,169**	1,131
	31,160	12,687
Other net gains and losses		
Net exchange (losses)/gains	**(73)**	709
Gain/(loss) on change in fair value of financial investments	**473**	(5,783)
Loss on change in fair value of obligation arising from put options written to non-controlling shareholders of a subsidiary	**–**	(515)
Gain on a subleasing arrangement classified as finance lease as a lessor	**720**	–
Loss on disposal of property, plant and equipment	**–**	(1,235)
	1,120	(6,824)

7 FINANCE COSTS

	2019 HK$'000	2018 HK$'000
Interest on borrowings	**710**	262
Interest on corporate bonds	**5,325**	5,325
Interest on lease liabilities (Note 13(b))	**3,654**	–
Finance costs associated with put options written to non-controlling shareholders of a subsidiary	**314**	–
	10,003	5,587

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See Note 2.

8 INCOME TAX EXPENSE

	2019 HK$'000	2018 HK$'000
Hong Kong Profits Tax		
– Current year	**421**	233
– (Over)/under provision in prior years	**(32)**	7
	389	240
Singapore corporate income tax ("**CIT**")		
– Current year	**302**	3
	691	243
Deferred tax (Note 31)	**(264)**	(73)
	427	170

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

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

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

Singapore Corporate Income Tax ("**CIT**") is calculated at 17% (2018: 17%) of the estimated assessable profit eligible for CIT rebate of 20%, capped at Singaporean dollars ("**S$**")10,000 for the Year of Assessment 2018 and 2019. 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 years of assessment.

No provision for corporate tax has been made for the Group's operation in Australia for the year ended 31 December 2019 as such operations incurred loss for taxation purpose for 2019.

8 INCOME TAX EXPENSE (CONTINUED)

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

	2019 HK$'000	2018 HK$'000
Loss before taxation	**(105,884)**	(59,554)
Tax at Hong Kong profits tax rate of 16.5%	**(17,471)**	(9,826)
Tax effect of expenses not deductible for tax purpose	**13,980**	2,762
Tax effect of income not taxable for tax purpose	**(3,348)**	(382)
(Over)/under provision in prior years	**(32)**	7
Effect of share of results of joint ventures and an associate	**(23)**	(80)
Tax effect of tax losses not recognised	**7,564**	7,714
Tax effect of deductible temporary differences not recognised	**1,370**	914
Tax effect of tax losses not recognised in prior years but utilised during the year	**(1,112)**	–
Effect of tax exemption and tax relief	**(469)**	(605)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(32)**	(334)
Income tax expense for the year	**427**	170

9 LOSS FOR THE YEAR

	2019 HK$'000	2018 HK$'000
Loss for the year has been arrived at after charging/(crediting):		
Directors' remuneration (excluding share options expenses) (Note 10)	**2,792**	1,386
Teaching staff and teaching consultants services costs#	**33,961**	14,492
Other staff costs	**42,951**	27,340
Retirement benefits scheme contributions (Note 34(a))	**4,851**	2,176
Share options expenses^	**8,647**	–
Total staff and teaching consultants services costs (including directors' remuneration)	**93,202**	45,394
Auditor's remuneration*	**2,860**	2,400
Cost of inventories recognised as expenses	**3,569**	2,400
Consultants service costs*	**1,667**	1,427
Lease payments in respect of tenancy agreements of rented premises:		
Minimum lease payments previously classified as operating leases under HKAS 17	**–**	24,818
Variable lease payment that based on receipts of turnover (Note 13(b))	**50**	27
Expenses related to short term leases exempt from capitalisation under HKFRS 16 (Note 13(b))	**1,259**	–
	1,309	24,845
(Reversal of impairment loss)/impairment loss recognised on amounts due from related parties	**(586)**	363
Impairment loss recognised on amounts due from non-controlling shareholders of subsidiaries	**1,625**	90
Impairment loss recognised on prepayments (Note 35(j))	**7,200**	–
Impairment loss recognised on other financial assets	**300**	–
Net impairment loss recognised on financial assets and prepayments	**8,539**	453
Building management fee*	**6,235**	5,449
Legal and professional fee*	**9,315**	5,513
Overseas travelling expenses*	**2,228**	1,767
Depreciation:		
Right-of-use assets	**36,564**	–
Other property, plant and equipment	**7,022**	4,114
	43,586	4,114
Amortisation	**1,501**	528

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See Note 2.

* included in "other expenses".

Included in teaching staff and teaching consultants services costs are teaching consultants services costs of HK$7,803,000 (2018: HK$7,441,000) for the delivery of courses by instructors. These instructors do not enter into employment contract with the Group.

^ Included in share options expenses are share options granted to consultants of the Group of HK$935,000 (2018: HK$Nil). These consultants do not enter into employment contract with the Group.

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

Directors' and chief executive's remuneration

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

	Directors' fees HK$'000	Salaries and other benefits HK$'000	Share based payments HK$'000	Retirement benefits scheme contributions HK$'000	Total HK$'000
2019					
Executive Directors					
Mr. Chiu Ka Lok	243	810	1,119	18	2,190
Mr. Chun Chi Ngon Richard ("**Mr. Chun**") (Note i)	240	–	1,119	–	1,359
Non-executive Directors					
Ms. Yeung Siu Foon ("**Ms. Yeung**")	180	–	1,119	–	1,299
Dr. Chun Chun (Note ii)	210	636	1,119	18	1,983
Independent non-executive Directors					
Mr. Lau Sik Yuen	180	–	–	–	180
Dr. Yuen Man Chun Royce	180	–	–	–	180
Mr. Lee Kwok Ho David	14	–	–	–	14
Mr. Chak Chi Shing	63	–	–	–	63
Total	1,310	1,446	4,476	36	7,268

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

	Directors' fees HK$'000	Salaries and other benefits HK$'000	Retirement benefits scheme contributions HK$'000	Total HK$'000
2018				
Executive Directors				
Mr. Chiu Ka Lok	194	–	6	200
Mr. Chun (Note i)	240	–	–	240
Non-executive Directors				
Ms. Yeung	75	–	–	75
Dr. Chun Chun (Note ii)	210	259	6	475
Independent non-executive Directors				
Mr. Lau Sik Yuen	180	–	–	180
Dr. Yuen Man Chun Royce	180	–	–	180
Mr. Lee Kwok Ho David	36	–	–	36
Total	1,115	259	12	1,386

Note:

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

(ii) Dr. Chun Chun is the spouse of the Controlling Shareholder, Mr. Chiu Ka Lok.

Individuals with highest emoluments

Among the five individuals with the highest emoluments, three (2018: nil) are directors whose emoluments are disclosed above. The aggregate of the emoluments in respect of the other two (2018: five) individuals are as follows:

	2019 HK$'000	2018 HK$'000
Salaries and other benefits	**2,291**	3,842
Discretionary bonus	**2,500**	–
Share-based payments	**2,157**	–
Retirement benefit scheme contributions	**35**	90
	6,983	3,932

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

The emoluments of the two (2018: five) individuals with the highest emoluments were within the following bands:

	Number of employees	
	2019	**2018**
Up to HK$1,000,000	**–**	3
HK$1,000,001 to HK$1,500,000	**–**	2
HK$1,500,001 to HK$2,000,000	**1**	–
HK$5,000,000 to HK$5,500,000	**1**	–

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

11 DIVIDEND

The directors do not recommend the payment of any dividend for the year ended 31 December 2019 (2018: Nil) nor propose any dividend since the end of the reporting period.

12 LOSS PER SHARE

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

	2019 **HK$'000**	2018 HK$'000
Loss:		
Loss for the purpose of calculating basic loss per share (loss for the year attributable to equity shareholders of the Company)	**(98,807)**	(53,505)

	2019 **HK$'000**	2018 HK$'000
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic and diluted loss per share	**354,100**	354,100

No diluted loss per share have been presented for the current year, as all of the potential ordinary shares in issue are anti-dilutive during 2019 and as at 31 December 2019.

No diluted loss per share had been presented for the prior year, since there was no potential ordinary shares in issue during 2018 and as at 31 December 2018.

13 PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS

(a) Reconciliation of carrying amount

	Leasehold improvements HK$'000	Properties leased for own use at cost HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicle HK$'000	Construction in progress HK$'000	Total HK$'000
Cost						
At 1 January 2018	14,060	–	4,194	107	–	18,361
Additions through acquisitions of subsidiaries	286	–	247	–	–	533
Additions	3,322	–	548	–	–	3,870
Disposals	(3,532)	–	(229)	–	–	(3,761)
Exchange realignment	1	–	2	–	–	3
At 31 December 2018	14,137	–	4,762	107	–	19,006
Impact on initial application of HKFRS 16 (Note)	–	61,702	452	–	–	62,154
At 1 January 2019	14,137	61,702	5,214	107	–	81,160
Additions through acquisitions of subsidiaries	1,611	90,742	1,989	–	–	94,342
Additions	12,715	27,465	956	–	14,596	55,732
Derecognition of right-of-use assets	–	(16,748)	–	–	–	(16,748)
Exchange realignment	101	3,046	76	–	122	3,345
At 31 December 2019	28,564	166,207	8,235	107	14,718	217,831
Accumulated depreciation and impairment loss						
At 1 January 2018	8,137	–	3,308	3	–	11,448
Provided for the year	3,335	–	743	36	–	4,114
Disposals	(2,296)	–	(230)	–	–	(2,526)
Exchange realignment	1	–	1	–	–	2
At 31 December 2018 and 1 January 2019	9,177	–	3,822	39	–	13,038
Provided for the year	5,895	36,458	1,197	36	–	43,586
Impairment loss (Note 13 (c))	400	317	–	–	–	717
Exchange realignment	8	96	4	–	–	108
At 31 December 2019	15,480	36,871	5,023	75	–	57,449
Carrying amount						
At 31 December 2019	**13,084**	**129,336**	**3,212**	**32**	**14,718**	**160,382**
At 31 December 2018	4,960	–	940	68	–	5,968

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See Note 2.

13 PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS (CONTINUED)

(a) Reconciliation of carrying amount (Continued)

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

Leasehold improvements and properties leased for own use	Over the lease terms
Furniture, fixtures and equipment	20%-33.33%
Motor vehicle	33.33%

(b) Right-of-use assets

The analysis of the carrying values of right-of-use assets by class of underlying asset is as follows:

	Notes	**31 December 2019 HK$'000**	1 January 2019 (Note) HK$'000
Properties leased for own use, carried at depreciated cost	(i)	**129,336**	61,702
Furniture, fixtures and equipment, carried at depreciated cost	(ii)	**346**	452
		129,682	62,154

The analysis of expense items in relation to leases recognised in profit or loss is as follows:

	2019 HK$'000	2018 (Note) HK$'000
Depreciation charge of right-of-use assets by class of underlying asset:		
Properties leased for own use	**36,458**	–
Furniture, fixtures and equipment	**106**	–
	36,564	–
Interest on lease liabilities (Note 7)	**3,654**	–
Expenses related to short-term leases and other leases with remaining lease term ending on or before 31 December 2019 (Note 9)	**1,259**	–
Minimum lease payments for leases previously classified as operating leases under HKAS 17 (Note 9)	**–**	24,818
Variable lease payments that based on receipts of turnover (Note 9)	**50**	27
Impairment loss on right-of-use assets (Note 13(c))	**317**	–
Gain on subleasing arrangement classified as finance lease as a lessor	**720**	–

13 PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS (CONTINUED)

(b) Right-of-use assets (Continued)

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17. After initial recognition of right-of-use assets at 1 January 2019, the Group as a lessee is required to recognise the depreciation of right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. Under this approach, the comparative information is not restated. See Note 2.

During the year, additions to right-of-use assets were HK$118,207,000. This amount additions through acquisitions of subsidiaries of HK$90,742,000, and the remainder primarily related to the capitalised lease payments payable under new tenancy agreements.

Details of total cash outflow for leases and the maturity analysis of lease liabilities are set out in Notes 40 and 29, respectively.

(i) Properties leased for own use

The Group has obtained the right to use other properties as its dance centres, kindergartens, colleges and offices through tenancy agreements. The leases typically run for an initial period of 2 to 9 years. A lease arrangement include variable lease component which is based on receipt of turnover.

Some leases include an option to renew the lease for an additional period after the end of the contract term. Where practicable, the Group seeks to include such extension options exercisable by the Group to provide operational flexibility. The Group assesses at lease commencement date whether it is reasonably certain to exercise the extension options. If the Group is not reasonably certain to exercise the extension options, the future lease payments during the extension periods are not included in the measurement of lease liabilities. The potential exposure to these future lease payments as at 31 December 2019 is summarised below:

	Lease liabilities recognised (discounted) HK$'000	Potential future lease payments under extension options not included in lease liabilities (undiscounted) HK$'000
Dance centres – Hong Kong	28,937	11,707
Kindergartens – Singapore	27,781	14,976
Kindergartens – Hong Kong	21,725	7,493
Colleges – Australia	72,390	116,833
Offices	1,997	–
Total lease liabilities (Note 29(b))	152,830	

13 PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS (CONTINUED)

(b) Right-of-use assets (Continued)

(ii) Other leases

The Group leases office equipment under leases expiring in 5 years. Some leases include an option to renew the lease when all terms are renegotiated, while some include an option to purchase the leased equipment at the end of the lease term at a price deemed to be a bargain purchase option. None of the leases includes variable lease payments.

(c) Impairment loss

As at 31 December 2019, the Group decided not to renew the lease for a premise used as a kindergarten in Hong Kong and assessed the recoverable amount of the related property, plant and equipment and right-of-use assets and as a result the carrying values of such assets were written down to HK$Nil. An impairment loss of HK$400,000 and HK$317,000 in respect of property, plant and equipment and right-of-use assets were recognised in the consolidated statement of profit or loss and other comprehensive income, respectively. The recoverable amount was assessed with reference to the cash flows forecast in respect of the operation of this kindergarten.

14 GOODWILL

	Acquired dancing business $'000	Early childhood education business $'000	Adult education and training business $'000	Provision of swallowing and speech treatment business $'000	Provision of photographic services for children business $'000	Total $'000
Cost:						
At 1 January 2018	1,897	–	–	–	–	1,897
Acquired on acquisitions of subsidiaries (Note 35)	–	25,224	–	15,147	9,725	50,096
Exchange realignment	–	184	–	–	–	184
At 31 December 2018 and 1 January 2019	1,897	25,408	–	15,147	9,725	52,177
Acquired on acquisitions of subsidiaries (Note 35)	–	15,810	20,222	–	–	36,032
Exchange realignment	–	449	816	–	–	1,265
At 31 December 2019	1,897	41,667	21,038	15,147	9,725	89,474
Accumulated impairment losses:						
At 1 January 2018	1,897	–	–	–	–	1,897
Impairment loss	–	–	–	2,400	1,600	4,000
At 31 December 2018, 1 January 2019 and 31 December 2019	1,897	–	–	2,400	1,600	5,897
Carrying amount:						
At 31 December 2019	**–**	**41,667**	**21,038**	**12,747**	**8,125**	**83,577**
At 31 December 2018	–	25,408	–	12,747	8,125	46,280

The Group tests for impairment of goodwill annually, or more frequently if there are indications that goodwill might be impaired.

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

14 GOODWILL (CONTINUED)

The cost of goodwill (before impairment loss) are allocated to each business as follows:

	2019 HK$'000	2018 HK$'000
Early childhood education business		
Columbia Group (as defined in Note 35)	**10,745**	10,664
Tinkerland (as defined in Note 35)	**9,181**	9,112
BTT Group (as defined in Note 35)	**5,674**	5,632
English Connection Learning Centre	**2,446**	–
Happy Family (as defined in Note 35)	**7,240**	–
Brain explorers (as defined in Note 35)	**2,635**	–
Tinytots (as defined in Note 35)	**3,746**	–
	41,667	25,408
Provision of swallowing and speech treatments business		
Hong Kong Speech (as defined in Note 35)	**15,147**	15,147
Provision of photographic services for children business		
Stage Photography (as defined in Note 35)	**9,725**	9,725
Acquired Dancing Business	**1,897**	1,897
Ability Education (as defined in Note 35)	**21,038**	–
	89,474	52,177

The recoverable amount of the relevant CGUs is determined based on a value in use calculation. The calculations use cash flow projections based on financial budgets approved by management covering a 5-year period, and at discount rates ranging from 10.9% to 15.0% (2018: 14.1% to 20.3%) as at 31 December 2019. The CGUs' cash flows beyond the 5-year period are extrapolated using a growth rate from 1.5% to 2.5% (2018: 2% to 2.5%) as at 31 December 2019 that is with reference to the historical performance of the relevant CGUs and the relevant industry growth forecasts that do not exceed the average long-term growth rate for the relevant industry. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted revenue and gross margin, such estimation is based on the CGUs' past performance and management's expectations on the market development.

During the year, the Group has determined no impairment loss on goodwill (2018:HK$4,000,000) in the profit or loss after assessment.

14 GOODWILL (CONTINUED)

Hong Kong Speech and Stage Photography were acquired through the acquisition of Global Win (BVI) Limited ("Global Win") during the year ended 31 December 2018 as detailed in Note 35(f). The goodwill arising from the acquisition of Hong Kong Speech and Stage Photography amounted to HK$15,147,000 and HK$9,725,000 respectively and represented the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of Hong Kong Speech and Stage Photography. The consideration of the acquisition shall be satisfied by the allotment and issue of the new ordinary shares of the Company pursuant to the sale and purchase agreements. The fair value of the consideration was recognised at fair value at the date of obtaining the control of Hong Kong Speech and Stage Photography by reference to the quoted market price of the ordinary shares of the Company. With the unexpected increase of the quoted market price of the ordinary shares of the Company between the agreed price as stated in the sale and purchase agreements and the date of obtaining the control of Hong Kong Speech and Stage Photography, the goodwill arising from the acquisition was greater than the amount that was expected by the management of the Group when the sale and purchase agreements were entered into.

As a result, the Group had determined an impairment loss of HK$4,000,000 on goodwill in the profit or loss for the year ended 31 December 2018. The goodwill related to Hong Kong Speech and Stage Photography were written down to their recoverable amounts of HK$15,147,000 and HK$9,725,000, respectively. The recoverable amounts of the respective CGUs were based on value in use calculated by adopting discount rates of 19.9% and 15.2%, for Hong Kong Speech and Stage Photography, respectively.

Management has identified that a reasonably possible change in two key assumptions (increase of 1.5% for discount rate or decrease of 0.5% for growth rate beyond the 5-year period) could cause the carrying amount of certain CGUs to exceed their recoverable amounts. The following table shows the changes on these two assumptions would need to change individually for the estimated recoverable amount to be equal to the carrying amount.

For CGUs not disclosed in below table, management believes that any reasonably possible change in any of the key assumptions of cash flow projections would not cause the aggregate carrying amount of CGUs to exceed the aggregate recoverable amount of CGUs.

	Change required for carrying amount to equal recoverable amount		**Estimated recoverable amount of the CGU exceeded its carrying amount by**	
	2019	2018	**2019**	2018
			HK$'000	HK$'000
Columbia Group				
– discount rate	**1.30%**	N/A	**1,813**	N/A
– growth rate beyond the 5-year period	**N/A**	N/A		
Tinkerland				
– discount rate	**0.84%**	N/A	**956**	N/A
– growth rate beyond the 5-year period	**N/A**	N/A		
Brain Explorers				
– discount rate	**0.94%**	N/A	**290**	N/A
– growth rate beyond the 5-year period	**N/A**	N/A		
Tinytots				
– discount rate	**1.08%**	N/A	**788**	N/A
– growth rate beyond the 5-year period	**N/A**	N/A		

15 INTANGIBLE ASSETS

	Customer relationships HK$'000	Brand name HK$'000	Total HK$'000
Cost			
At 1 January 2018	534	–	534
Acquired on acquisitions of subsidiaries (Note 35)	8,912	5,360	14,272
Exchange realignment	40	28	68
At 31 December 2018 and 1 January 2019	9,486	5,388	14,874
Acquired on acquisitions of subsidiaries (Note 35)	737	–	737
Exchange realignment	38	15	53
At 31 December 2019	10,261	5,403	15,664
Accumulated amortisation			
At 1 January 2018	356	–	356
Charge for the year	528	–	528
Exchange realignment	2	–	2
At 31 December 2018 and 1 January 2019	886	–	886
Charge for the year	1,501	–	1,501
Exchange realignment	6	–	6
At 31 December 2019	2,393	–	2,393
Carrying amount			
At 31 December 2019	7,868	5,403	13,271
At 31 December 2018	8,600	5,388	13,988

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

16 INTERESTS IN JOINT VENTURES AND LOANS TO JOINT VENTURES

	2019 HK$'000	2018 HK$'000
Interests in joint ventures		
Cost of unlisted investment in joint ventures	**156**	156
Share of post-acquisition losses	**–**	–
	156	156
Loans to joint ventures		
Loan to Well Team (as defined below)	**2,194**	2,194
Share of post-acquisition losses	**(2,194)**	(2,194)
	–	–
Loan to Guangzhou Delilong (as defined below)	**2,355**	2,355
Share of post-acquisition losses	**(48)**	(153)
	2,307	2,202
	2,307	2,202

All of the joint ventures are unlisted corporate entities whose quoted market price is not available.

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

Name of joint venture	Place and date of incorporation/ establishment	Place of operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group as at 31 December 2019 %	2018 %	Principal activities
廣州德理隆商務服務有限公司 ("**Guangzhou Delilong**")	PRC 5 June 2017	PRC	–	**66 (Note)**	66 (Note)	Operation of kindergartens
Milang and Rainbow Limited ("**Milang and Rainbow**")	BVI 21 September 2015	Hong Kong	US$40,000	**50**	50	Inactive

16 INTERESTS IN JOINT VENTURES AND LOANS TO JOINT VENTURES (CONTINUED)

Name of joint venture	Place and date of incorporation/ establishment	Place of operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group as at 31 December 2019 %	2018 %	Principal activities
Mutual Bright Corporation Limited ("**Mutual Bright**")	Hong Kong 5 January 2012	Hong Kong	HK$2	**50**	50	Jazz and ballet academy
Well Team International Development Limited ("**Well Team**")	Hong Kong 11 January 2012	Hong Kong	HK$2	**50**	50	Jazz and ballet academy

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

Summarised financial information of the joint ventures

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

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

Guangzhou Delilong

	2019 HK$'000	2018 HK$'000
Current assets	**2,874**	2,158
Non-current assets	**1,076**	–
Current liabilities	**(4,023)**	(2,391)
Net liabilities	**(73)**	(233)
The above amounts of assets and liabilities include the following: Bank balances and cash	**1,713**	1
Current financial liabilities (excluding trade and other payables and provision)	**(2,349)**	–

16 INTERESTS IN JOINT VENTURES AND LOANS TO JOINT VENTURES (CONTINUED)

Summarised financial information of the joint ventures (Continued)

Guangzhou Delilong (Continued)

	2019 HK$'000	2018 HK$'000
Revenue	**11,911**	–
Profit and total comprehensive income for the year	**160**	734
The above profit for the year include the following:		
Depreiation and amortisation	**113**	–

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See Note 2.

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

	2019 HK$'000	2018 HK$'000
Net liabilities of Guangzhou Delilong	**(73)**	(233)
Proportion of the Group's ownership interest in Guangzhou Delilong	**66%**	66%
	(48)	(153)
Loan to Guangzhou Delilong	**2,355**	2,355
Carrying amount of the Group's interest in Guangzhou Delilong	**2,307**	2,202

Well Team

	2019 HK$'000	2018 HK$'000
Current assets	**6,974**	4,473
Non-current assets	**2,473**	748
Current liabilities	**(13,634)**	(9,731)
Non-current liabilities	**(558)**	–
Net liabilities	**(4,745)**	(4,510)
The above amounts of assets and liabilities include the following:		
Bank balances and cash	**585**	1,349
Current financial liabilities (excluding trade and other payables and provision)	**–**	–

16 INTERESTS IN JOINT VENTURES AND LOANS TO JOINT VENTURES (CONTINUED)

Summarised financial information of the joint ventures (Continued)

Well Team (Continued)

	2019 HK$'000	2018 Note HK$'000
Revenue	**6,529**	5,542
Loss and total comprehensive income for the year	**(235)**	(127)
The above loss for the year includes the following:		
Depreciation and amortisation	**2,279**	553

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See Note 2.

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

	2019 HK$'000	2018 HK$'000
Net liabilities of Well Team	**(4,745)**	(4,510)
Proportion of the Group's ownership interest in Well Team	**50%**	50%
	(2,373)	(2,255)
Loan to Well Team	**2,194**	2,194
Carrying amount of the Group's interest in Well Team (Note)	**–**	–

Note: The Group shared its losses up to the Group's investment and long term loan to Well Team. The cumulative share of accumulated losses not recognised was HK$179,000 (2018: HK$61,000).

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

17 INTEREST IN AN ASSOCIATE

	2019 HK$'000	2018 HK$'000
Interest in an associate	**1,252**	–

Name of associate	Place and date of incorporation	Place of operation	Issued and fully paid share capital	Attributable equity interest of the Group as at 31 December 2019	2018	Principal activities
Dakota Pte Ltd	Singapore 4 June 2019	Singapore	S$50,000	**49%**	N/A	Operation of kindergartens

The Group acquired 49% of equity interest of Dakota Pte Ltd in the year at a consideration of HK$1,210,000. Dakota Pte Ltd is an unlisted corporate entity whose quoted market price is not available.

Summarised financial information of the associate

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

The associate is accounted for using the equity method in these consolidated financial statements.

	2019 HK$'000
Current assets	**267**
Non-current assets	**2,709**
Current liabilities	**(2,911)**
Net assets	**65**
The above amounts of assets and liabilities include the following: Bank balances and cash	**37**
Current financial liabilities (excluding trade and other payables and provision)	**(2,627)**

17 INTERESTS IN AN ASSOCIATE (CONTINUED)

Summarised financial information of the associate (Continued)

	2019 **HK$'000**
Revenue	**1,106**
Profit and total comprehensive income for the year	**65**
The above profit for the year includes the following: Depreciation and amortisation	**15**

Reconciliation of the above summarised financial information to the carrying amount of the interest in Dakota Pte Ltd recognised in the consolidated financial statements:

	2019 **HK$'000**
Net assets of Dakota Pte Ltd	**65**
Proportion of the Group's ownership interest in Dakota Pte Ltd	**49%**
	32
Goodwill	**1,220**
Carrying amount of the Group's interest in Dakota Pte Ltd	**1,252**

18 DEPOSITS FOR ACQUISITIONS OF SUBSIDIARIES/BUSINESSES

During the year ended 31 December 2019, the Group entered into a number non-legal binding term sheets/ memorandum of understandings and sale and purchase agreements with different vendors, to acquire either entire or partial interests in a number of entities/businesses which principal activities in education sector in Australia, Singapore and Thailand. Pursuant to the respective term sheets/memorandum and sale and purchase agreements, the Group paid aggregate amount as earnest monies/deposits which will be utilised to settle part of the purchase consideration in the future.

Among the deposits of HK$68,037,000 (2018: HK$22,466,000) as at 31 December 2019, HK$12,361,000 (2018: HK$4,719,000) were related to the acquisitions completed subsequent to the end of the reporting period, details of which are disclosed in Note 44.

19 INVENTORIES

	2019 **HK$'000**	2018 HK$'000
Finished goods – uniforms, shoes and accessories	**2,134**	1,633

19 INVENTORIES (CONTINUED)

The analysis of amount of inventories recognised as an expense and included in profit or loss is as follows:

	2019 HK$'000	2018 HK$'000
Carrying amount of inventories sold	**3,569**	2,400

20 TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2019 HK$'000	2018 HK$'000
Trade receivables from the third parties	**4,482**	1,656
Rental deposits (Note i)	**12,385**	17,435
Staff loans (Note ii)	**368**	888
Loan receivables (Note iii)	**9,886**	–
Management fee income receivable	**3,800**	–
Other deposits, receivables and prepayments (Note iv)	**15,667**	7,852
Total trade and other receivables, deposits and prepayments	**46,588**	27,831
Analysed as		
Current	**28,629**	13,555
Non-current	**17,959**	14,276
	46,588	27,831

Notes:

(i) The balance as at 31 December 2018 included the prepayment of HK$7,200,000 for the future use of premise as disclosed in Note 35(j). The entire balance was impaired during the year ended 31 December 2019.

(ii) In 2015, staff loans with an aggregate principal amount of HK$2,600,000 were granted to two key management 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$368,000 (2018: HK$520,000) are required to be repaid within one year and HK$Nil (2018: HK$368,000) are required to be repaid after one year. Accordingly, staff loans of HK$368,000 (2018: HK$520,000) are classified as current assets and staff loans of HK$Nil (2018: HK$368,000) are classified as non-current assets.

(iii) The loan receivables represented advances to the shareholders of an associate, which are unsecured, interest bearing at 4.12% to 4.19% and repayable in June to October 2022.

20 TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS (CONTINUED)

Notes: (Continued)

(iv) Contract costs capitalised as at 31 December 2019 relate to the incremental sales commissions paid to agents whose selling activities resulted in enrolment of adult language courses in Australia which are still not completed at the end of the reporting period. Such commissions capitalised included in other receivables and prepayments were HK$4,395,000 (2018: HK$Nil).

Contract costs are recognised as part of "advertising and promotion expenses" in the consolidated statement of profit or loss and other comprehensive income in the period in which revenue from provision of language courses is recognised. The amount of capitalised costs recognised in profit or loss during the year ended 31 December 2019 was HK$4,017,000 (2018: HK$Nil).

There was no impairment in relation to the costs capitalised during the year (2018: HK$Nil). As at 31 December 2019, all of capitalised contract costs that is expected to be recovered within one year.

Trade receivables from the third parties mainly represent tuition fees receivables from students and receivables from financial institutions in relation to the payments settled through credit cards by customers of which the settlement period is normally one to two months from transaction date.

The following is an ageing analysis of trade receivables from the third parties net of allowance for doubtful debts presented based on the invoice date at the end of the reporting period:

	2019 HK$'000	2018 HK$'000
0 to 30 days	**2,914**	1,656
31 to 90 days	**1,018**	–
91 to 180 days	**399**	–
181 to 365 days	**151**	–
	4,482	1,656

As at 31 December 2019, trade receivables from the third parties, net of allowance, of HK$400,000 (2018: HK$Nil) was past due at the end of the reporting period.

Details of impairment assessment of trade and other receivables as at 31 December 2019 are set out in Note 39.

21 AMOUNTS DUE FROM/(TO) RELATED PARTIES

Amounts due from related parties

	2019 HK$'000	2018 HK$'000
Amounts due from joint ventures:		
Mutual Bright	**395**	2,473
Well Team	**–**	675
Guangzhou Delilong	**1**	–
	396	3,148
Impairment loss allowance	**(28)**	(189)
	368	2,959
Amounts due from other related parties:		
Dr. Chun Chun	**414**	376
Wealthy Together (Note i)	**1**	1
Rainbow Creative Arts Limited ("**Rainbow**") (Note ii)	**1,458**	1,812
Dunn's Education Limited ("**Dunn's Education**") (Note iii)	**269**	251
E.L.S.A. EDU. Limited ("**E.L.S.A**") (Note iii)	**14**	14
Excel Concept Technology Development Limited ("**Excel Concept**") (Note iv)	**4,898**	4,898
Red Vocal Limited ("**Red Vocal**") (Note v)	**265**	535
廣州市白雲區南湖外語藝術幼兒園 ("**南湖幼兒園**") (Note vi)	**49**	49
Others	**21**	–
	7,389	7,936
Impairment loss allowance	**(52)**	(477)
	7,337	7,459
Total amounts due from related parties	**7,705**	10,418

21 AMOUNTS DUE FROM/(TO) RELATED PARTIES (CONTINUED)

Amounts due from related parties (Continued)

Notes:

(i) Wealthy Together is 100% beneficially owned by the Controlling Shareholder.

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

(iii) Dunn's Education is 33.33% beneficially owned and controlled by the Controlling Shareholder and E.L.S.A. is 75% beneficially owned and controlled by Dunn's Education.

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

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

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

All balances as at 31 December 2019 and 2018 are unsecured, non-interest bearing and repayable on demand which are classified as current as they are expected to be recovered within twelve months from the end of reporting period. The amounts due from related companies are non-trade in nature. As at 31 December 2019, amounts due from related parties included lease receivables for short term leases of HK$2,203,000 (2018: HK$2,226,000).

Details of impairment assessment of amounts due from related parties for the year ended 31 December 2019 are set out in Note 39.

21 AMOUNTS DUE FROM/(TO) RELATED PARTIES (CONTINUED)

Amounts due from related parties (Continued)

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

	2019 HK$'000	2018 HK$'000
Amounts due from joint ventures:		
Mutual Bright	**2,778**	2,473
Well Team	**864**	2,000
Guangzhou Delilong	**1**	–
Amounts due from other related parties:		
Dr. Chun Chun	**488**	376
Wealthy Together	**1**	1
Rainbow	**1,812**	2,236
Dunn's Education	**694**	251
E.L.S.A.	**14**	375
Excel Concept	**4,898**	4,898
Red Vocal	**535**	535
南湖幼兒園	**49**	49

Amounts due to related parties

	2019 HK$'000	2018 HK$'000
Amounts due to joint ventures:		
Milang & Rainbow	**123**	135
Well Team	**756**	–
	879	135
Amounts due to other related parties:		
Rainbow	**113**	–
TIM EDPlatform Ltd ("**TIM EDPlatform**") (Note)	**80**	79
Hong Kong Association	**148**	22
	341	101
Total amounts due to related parties	**1,220**	236

Note: TIM EDPlatform is 73% beneficially owned and controlled by Excel Concept and the Controlling Shareholder.

All balances as at 31 December 2019 and 2018 are unsecured, non-interest bearing and repayable on demand. The amounts due to joint ventures and other related parties are non-trade in nature.

22 AMOUNTS DUE FROM/(TO) NON-CONTROLLING SHAREHOLDERS OF SUBSIDIARIES

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

23 FINANCIAL INVESTMENTS

	2019 HK$'000	2018 HK$'000
Exchange-traded fund listed in the United States	484	–
Equity securities listed in Hong Kong	13,639	3,587
Equity securities/funds listed in Singapore	5,493	–
Debt securities	27,422	–
Structured products – equity linked note	2,586	–
	49,624	3,587

Except for the debt securities which are measured at fair value through other comprehensive income, all of the above financial investments are measured at fair value through profit or loss.

On 31 December 2018, a Deed of Indemnity ("**Deed**") was entered into between the Company and the representative (the "**Indemnifier**") of an investment manager. The investment manager managed an investment portfolio of the Group with full discretionary investment decision. Pursuant to the Deed, in consideration of the Company continuing to maintain the accounts with the investment manager, the Indemnifier undertakes with the Company that the Indemnifier shall pay the Company an indemnifying amount under the terms of the Deed which is calculated as HK$7,000,000 minus the total value of all the assets (net of any liabilities) under the investment portfolio of the Company. On 20 December 2019, a Deed of Settlement ("**Settlement Deed**") was entered into between the Company and the Indemnifier, in which the Indemnifier agreed to (i) settle HK$2,000,000 upon signing of the Settlement Deed and (ii) paid the shortfall between the HK$5,000,000 and the actual cash to be received after the realisation of such investments. Up to 31 December 2019, the Group has received an amount of HK$2,000,000 from the indemnifier and subsequent to the end of the reporting period, received an amount of HK$821,000 from the Indemnifier after the disposals of such investments covered by the Settlement Deed as at 5 March 2020. As at 31 December 2019, asset arising from this Indemnity of HK$948,000 was recognised and included in the carrying value of equity securities listed in Hong Kong. The reduction of actual settlement of indemnity was due to the increase in total value of assets under the investment portfolio subsequent to the end of the reporting period.

24 BANK BALANCES AND CASH

	2019 HK$'000	2018 HK$'000
Time deposits	9,835	–
Cash at bank	66,388	54,966
Bank balances and cash in the consolidated statement of financial position	76,223	54,966
Time deposits with original maturity more than three months	(9,835)	–
Bank overdrafts	–	(627)
Cash and cash equivalents in the consolidated statement of cash flows	66,388	54,339

The bank balances carried interest at average market rates of 0.1% (2018: 0.02%) per annum as at 31 December 2019.

For the year ended 31 December 2019, the Group performed impairment assessment on bank balances and concluded that the probability of defaults of the counterparty banks are insignificant and accordingly, no allowance for credit losses is provided.

25 TRADE AND OTHER PAYABLES AND ACCRUED CHARGES/DEFERRED INCOME

Trade and other payables and accrued charges

	At 31 December 2019 HK$'000	At 1 January 2019 HK$'000	At 31 December 2018 HK$'000
Trade payables	236	286	286
Accrued rental expenses	–	1,014	1,391
Accrued staff costs	2,043	412	412
Accrued interest expenses on corporate bonds	3,550	3,550	3,550
Accrued audit fee	2,860	2,200	2,200
Accrued construction costs	4,298	–	–
Customer deposits	1,828	1,547	1,547
Advance receipt arising from a new convertible note to be issued (Note 44(b))	7,800	–	–
Other payables and accrued charges	11,947	5,346	5,346
	34,562	14,355	14,732

Note: On the date of transition to HKFRS 16, accrued rental expense of HK$377,000 previously included in trade and other payables and accrued charges were adjusted to right-of-use assets recognised at 1 January 2019. See Note 2.

25 TRADE AND OTHER PAYABLES AND ACCRUED CHARGES/DEFERRED INCOME (CONTINUED)

Deferred income

Deferred income mainly represents the course fee received in advance pursuant to the contracts with customers. The increase in deferred income balance in the current year was mainly due to addition through acquisitions of subsidiaries.

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

	2019 **HK$'000**	2018 HK$'000
Revenue recognised that was included in the deferred income balance at the beginning of the year	**31,729**	39,256

The amount of deferred income expected to be recognised as income after more than one year is HK$1,206,000 (2018: $1,169,000).

26 PROVISIONS

	Provision for reinstatement cost HK$'000
As at 1 January 2018	2,079
Additions	511
Utilised during the year	(184)
Exchange realignment	(6)
As at 31 December 2018	2,400
Additions	5,530
Acquired on acquisitions of subsidiaries (Note 35e)	1,526
Utilised during the year	(299)
Exchange realignment	86
As at 31 December 2019	9,243

	2019 **HK$'000**	2018 HK$'000
Analysed as		
Current	**1,960**	832
Non-current	**7,283**	1,568
	9,243	2,400

The provision is made based on the best estimate of the reinstatement costs for restoring the leased properties at the end of the respective reporting period which will be the expected timing of the outflows of economic benefits.

27 BANK AND OTHER BORROWINGS

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

	2019 HK$'000	2018 HK$'000
Bank overdrafts (Note b)	**–**	627
Securities margin loan (Note a)	**639**	1,904
Bank borrowings (Note b)	**4,815**	521
	5,454	3,052

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

	2019 HK$'000	2018 HK$'000
Within 1 year	**5,359**	2,738
After 1 year but within 2 years	**95**	219
After 2 years but within 5 years	**–**	95
	5,454	3,052

Notes:

(a) Securities margin loan

This represents securities margin financing received from a stock broking house which is secured by certain collateral of the Group as disclosed in Note 36. 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 (2018: plus 0.75% per annum).

(b) Bank overdrafts and bank borrowings

As at 31 December 2019, a bank loan of HK$315,000 (2018: HK$521,000) bears variable interest at Best Lending Rate plus 1% per annum (2018: Best Lending Rate plus 1% per annum). The bank overdrafts and bank loan are secured by a property of a non-executive director and also guaranteed by a non-executive director for unlimited amount.

As at 31 December 2019, another bank loan of HK$4,500,000 (2018: HK$Nil) bears variable interest at HIBOR plus 1.7% or the Bank's Cost of Funds, whichever is higher, per annum. It is secured by two properties of a non-controlling shareholder of a subsidiary and also guaranteed by this non-controlling shareholder of a subsidiary for unlimited amount.

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

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

As at 31 December 2019, as the Investors have no right to exercise the put options until 1 January 2023 or later pursuant to the Investment Agreements I, the obligation arising from put options written to non-controlling shareholders of a subsidiary were classified as non-current liabilities as at 31 December 2019 (2018: non-current liabilities).

29 LEASE RECEIVABLES AND LIABILITIES

(a) Lease receivables

Finance lease

During the year ended 31 December 2019, the Group has sub-leased part of the premise that the Group leases in Australia as a lessee and this arrangement was classified as finance lease with reference to the terms of the head lease.

The Group recognised interest income on lease receivables of HK$170,000 (2018: HK$Nil).

29 LEASE RECEIVABLES AND LIABILITIES (CONTINUED)

(a) Lease receivables (Continued)

Finance lease (Continued)

The following table sets out a maturity analysis of lease receivables, showing the undiscounted lease payments to be received after the end of reporting period:

	2019 HK$'000
Within 1 year	4,542
After 1 year but within 2 years	5,912
After 2 years but within 3 years	5,962
After 3 years but within 4 years	6,108
After 4 years but within 5 years	378
Total undiscounted lease receivables	22,902
Unearned interest income	(1,461)
Present value of lease receivables	21,441

	2019 HK$'000
Analysed as	
Non-current	17,500
Current	3,941
	21,441

29 LEASE RECEIVABLES AND LIABILITIES (CONTINUED)

(b) Lease liabilities

The following table shows the remaining contractual maturities of the Group's lease liabilities at the end of the current and previous reporting periods and at the date of transition to HKFRS 16:

	31 December 2019		1 January 2019 (Note)	
	Present value of the lease payments HK$'000	**Total lease payments HK$'000**	Present value of the lease payments HK$'000	Total lease payments HK$'000
Within 1 year	**44,585**	**48,894**	26,018	27,867
After 1 year but within 2 years	**38,313**	**41,546**	20,380	21,360
After 2 years but within 5 years	**59,654**	**63,499**	10,152	11,242
After 5 years	**10,278**	**10,761**	5,981	6,467
	108,245	**115,806**	36,513	39,069
	152,830	**164,700**	62,531	66,936
Less: total future interest expenses		**(11,870)**		(4,405)
Present value of lease liabilities		**152,830**		62,531

	2019 HK$'000
Analysed as	
Current	**44,585**
Non-current	**108,245**
	152,830

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. Comparative information as at 31 December 2018 has not been restated. Further details on the impact of the transition to HKFRS 16 are set out in Note 2.

30 SHARE CAPITAL

	Number of shares '000	Share capital HK$'000
Ordinary shares of HK$0.1 each		
Authorised:		
At 1 January 2018, 31 December 2018, 1 January 2019 and 31 December 2019	8,000,000	800,000
Issued:		
At 1 January 2018, 31 December 2018, 1 January 2019 and 31 December 2019	354,100	35,410

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

(a) Nature and purpose of reserves

Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations as well as the effective portion of any foreign exchange differences arising from hedges of the net investment in these foreign operations. The reserve is dealt with in accordance with the accounting policies set out in Note 3.

Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of financial investments designated at FVOCI under HKFRS 9 that are held at the end of the reporting period (see Note 3).

31 DEFERRED TAXATION

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

	Accelerated accounting depreciation HK$'000	Intangible assets HK$'000	Total HK$'000
At 1 January 2018	331	–	331
Exchange realignment	–	(11)	(11)
Credited to profit or loss for the year (Note 8)	–	73	73
Acquisitions of businesses (Note 35)	–	(2,368)	(2,368)
At 31 December 2018 and 1 January 2019	331	(2,306)	(1,975)
Exchange realignment	–	(8)	(8)
Credited to profit or loss for the year (Note 8)	26	238	264
Acquisitions of businesses (Note 35)	–	(125)	(125)
At 31 December 2019	357	(2,201)	(1,844)

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

	2019 HK$'000	2018 HK$'000
Deferred tax assets	**357**	331
Deferred tax liabilities	**(2,201)**	(2,306)
	(1,844)	(1,975)

At 31 December 2019, the Group had estimated unused tax losses of HK$114,215,000 (2018: HK$75,648,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of HK$13,008,000 (2018: HK$14,925,000) that will expire in five years from the year of origin. All other tax losses may be carried forward indefinitely.

At 31 December 2019, the Group has deductible temporary differences of HK$20,230,000 (2018: HK$11,927,000). No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

32 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 places 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, a company which is wholly and beneficially owned by the Controlling Shareholder.

As at 31 December 2019, the corporate bonds measured at amortised cost totalling HK$71,000,000 were recorded as current liabilities (2018: HK$69,225,000 as non-current liabilities). Subsequent to the end of reporting period, the corporate bonds were matured and fully repaid by the Group.

33 CONVERTIBLE NOTE

On 24 December 2018 and 12 February 2019, the Company, SDM Asia Limited (the "**Issuer**"), a wholly-owned subsidiary of the Company, and an independent investor (the "**Investor**") entered into a subscription agreement (the "**CN Subscription Agreement**") and an amendment deed to the CN Subscription Agreement (the "**Amendment Deed**") respectively. Pursuant to the CN Subscription Agreement and the Amendment Deed, the Issuer conditionally agreed to issue and the Investor conditionally agreed to subscribe for the convertible note (the "**Convertible Note**") in the principal amount of United States dollars ("**US$**") 25,000,000 (equivalent to approximately HK$195,400,000). The Convertible Note bears coupon interest at the rate of 8% per annum, payable upon redemption by the noteholder on the maturity date in 2023. The Convertible Note shall be converted into new preference shares of the Issuer upon the occurrence of certain events as detailed in the CN Subscription Agreement and the Amendment Deed.

All the conditions precedent to the CN 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$195,400,000) has been issued by the Issuer to the Investor. Details of which are set out in the Company's announcements dated 27 December 2018 and 12 February 2019.

The Convertible Note is guaranteed by the Company and secured by the entire equity interest in SDM Asia Limited held by the Group.

As at 31 December 2019, the Convertible Note measured at fair value through profit or loss amounted to HK$204,466,000 (31 December 2018: HK$Nil) were recorded as non-current liabilities.

See Note 39 for assumptions adopted in the fair value measurement of the convertible note.

34 RETIREMENT BENEFITS SCHEME/SHARE OPTION SCHEME

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

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

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

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

The Group makes legally required contributions to the Superannuation Funds in Australia for its employees employed in Australia. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees.

The total contributions to the retirement benefits scheme charged to the consolidated statement of profit or loss and other comprehensive income during the year was HK$4,887,000 (2018: HK$2,188,000).

34 RETIREMENT BENEFITS SCHEME/SHARE OPTION SCHEME (CONTINUED)

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

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

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

During the year ended 31 December 2019, a total of 35,410,000 share options have been granted and vested immediately pursuant to the Share Option Scheme (2018: Nil) and expense of HK$8,647,000 was charged to the consolidated statement of profit or loss and other comprehensive income.

The terms and conditions of the grants are as follows:

	Number of instruments	Vesting conditions
Options granted to directors: – on 4 October 2019	14,164,000	Exercisable from 4 October 2019 to 3 October 2022
Options granted to employees: – on 4 October 2019 (Note)	10,623,000	Exercisable from 4 October 2019 to 3 October 2022
Options granted to consultants: – on 11 October 2019	10,623,000	Exercisable from 11 October 2019 to 10 October 2020
Total share options granted	35,410,000	

Note: Included 3,541,000 shares options granted to Ms. Chiu Ka Wai, an associate of the Controlling Shareholder.

34 RETIREMENT BENEFITS SCHEME/SHARE OPTION SCHEME (CONTINUED)

(b) (continued)

The number and weighted average exercise prices of share options are as follows:

	Weighted average exercise price	Number of options
Outstanding at the 1 January 2018, 31 December 2018 and 1 January 2019	–	–
Granted during the period	1.1	35,410,000
Outstanding at the 31 December 2019	1.1	35,410,000

No share options were exercised during the year ended 31 December 2019.

The options outstanding at 31 December 2019 had an exercise price of $1.0 to $1.1 and a weighted average remaining contractual life of 2.2 years.

Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on a binomial option pricing model. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the binomial lattice model.

Fair value of share options and assumptions

Grant date	**4 October 2019**	11 October 2019
Fair value at measurement date	0.31	0.09
Share price	$0.95	$0.94
Exercise price	$1.1	$1.0
Expected volatility	55.541%	28.493%
Option life	3 years	1 year
Expected dividend	0%	0%
Risk-free interest rate (based on Hong Kong Government bonds yield)	1.498%	1.498%

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate. Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

35 ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES/BUSINESSES

Acquisitions of subsidiaries/businesses in 2019

(a) Acquisition of Happy Family Businesses (as defined below)

Pursuant to the sale and purchase agreement dated 1 November 2018 entered into by a wholly owned subsidiary of the Company and the vendors (the "**Happy Family Vendors**") and the guarantors, the Group acquired certain assets relating to the business of operating and managing the childcare centres currently carried out by Happy Family Vendors in Singapore ("**Happy Family Businesses**") for a total cash consideration of S$1,250,000 (equivalent to approximately HK$7,103,000). The completion took place on 1 January 2019.

Acquisition-related costs amounting to HK$431,000 have been recognised and included in expense in the current year, within the "other expenses" line item, in the consolidated statement of profit or loss and other comprehensive income.

	HK$'000
Goodwill arising on acquisition:	
Consideration transferred	7,103
Less: Net assets recognised	–
	7,103

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

	HK$'000
Net cash outflow arising on acquisition:	
Cash consideration (Note)	7,103

Note: As at 31 December 2018, the Group paid deposits of HK$3,593,000 for this acquisition.

Included in the loss for the year ended 31 December 2019 is loss of HK$926,000 attributable to Happy Family Group. Revenue for the year ended 31 December 2019 includes HK$5,874,000 generated from Happy Family Group.

(b) Acquisition of Tinytots Sports (as defined below)

Pursuant to the sale and purchase agreement dated 1 August 2019 entered into by a wholly owned subsidiary of the Company and the vendor, the Group acquired 60% issued share capital of Tinytots Sports Pte Ltd ("**Tinytots Sports**") for a total cash consideration of S$753,000 (equivalent to approximately HK$4,298,000), including contingent consideration of HK$754,000, which the conditions were fulfilled. Tinytots Sports is principally engaged in provision of sports training courses and programmes for pre-school and kindergarten children in Singapore. The completion took place on 1 August 2019.

35 ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES/BUSINESSES (CONTINUED)

Acquisitions of subsidiaries/businesses in 2019 (Continued)

(b) Acquisition of Tinytots Sports (as defined below) (Continued)

Acquisition-related costs amounting to HK$105,000 have been recognised and included in expense in the current year, within the "other expenses" line item, in the consolidated statement of profit or loss and other comprehensive income.

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

	HK$'000
Property, plant and equipment	88
Intangible assets	737
Inventories	6
Trade and other receivables, deposits and prepayments	16
Bank balances and cash	1,051
Trade and other payables and accrued charges	(233)
Amount due to shareholder	(532)
Deferred tax liabilities	(125)
	1,008
Non-controlling interests	(403)
Net assets recognised	605

The aggregate fair value of trade and other receivables at the date of acquisition amounted to HK$16,000, which represented the best estimation of the contractual cash flow expected to be collected at the acquisition date.

	HK$'000
Goodwill arising on acquisition:	
Consideration transferred	4,298
Less: Net assets recognised	(605)
	3,693

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

35 ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES/BUSINESSES (CONTINUED)

Acquisitions of subsidiaries/businesses in 2019 (Continued)

(b) Acquisition of Tinytots Sports (as defined below) (Continued)

	HK$'000
Net cash outflow arising on acquisition:	
Cash consideration	4,298
Less: Bank balances and cash acquired	(1,051)
Consideration payable	(736)
	2,511

Note: The balance of consideration payable was paid by the Group after the end of the reporting period.

Included in the loss for the year ended 31 December 2019 is profit of HK$549,000 attributable to Tinytots Sports. Revenue for the year ended 31 December 2019 includes HK$1,548,000 generated from Tinytots Sports.

(c) Acquisition of ECLC (as defined below)

Pursuant to the sale and purchase agreement dated 1 June 2019 entered into by a wholly owned subsidiary of the Company and the vendor, the Group acquired 60% issued share capital of English Connection Learning Centre Limited ("**ECLC**") for a total cash consideration of HK$3,000,000 with a contingent consideration for future annual profit from 2019-2022 exceeding certain amount, the Group did not expect the profit targets will be met. ECLC is principally engaged in the provision of nursery, kindergarten and enrichment classes in Hong Kong. The completion took place on 31 July 2019.

Acquisition-related costs amounting to HK$86,000 have been recognised and included in expense in the current year, within the "other expenses" line item, in the consolidated statement of profit or loss and other comprehensive income.

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

	HK$'000
Property, plant and equipment	201
Right-of-use assets	21,910
Trade and other receivables, deposits and prepayments	538
Amount due from shareholder	4,728
Bank balances and cash	299
Trade and other payables and accrued charges	(343)
Bank borrowings	(4,500)
Lease liabilities	(21,910)
	923
Non-controlling interests	(369)
Net assets recognised	554

The aggregate fair value of trade and other receivables and amount due from shareholder at the date of acquisition amounted to HK$5,266,000, which represented the best estimation of the contractual cash flow expected to be collected at the acquisition date.

35 ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES/BUSINESSES (CONTINUED)

Acquisitions of subsidiaries/businesses in 2019 (Continued)

(c) Acquisition of ECLC (as defined below) (Continued)

	HK$'000
Goodwill arising on acquisition:	
Consideration transferred	3,000
Less: Net assets recognised	(554)
	2,446

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

	HK$'000
Net cash outflow arising on acquisition:	
Cash consideration	3,000
Less: Bank balances and cash acquired	(299)
	2,701

Included in the loss for the year ended 31 December 2019 is loss of HK$2,790,000 attributable to ECLC. Revenue for the year ended 31 December 2019 includes HK$796,000 generated from ECLC.

(d) Acquisition of Brain Explorers Business (as defined below)

Pursuant to the sale and purchase agreement dated 11 June 2019 entered into by a wholly owned subsidiary of the Company and the vendor (the "**Brain Explorers Vendor**"), the Group acquired certain assets relating to the business of operating and managing the childcare centres currently carried out by the Brain Explorers Vendor in Singapore ("**Brain Explorers Businesses**") for a total cash consideration of S$470,000 (equivalent to approximately HK$2,653,000). The completion took place on 31 August 2019.

Acquisition-related costs amounting to HK$31,000 have been recognised and included in expense in the current year, within the "other expenses" line item, in the consolidated statement of profit or loss and other comprehensive income.

35 ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES/BUSINESSES (CONTINUED)

Acquisitions of subsidiaries/businesses in 2019 (Continued)

(d) Acquisition of Brain Explorers Business (as defined below) (Continued)

Fair value of assets acquired of the Brain Explorers Business at the completion date of the acquisition were as follows:

	HK$'000
Property, plant and equipment and net assets recognised	85

	HK$'000
Goodwill arising on acquisition:	
Consideration transferred	2,653
Less: Net assets recognised	(85)
	2,568

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

	HK$'000
Net cash outflow arising on acquisition:	
Cash consideration	2,653

Included in the loss for the year ended 31 December 2019 is loss of HK$93,000 attributable to Brain Explorers Business. Revenue for the year ended 31 December 2019 includes HK$602,000 generated from Brain Explorers Business.

(e) Acquisition of Ability Education (as defined below)

Pursuant to the sale and purchase agreement dated 14 January 2019 entered into by a wholly owned subsidiary of the Company as purchaser, SDM Group Limited, a wholly owned subsidiary of the Company, as the original guarantor and the vendor, the Group acquired the entire issued share capital of Ability Education Pty Ltd ("**Ability Education**") as at 30 September 2019 for a gross consideration of AU$4,560,000 (equivalent to approximately HK$25,992,000), adjusted by target working capital. Ability Education is a limited company incorporated in Australia which is principally engaged in provision of various English language intensive courses to international students holding student visas aged over 18 years old whose English is not their first language. On 29 March 2019, the guarantor was changed to the Company under a deed of variation signed between the Company, Australian Apex Education Pty Ltd, SDM Group Limited, the vendor and the stakeholder of the deposits. The completion took place on 30 September 2019.

35 ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES/BUSINESSES (CONTINUED)

Acquisitions of subsidiaries/businesses in 2019 (Continued)

(e) Acquisition of Ability Education (as defined below) (Continued)

Acquisition-related costs amounting to HK$5,065,000 have been recognised and included in expense in the current year, within the "other expenses" line item, in the consolidated statement of profit or loss and other comprehensive income.

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

	HK$'000
Property, plant and equipment	3,226
Right-of-use assets	68,832
Lease receivables	5,034
Trade and other receivables, deposits and prepayments	14,671
Bank balances and cash	3,851
Trade and other payables and accrued charges	(30,927)
Lease liabilities	(73,866)
Provisions	(1,526)
Net liabilities recognised	(10,705)

The aggregate fair value of trade and other receivables and lease receivables at the date of acquisition amounted to HK$14,671,000 and HK$5,034,000, respectively, which represented the best estimation of the contractual cash flow expected to be collected at the acquisition date.

	HK$'000
Goodwill arising on acquisition:	
Consideration transferred	9,517
Add: Net liabilities recognised	10,705
	20,222

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

	HK$'000
Net cash outflow arising on acquisition:	
Cash consideration (Note)	9,517
Less: Bank balances and cash acquired	(3,851)
	5,666

Note: As at 31 December 2018, the Group paid deposits of HK$546,000 for this acquisition.

35 ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES/BUSINESSES (CONTINUED)

Acquisitions of subsidiaries/businesses in 2019 (Continued)

(e) Acquisition of Ability Education (as defined below) (Continued)

Included in the loss for the year ended 31 December 2019 is loss of HK$4,004,000 attributable to Ability Education. Revenue for the year ended 31 December 2019 includes HK$15,186,000 generated from Ability Education.

The Group measured the non-controlling interests at their proportionate share of these subsidiaries' net identifiable assets for the acquisitions during the year.

If the above acquisitions of subsidiaries during the year ended 31 December 2019 had been completed on 1 January 2019, total consolidated revenue and loss for the year would have been HK$186,234,000 and HK$120,128,000 respectively. The pro forma information is for illustrative purpose only and is not necessarily an indication of revenue and results of the operations of the Group that actually would have been achieved had above acquisition been completed on 1 January 2019, nor is it intended to be projection of future results.

Acquisitions and disposal of subsidiaries in 2018

(f) Acquisition of Global Win Group (as defined below)

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

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

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

35 ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES/BUSINESSES (CONTINUED)

Acquisitions and disposal of subsidiaries in 2018 (Continued)

(f) Acquisition of Global Win Group (Continued)

Note: (continued)

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

At the date of obtaining the control of Global Win, 31 December 2018 and 31 December 2019, the directors of the Company considered that the Guaranteed Profits for each of the three Relevant Periods shall be achievable, 80,000,000 new ordinary shares of the Company should be issued in accordance with the Global Win S&P Agreements.

The Consideration Payable is recognised at fair value. Subsequent to the initial recognition, the Consideration Payable is measured at fair value with changes in fair value through profit or loss. The fair value of the Consideration Payable at the date of obtaining the control of Global Win of HK$36,000,000 is determined by reference to the quoted market price of HK$0.45 per each of the ordinary shares of the Company at the date of obtaining the control of Global Win. As at 31 December 2019, the fair value of the Consideration Payable is HK$85,600,000 (2018: HK$47,200,000) which is determined by reference to the quoted market price of HK$1.07 (2018: HK$0.59) per each of the ordinary shares of the Company at 31 December 2019. The Group recognised a loss on change in fair value of Consideration Payable of HK$38,400,000 (2018: HK$11,200,000) in profit or loss during the year ended 31 December 2019.

The directors of the Company considered that 53,000,000 new ordinary shares (2018: 26,500,000 new ordinary shares) of the Company will be issued within one year from 31 December 2019 and the remaining 27,000,000 new ordinary shares (2018: 53,500,000 new ordinary shares) of the Company will be issued after one year from 31 December 2019 in accordance with the terms of the Global Win S&P agreements. Accordingly, the carrying amount of Consideration Payable of HK$56,710,000 (2018: HK$15,635,000) is classified as current liabilities and the carrying amount of Consideration Payable of HK$28,890,000 (2018: HK$31,565,000) is classified as non-current liabilities.

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

35 ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES/BUSINESSES (CONTINUED)

Acquisitions and disposal of subsidiaries in 2018 (Continued)

(f) Acquisition of Global Win Group (Continued)

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

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

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

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

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

35 ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES/BUSINESSES (CONTINUED)

Acquisitions and disposal of subsidiaries in 2018 (Continued)

(f) Acquisition of Global Win Group (Continued)

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

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

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

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

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

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

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

35 ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES/BUSINESSES (CONTINUED)

Acquisitions and disposal of subsidiaries in 2018 (Continued)

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

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

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

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

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

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

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

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

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

35 ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES/BUSINESSES (CONTINUED)

Acquisitions and disposal of subsidiaries in 2018 (Continued)

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

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

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

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

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

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

35 ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES/BUSINESSES (CONTINUED)

Acquisitions and disposal of subsidiaries in 2018 (Continued)

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

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

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

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

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

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

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

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

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

35 ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES/BUSINESSES (CONTINUED)

Acquisitions and disposal of subsidiaries in 2018 (Continued)

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

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

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

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

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

None of the goodwill arising on these acquisitions in both years was expected to be deductible for tax purposes.

(j) Disposal of Metro Noble Limited

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

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

35 ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES/BUSINESSES (CONTINUED)

Acquisitions and disposal of subsidiaries in 2018 (Continued)

(j) Disposal of Metro Noble Limited (Continued)

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

Note: Pursuant to the relevant sale and purchase agreement of the disposal, the Group utilised the proceed of the disposal of HK$7,200,000 to make as the prepayment to the buyer for the use of premise and included in trade and other receivables, deposits and prepayments at 31 December 2018.

As at 31 December 2019, impairment loss of HK$7,200,000 was recognised as the Group assessed that the Group would not be able to use such premise in the future and the prepayment was unlikely to be recoverable.

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

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

36 PLEDGE OF ASSETS

	2019 HK$'000	2018 HK$'000
Financial investments	**4,052**	3,587
Time deposits	**9,835**	–

The financial investments of HK$4,052,000 (2018: HK$3,587,000) were pledged to a securities margin loan received from a stock broking house with the related terms and conditions disclosed in Note 27.

The time deposits of HK$9,835,000 (2018: HK$Nil) were pledged to secure guarantees by banks issued to the landlords of properties leased by the Group for own use.

In addition, the entire equity interests in SDM Asia Limited held by the Group was pledged as a security under the convertible note (see Note 33).

37 COMMITMENTS

Operating Lease Commitments

The Group as lessee

At 31 December 2018, the Group had commitments for future minimum lease payments under non-cancellable operating leases falling due as follows:

	2018 HK$'000
Within 1 year	34,574
After 1 year but within 5 years	39,105
After 5 years	747
	74,426

The Group leased its office premises, dance centres, pre-schools and colleges under operating lease arrangements. Leases for office premises, dance centres, pre-schools and colleges were negotiated for terms ranged from 1 to 7 years. Most of the Group's rental agreements contain rent-free period and one of which contained contingency rent that the relevant rental was payable based on the relevant turnover derived from the leased premise.

The Group as lessor

The Group sub-leased certain properties and had committed tenants for two to three years.

At 31 December 2018, the Group had contracted with tenants for the following future minimum lease payments:

	2018 HK$'000
Within 1 year	176

37 COMMITMENTS (CONTINUED)

Other commitments

(i) The Group has commitment to contribute a registered capital of RMB3,000,000 (2018: RMB3,000,000) to Guangzhou Delilong and a subsidiary, 廣州樂動心弦文化發展有限公司(「**廣州樂動心弦**」), as at 31 December 2019.

(ii) Pursuant to sale and purchase agreement, the Group has committed to acquire the entire equity interest of Childrens Services Education Pty Ltd at a consideration of AU$3,040,000 (equivalent to approximately HK$17,328,000), subject to adjustment. Up to 31 December 2019, the Group has paid AU$1,100,000 (equivalent to approximately HK$6,033,000) to the vendors.

(iii) Pursuant to the memorandum of understanding with Sunflower Childcare Group Pte. Ltd ("**Sunflower**"), the Group has committed to acquire 60% equity interest of Sunflower. Up to 31 December 2019, the Group has paid a total amount of S$6,000,000 (equivalent to HK$34,752,000) as deposits to vendors.

(iv) Pursuant to sale and purchase agreement, the Group has committed to acquire all business assets of Moriah Schoolhouse LLP and Moriah Schoolhouse @ FV LLP (collectively referred to as the "**Moriah Group**") at a total cash consideration of S$1,300,000 (equivalent to approximately HK$7,501,000). Up to 31 December 2019, the Group has paid S$650,000 (equivalent to approximately HK$3,765,000) to the vendors.

(v) Pursuant to the memorandum of understanding with the shareholders of target entities which are composed of six private companies limited by shares incorporated in Singapore, the Group has committed to acquire the entire equity interest of the target entities at a maximum aggregate consideration of S$7,800,000 (equivalent to approximately HK$45,000,000). Up to 31 December 2019, the Group has paid S$400,000 (equivalent to HK$2,317,000) to the vendors.

(vi) Pursuant the memorandum of understanding with certain target companies, the Group has committed to acquire the entire equity interest of certain companies incorporated in Singapore at a maximum aggregate consideration of S$8,000,000 (equivalent to approximately HK$45,208,000). Up to 31 December 2019, the Group has paid S$250,000 (equivalent to HK$1,448,000) to the vendors.

(vii) As at 31 December 2019, the Group has commitment to build a kindergarten in Singapore at a budget cost of S$2,541,000 (equivalent to HK$14,718,000). Relevant cost are capitalised as construction in progress. Up to 31 December 2019, the Group has paid S$1,799,000 (equivalent to HK$10,420,000) to the vendors.

38 CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of net debt, which includes borrowings net of bank balances and cash and equity of the Group, comprising issued capital and reserves.

As at 31 December 2019, the Group had issued outstanding corporate bonds with carrying amount of approximately HK$71.0 million (2018: approximately HK$69.2 million). The corporate bonds (with face value of HK$1,000,000 for each of the 71 bonds) carry interest at 5% per annum and would mature on the day falling on the second anniversary of the date of issue. The repayment of the bonds is guaranteed by Wealthy Together Limited, a company which is wholly and beneficially owned by the Controlling Shareholder.

38 CAPITAL RISK MANAGEMENT (CONTINUED)

As at 31 December 2019, the Group had outstanding convertible note with carrying amount of approximately HK$204,466,000 (2018: HK$Nil). The convertible note with face value of US$25,000,000 (equivalent to approximately HK$195,400,000) carries interest at 8% per annum and will mature on 31 March 2023. The repayment of the bonds is guaranteed by the Company. See Note 33 for details.

Management of the Group reviews the capital structure regularly taking into account the cost of capital and the risk associated with the capital. The Group will balance its overall capital structure through issuance of new shares and the raising of borrowings to maintain sufficient cash for acquisitions and daily operations. As at 31 December 2019, the "total capital", representing the aggregate amount of total equity, consideration payables (see Note 35(f)), corporate bonds and convertible note), of the Group is HK$269,757,000 (2018: HK$123,797,000).

39 FINANCIAL INSTRUMENTS

Categories of financial instruments

	2019 HK$'000	2018 HK$'000
Financial assets		
Financial assets at amortised cost	**135,519**	75,217
Financial investments at FVTPL	**22,202**	3,587
Financial investments at FVTOCI	**27,422**	–
Financial liabilities		
Obligation arising from put options written to non-controlling shareholders of a subsidiary at amortised cost	**9,459**	9,145
Financial liabilities at FVTPL – Consideration payable	**85,600**	47,200
Financial liabilities at FVTPL – Convertible note	**204,466**	–
Other financial liabilities at amortised cost	**265,182**	85,442

Financial risk management objectives and policies

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

39 FINANCIAL INSTRUMENTS (CONTINUED)

Foreign currency risk

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in Hong Kong dollars, translated using the spot rate at the year ended date.

	Exposure to foreign currencies (expressed in Hong Kong dollars)							
	2019				2018			
	US$	Renminbi ("RMB")	S$	AU$	US$	RMB	S$	AU$
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Trade and other receivables	**398**	**–**	**306**	**–**	–	2,740	–	1,295
Bank balances and cash	**3,534**	**201**	**21**	**10**	20,494	59	11,312	3,363
Financial investments	**30,492**	**–**	**5,493**	**–**	–	–	–	–
Amounts due from related parties	**–**	**49**	**–**	**–**	–	–	–	–
Trade and other payables	**(7,800)**	**–**	**(109)**	**–**	–	–	–	–
Convertible note	**(204,466)**	**–**	**–**	**–**	–	–	–	–
Net exposure arising from recognised assets and liabilities	**(177,842)**	**250**	**5,711**	**10**	20,494	2,799	11,312	4,658

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

Foreign currency sensitivity analysis

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

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

39 FINANCIAL INSTRUMENTS (CONTINUED)

Foreign currency risk (Continued)

Foreign currency sensitivity analysis (Continued)

	2019 HK$'000	2018 HK$'000
Profit or loss		
RMB	**13**	140
S$	**286**	566
AU$	**–**	233

Credit risk

The Group's credit risk is primarily attributable to trade and other receivables, debt securities, staff loans, amounts due from related parties and non-controlling shareholders of subsidiaries and bank balances.

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

Lease receivables

The directors of the Company are of the opinion that the credit risks of lease receivables is not significant.

Trade receivables

(i) Dancing academy business, early childhood education business and provision of photographic services for children business

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

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

(ii) Adult education and training business

Trade receivables from the third parties mainly represent receivables from students and financial institutions in relation to the payments settled through credit cards by customers of which the settlement period is normally one to two months from transaction date. Credit period is granted for tuition fee based on the number of instalments and enrolment period.

The directors of the Company are of the opinion that the credit risks of these receivables is not significant and ECL was measured at an amount equal to lifetime ECL for receivables from financial institutions and 12m ECL from students. Accordingly, the loss allowance of AU$63,000 (equivalent to HK$345,000) is provided for trade receivables from students as at 31 December 2019.

39 FINANCIAL INSTRUMENTS (CONTINUED)

Credit risk (Continued)

Trade receivables (Continued)

(iii) Provision of swallowing and speech treatment business

Trade receivables from the third parties mainly represent receivables from schools. The directors of the Company are of the opinion that the credit risks of these receivables are minimal as there are from creditworthy schools with no history of defaults. The credit risk is insignificant. No impairment is made for these receivables.

Staff loans

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

Other receivables

Apart from an other receivable of HK$300,000 which was fully impaired, the directors of the Company are of the opinion that the credit risks of these receivables are insignificant as majority of them are related to parties with strong financial capabilities. No impairment is made for these balances.

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

Details of the amounts due from related parties and non-controlling shareholders of subsidiaries are set out in Notes 21 and 22 respectively. At the end of the reporting period, the directors of the Company have assessed the financial position of the debtors as well as the economic outlook of the industries in which the debtors operate and concluded that there has been no significant increase in credit risk since initial recognition of the amounts due from related parties and non-controlling shareholders of subsidiaries. Accordingly, the loss allowance for amounts due from related parties and non-controlling shareholders of subsidiaries is measured at an amount equal to 12m ECL.

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

	Amounts due from related parties HK$'000	Amounts due from non-controlling shareholders of subsidiaries HK$'000
Balance at 1 January 2018	–	–
Net remeasurement of loss allowance	666	90
Balance at 31 December 2018 and 1 January 2019	666	90
Net remeasurement of loss allowance	(586)	1,625
Balance at 31 December 2019	80	1,715

39 FINANCIAL INSTRUMENTS (CONTINUED)

Credit risk (Continued)

Bank balances and cash

The Group also has concentration of credit risk on bank balances which are deposited with banks with good reputation. The directors of the Company are of the opinion that the credit risks of these receivables are minimal as there are from creditworthy financial institutions with no history of defaults. The credit risk is insignificant. No impairment is made for these balances.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's cash flow interest rate risk primarily relates to the bank balances and bank and other borrowings (Note 27). The Group's fair value interest rate risk relates primarily to its fixed rate corporate bonds (Note 32) and fixed rate convertible note (Note 33).

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

For the obligation arising from put options written to non-controlling shareholders of a subsidiary (Note 28), which will be settled by a variable amount subject to a cap, results in a gross financial liabilities. Therefore, the 'gross' financial liabilities are deemed borrowings. The Group has not managed the interest rate risk of the deemed borrowings in the same way as the other borrowings.

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

39 FINANCIAL INSTRUMENTS (CONTINUED)

Interest rate risk (Continued)

The Company's interest rate risk arises primarily from long-term borrowings. Borrowings issued at variable rates and at fixed rates expose the company to cash flow interest rate risk and fair value interest rate risk respectively. The Group has a policy of ensuring that over 50% of its borrowings are on a fixed rate basis. The Group's interest rate profile as monitored by management is set out in (i) below.

(i) Interest rate profile

The following table details the interest rate profile of the Group's borrowings at the end of the reporting period:

	2019 Effective interest rate %	**2019** HK$'000	2018 Effective interest rate %	2018 HK$'000
Fixed rate borrowings:				
Lease liabilities (Note)	**4**	**152,830**	N/A	–
Corporate bonds	**7.5**	**71,000**	7.5	69,225
Convertible note	**8**	**204,466**	N/A	–
		428,296		69,225
Variable rate borrowings:				
Bank overdrafts	**N/A**	**–**	7	627
Bank borrowings	**4–6**	**4,815**	6	521
Margin loan	**6**	**639**	6	1,904
		5,454		3,052
Total borrowings		**433,750**		72,277
Fixed rate borrowings as a percentage of total borrowings		**98.7%**		95.8%

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. Under this approach, the comparative information is not restated. See Note 2.

(ii) Sensitivity analysis

At 31 December 2019, it is estimated that a general increase/decrease of 50 basis points in interest rates, with all other variables held constant, would have increased/decreased the Group's loss after tax and accumulated losses by approximately HK$27,000 (2018: HK$15,000).

39 FINANCIAL INSTRUMENTS (CONTINUED)

Interest rate risk (Continued)

(ii) Sensitivity analysis (Continued)

The sensitivity analysis above indicates the annualised impact on the Group's interest expense that would arise assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to floating rate instruments which expose the company to cash flow interest rate risk at that date. The analysis is performed on the same basis as 2018.

Liquidity risk

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

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

In addition, the following table also details the Group's liquidity analysis of its derivative financial instruments. The tables have been drawn up based on the undiscounted contractual cash outflows on derivative instruments. The liquidity analysis for the Group's derivative financial instruments are prepared based on the contractual maturities as the management considers that the contractual maturities are essential for an understanding of the timing of the cash flows of derivatives.

	Within 1 year or on demand HK$'000	1 to 2 years HK$'000	2 to 5 years HK$'000	After 5 year HK$'000	Total undiscounted cash flows HK$'000	Carrying amounts HK$'000
At 31 December 2019						
Financial liabilities						
Trade and other payables	34,562	–	–	–	34,562	34,562
Amounts due to related parties and non-controlling shareholders of subsidiaries	1,336	–	–	–	1,336	1,336
Bank and other borrowings	5,454	–	–	–	5,454	5,454
Lease liabilities (Note)	48,894	41,546	63,499	10,761	164,700	152,830
Corporate bonds	71,000	–	–	–	71,000	71,000
Convertible note	–	–	270,102	–	270,102	204,466
Obligation arising from put options written to non-controlling shareholders of a subsidiary	–	–	12,250	–	12,250	9,459
	161,246	41,546	345,851	10,761	559,404	479,107

39 FINANCIAL INSTRUMENTS (CONTINUED)

Liquidity risk (Continued)

	Within 1 year or on demand HK$'000	1 to 2 years HK$'000	2 to 5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amounts HK$'000
At 31 December 2018					
Financial liabilities					
Trade and other payables	12,929	–	–	12,929	12,929
Amounts due to related parties	236	–	–	236	236
Bank and other borrowings	3,052	–	–	3,052	3,052
Corporate bonds	–	74,550	–	74,550	69,225
Obligation arising from put options written to non-controlling shareholders of a subsidiary	–	–	9,739	9,739	9,145
	16,217	74,550	9,739	100,506	94,587

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. Lease liabilities include amounts recognised at the date of transition to HKFRS 16 in respect of leases previously classified as operating leases under HKAS 17 and amounts relating to new leases entered into during the year. Under this approach, the comparative information is not restated. See Note 2.

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

	Less than 1 year HK$'000	**1 to 2 years** HK$'000	**2 to 5 years** HK$'000	**Total undiscounted cash flows** HK$'000	**Total carrying amounts** HK$'000
2019	**5,371**	**97**	**–**	**5,468**	**5,454**
2018	2,763	232	97	3,092	3,052

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

39 FINANCIAL INSTRUMENTS (CONTINUED)

Debt and equity price risk and investment risk

The Group is exposed to price risk arising from its financial investments. The debt and equity securities and listed funds are valued at quoted market prices. The equity linked note is determined by expected proceeds to be received from disposal of the underlying listed securities. Their performance is assessed regularly based on the information available to the Group.

The following table demonstrates the sensitivity to every 5% change in the fair values of relevant financial investments to which the Group has significant exposure at the end of the reporting period, taking into account the Deed of Indemnity as disclosed in Note 23, with all other variables held constant and before any impact on tax. Except the debt securities which the changes in fair value would impact the fair value reserve, all of the changes in fair value on the remaining investments would have impact on accumulated losses.

The maximum risk resulting from these investments equals their fair value.

	Carrying amount on investments HK$'000	Change in loss before tax HK$'000	Change in other comprehensive income HK$'000
2019			
Exchange-traded fund listed in the United States	**484**	**24**	**–**
Equity securities listed in Hong Kong	**13,639**	**432**	**–**
Equity securities/funds listed in Singapore	**5,493**	**275**	**–**
Debt securities	**27,422**	**–**	**1,371**
Structured products	**2,586**	**129**	**–**
	49,624	**860**	**1,371**
2018			
Equity securities listed in Hong Kong	3,587	179	–

39 FINANCIAL INSTRUMENTS (CONTINUED)

Fair value measurements of financial instruments

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

The Group's financial investments, consideration payable and convertible note are measured at fair value at the end of the reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

Financial assets/ Financial liabilities	Fair value as at 31 December 2019	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs
Financial assets				
Financial investments				
– listed securities in Hong Kong (excluding the asset arising from indemnity)	HK$12,691,000 (2018: HK$3,587,000)	Level 1	Quoted bid prices in an active market	N/A
– listed securities/trust in Singapore	HK$5,493,000 (2018: HK$Nil)	Level 1	Quoted bid prices in an active market	N/A
– Exchange-traded fund listed in the United States	HK$484,000 (2018: HK$Nil)	Level 1	Quoted bid prices in an active market	N/A
– Debt securities investment	HK$ 27,422,000 (2018: HK$Nil)	Level 1	Quoted bid prices in an active market	N/A
– Structured product (equity linked note)	HK$2,586,000 (2018: HK$Nil)	Level 2	Expected proceeds to be received from disposal of the underlying securities	N/A
Financial liabilities				
Consideration payable	HK$85,600,000 (2018: HK$47,200,000)	Level 1	Quoted bid prices in an active market	N/A
Convertible note	HK$204,466,000 (2018: HK$Nil)	Level 3	Note	Discount rate: 14% Long-term growth rate: 3%

39 FINANCIAL INSTRUMENTS (CONTINUED)

Fair value measurements of financial instruments (Continued)

Fair value of the Group's financial assets and liabilities that are measured at fair value on a recurring basis (Continued)

Note: As at 31 December 2019, the fair value of the convertible note was measured at fair value through profit or loss, and determined with reference to the enterprise value of SDM Asia Limited. The significant unobservable inputs used are the discount rate and long-term growth rate adopted in the enterprise valuation.

As at 31 December 2019, it is estimated that with all other variables held constant, an increase or a decrease in long-term growth rate by 0.5%, would have increased or decreased the Group's loss for the year by HK$7,746,000 or HK$7,069,000, respectively.

As at 31 December 2019, it is estimated that with all other variables held constant, an increase or a decrease in discount rate by 1%, would have decreased or increased the Group's loss for the year by HK$18,852,000 or HK$22,705,000, respectively.

The movements during the period in the balance of these Level 3 fair value measurements are as follows:

	2019 HK$'000
Convertible note	
At 1 January 2019	–
Proceeds arising from issue of convertible note	195,400
Fair value change	9,636
Exchange realignment	(570)
At 31 December 2019	204,466

There is no transfer between different levels of the fair value hierarchy for the year ended 31 December 2019.

Fair value measurements and valuation processes

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

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

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

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

40 CASH FLOW INFORMATION

(a) Reconciliation of liabilities arising from financing activities

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

	Amounts due to related parties HK$'000	Amounts due to non-controlling shareholders of subsidiaries HK$'000	Proceeds from issuing two-year bonds received in advance HK$'000	Obligation arising from put options written to non-controlling interest of a subsidiary HK$'000	Convertible note HK$'000	Corporate bonds HK$'000	Interest payable HK$'000	Bank and other borrowings (excluding bank overdrafts) HK$'000	Advance receipt of proceeds from a new convertible note to be issued HK$'000	Lease liabilities HK$'000	Total HK$'000
At 1 January 2018	459	–	67,450	8,630	–	–	–	–	–	–	76,539
Transfer	–	–	(67,450)	–	–	67,450	–	–	–	–	–
Acquisitions of subsidiaries	271	–	–	–	–	–	–	607	–	–	878
Financing cash flows	(494)	–	–	–	–	–	(262)	1,818	–	–	1,062
Fair value change	–	–	–	515	–	–	–	–	–	–	515
Finance costs	–	–	–	–	–	1,775	3,812	–	–	–	5,587
At 31 December 2018	236	–	–	9,145	–	69,225	3,550	2,425	–	–	84,581
Impact on initial application of HKFRS 16 (Note)	–	–	–	–	–	–	–	–	–	62,531	62,531
At 1 January 2019	236	–	–	9,145	–	69,225	3,550	2,425	–	62,531	147,112
Acquisitions of subsidiaries	–	538	–	–	–	–	–	4,500	–	95,776	100,814
Financing cash flows	984	(432)	–	–	195,400	–	(4,260)	(1,471)	7,800	(39,746)	158,275
Finance costs	–	–	–	314	–	1,775	4,260	–	–	3,654	10,003
Fair value change	–	–	–	–	9,636	–	–	–	–	–	9,636
Increase in lease liabilities arising from entering into new leases during the year	–	–	–	–	–	–	–	–	–	27,465	27,465
Exchange difference	–	–	–	–	(570)	–	–	–	–	3,150	2,580
Capital contribution from non-controlling shareholders of a subsidiary	–	10	–	–	–	–	–	–	–	–	10
At 31 December 2019	1,220	116	–	9,459	204,466	71,000	3,550	5,454	7,800	152,830	455,895

Note: The Group has initially applied HKFRS 16 using the modified retrospective method and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. See Note 2.

40 CASH FLOW INFORMATION (CONTINUED)

(b) Total cash outflow for leases

Amounts included in the consolidated statement of cash flows for leases comprise the following:

	2019 HK$'000	2018 (Note) HK$'000
Within operating cash flows	**1,309**	24,845
Within financing cash flows	**39,746**	–
	41,055	24,845

Note: The adoption of HKFRS 16 introduces a change in classification of cash flows of certain rentals paid on leases. The comparative amounts have not been restated.

The amounts related to the following:

	2019 HK$'000	2018 HK$'000
Lease rentals paid	**41,055**	24,845

41 RELATED PARTY TRANSACTIONS

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

	2019 HK$'000	2018 HK$'000
Short-term lease income from related companies:		
– Rainbow	**473**	563
– Dunn's Education	**1,480**	1,402
– Sunshine	**226**	226
– Red Vocal	**405**	540
	2,584	2,731

The above transactions constitute continuing connected transactions in accordance with the Listing Rules. However, these transactions are exempt from the disclosure requirements as they are below the de minimis threshold.

41 RELATED PARTY TRANSACTIONS (CONTINUED)

	2019 HK$'000	2018 HK$'000
Management fee income received from:		
Joint ventures:		
– Mutual Bright	3,500	2,000
– Well Team	1,800	1,000
Shareholder of an associate	2,600	–
	7,900	3,000

As at 31 December 2019, bank borrowings of HK$315,000 (2018: HK$1,148,000) were guaranteed by Dr. Chun Chun 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 Group's corporate bonds were guaranteed by Wealthy Together.

Compensation of key management personnel

The remuneration of directors and other members of key management of the Group during the years ended 31 December 2019 and 2018 were as follows:

	2019 HK$'000	2018 HK$'000
Short-term benefits	13,965	5,216
Share based payments	3,236	–
Post-employment benefits	115	100
	17,316	5,316

As at 31 December 2019, the Group provided staff advance of HK$368,000 (2018: HK$520,000) to two members of key management. The advances are unsecured, interest bearing at 4.65% per annum, and repayable in 2020.

42 PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries of the Group as at 31 December 2019 and 2018 are as follows:

Name of subsidiary	Place of incorporation/ establishment	Place of operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group as at 31 December 2019 %	2018 %	Principal activities
Ability Education Pty Limited	Australia	Australia	AUD1,115,000	100	–	Provision of educational services

42 PARTICULARS OF PRINCIPAL SUBSIDIARIES (CONTINUED)

Name of subsidiary	Place of incorporation/ establishment	Place of operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group as at 31 December 2019 %	2018 %	Principal activities
Brilliant Together	BVI	Hong Kong	US$1	**100**	100	Investment holding
Cool Kids International Limited	Hong Kong	Hong Kong	HK$10,000	**75**	75	Pop dance academy
Dr. Code Limited	Hong Kong	Hong Kong	HK$10,000	**50**	–	Provision of enrichment courses
ECLC	Hong Kong	Hong Kong	HK$21,290,000	**24** (Note 2)	–	Provision of educational services
Fortune Apex Enterprises Limited	BVI	Hong Kong	US$7,700,000 (2018: US$1)	**100**	100	Investment holding
廣州樂動心弦	Guangzhou	Guangzhou	RMB3,000,000 (Note 1)	**100**	100	Jazz and ballet academy
SDM Chatsworth International Nursery Limited ("**SDM Chatsworth**")	Hong Kong	Hong Kong	HK$125	**80**	80	Investment holding
Prism	Hong Kong	Hong Kong	HK$15,018,500	**40** (Note 2)	40 (Note 2)	Provision of educational services
SDM Academie	Hong Kong	Hong Kong	HK$10,000	**100**	100	Jazz and ballet academy
SDM Art Limited	BVI	Hong Kong	US$50,000	**100**	100	Investment holding
SDM Group	Hong Kong	Hong Kong	HK$10,000	**100**	100	Provision of management services to group entities
SDM Jazz & Ballet	Hong Kong	Hong Kong	HK$100	**100**	100	Provision of management services to group entities and joint ventures
SDM Management	Hong Kong	Hong Kong	HK$10,000	**100**	100	Investment holding

42 PARTICULARS OF PRINCIPAL SUBSIDIARIES (CONTINUED)

Name of subsidiary	Place of incorporation/ establishment	Place of operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group as at 31 December 2019 %	2018 %	Principal activities
Talent Enrichment Pte Limited	Singapore	Singapore	S$1	100	–	Provision of enrichment courses
Talent Creation Limited	Hong Kong	Hong Kong	HK$10,000	100	100	Provision of educational services
Tycoon Together	BVI	Hong Kong	US$1	100	100	Investment holding
Global Win	BVI	Hong Kong	US$100	100	100	Investment holding
Hong Kong Speech	Hong Kong	Hong Kong	HK$1,001,600	100	100	Provision of Swallowing and speech treatments
Stage Photography	Hong Kong	Hong Kong	HK$100	100	100	Provision of photographic services for children
SDM Asia Limited	BVI	Singapore	US$100	100	100	Investment holding
SDM Childcare Centre (Jurong East) Pte Limited (Formerly known as Columbia Academy Pte Limited)	Singapore	Singapore	S$100,000	100	95	Operation of a pre-school in Singapore
SDM Childcare Centre (Clarke Quay) Pte Limited (Formerly known as Columbia Junior Academy Pte Limited)	Singapore	Singapore	S$500,000	100	95	Operation of a pre-school in Singapore
Tinkerland Pte Limited	Singapore	Singapore	S$100,000 (2018: S$100)	100	90	Operation of a pre-school in Singapore
Between Two Trees Pte Limited	Singapore	Singapore	S$100,000 (2018: S$20)	100	100	Holding licenses of a pre-school in Singapore
The Lighthouse Keepers Pte Limited	Singapore	Singapore	S$500,000	100	100	Operation of a pre-school in Singapore

42 PARTICULARS OF PRINCIPAL SUBSIDIARIES (CONTINUED)

Name of subsidiary	Place of incorporation/ establishment	Place of operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group as at 31 December		Principal activities
				2019 %	2018 %	
Tinytots Sports	Singapore	Singapore	S$50,000	60	–	Provision of enrichment courses
SDM Childcare Centre Pte Limited	Singapore	Singapore	S$189,000	100	100	Operation of a pre-school in Singapore
SDM Childcare Centre (Bartley) Pte Limited	Singapore	Singapore	S$100,000	100	100	Operation of a pre-school in Singapore
SDM International Pre-school Pte Ltd	Singapore	Singapore	S$100,000	100	–	Operation of a pre-school in Singapore

Notes:

(1) 廣州樂動心弦 is a wholly foreign owned subsidiary in the PRC. In addition, no registered capital was paid as of 31 December 2019. In accordance with the memorandum and articles of association of 廣州樂動心弦, the shareholder of 廣州樂動心弦 is required to pay the registered capital up to RMB3,000,000 before 14 September 2035.

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

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

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

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

42 PARTICULARS OF PRINCIPAL SUBSIDIARIES (CONTINUED)

Changes in ownership interest in subsidiaries

During the year ended 31 December 2019, the Group has the following changes in ownership interest in subsidiaries:

1. In 2019, the Group acquired additional 5% equity interest in Columbia Group, with a total cash consideration of S$114,000 (equivalent to HK$651,000) under the sales and purchase agreement dated 29 June 2018 ("**Columbia S&P Agreement**") entered into by a wholly owned subsidiary of the Company and two independent third parties. The difference between the consideration paid and the carrying amount of the Group's additional interest in Columbia Group of HK$573,000 was debited to equity as other reserve during the year ended 31 December 2019.

2. In 2019, the Group acquired additional 10% equity interest in Tinkerland, with a total cash consideration of S$210,000 (equivalent to HK$1,207,000) under the sales and purchase agreement dated 3 October 2018 entered into by a wholly owned subsidiary of the Company and two independent third parties. The difference between the consideration paid and the carrying amount of the Group's additional interest in Tinkerland of HK$1,042,000 was debited to equity as other reserve during the year ended 31 December 2019.

3. On 30 September 2019, the Group transferred its wholly owned subsidiary, SDM Development Limited ("**SDMD**"), which has 60% equity interest of ECLC, to Prism. The Group's effective interest over SDMD and ECLC was diluted by the non-controlling interests of Prism and SDM Chatsworth and reduced to 40% and 24% respectively. The transaction was considered as a deemed disposal by the Group of its partial interest in SDMD and was regarded as an equity transaction.

During the year ended 31 December 2018, the Group had the following changes in ownership interest in subsidiaries:

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

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

42 PARTICULARS OF PRINCIPAL SUBSIDIARIES (CONTINUED)

Changes in ownership interest in subsidiaries (Continued)

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

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

Name of subsidiary	Proportion ownership interest held by non-controlling interests 2019 %	2018 %	Loss allocated to non-controlling interests 2019 HK$'000	2018 HK$'000	Accumulated non-controlling interests 2019 HK$'000	2018 HK$'000
Prism	**60**	60	**(5,721)**	(6,015)	**(11,656)**	(5,804)
ECLC	**76**	N/A	**(1,714)**	–	**79**	–
Individually immaterial subsidiaries with non- controlling interests			**(69)**	(204)	**(452)**	(687)
			(7,504)	(6,219)	**(12,029)**	(6,491)

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

	2019 HK$'000	2018 HK$'000
Current assets	**6,120**	4,820
Non-current assets	**3,055**	2,280
Current liabilities	**(18,612)**	(7,322)
Non-current liabilities	**(9,765)**	(9,451)
Equity attributable to equity shareholders of the Company	**(7,546)**	(3,869)
Non-controlling interests	**(11,656)**	(5,804)

42 PARTICULARS OF PRINCIPAL SUBSIDIARIES (CONTINUED)

Changes in ownership interest in subsidiaries (Continued)

	2019 HK$'000	2018 HK$'000
Revenue	3,357	1,937
Expenses	(12,891)	(12,851)
Loss for the year	(9,534)	(10,914)
Loss and total comprehensive income attributable to equity shareholders of the Company	(3,813)	(4,899)
Loss and total comprehensive income attributable to non-controlling interests	(5,721)	(6,015)
Capital contribution by non-controlling interests	–	4,500
Net cash outflow from operating activities	(1,784)	(8,655)
Net cash (outflow)/inflow from investing activities	(2,071)	3,000
Net cash inflow from financing activities	5,228	2,234
Net cash inflow/(outflow)	1,373	(3,421)

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

	2019 HK$'000
Current assets	5,478
Non-current assets	21,836
Current liabilities	(10,595)
Non-current liabilities	(18,587)
Equity attributable to equity shareholders of the Company	(1,947)
Non-controlling interests	79

42 PARTICULARS OF PRINCIPAL SUBSIDIARIES (CONTINUED)

Changes in ownership interest in subsidiaries (Continued)

	2019 HK$'000
Revenue	**796**
Expenses	**(3,586)**
Loss for the period from 1 August 2019 to 31 December 2019	**(2,790)**
Loss and total comprehensive income attributable to equity shareholders of the Company	**(1,076)**
Loss and total comprehensive income attributable to non-controlling interests	**(1,714)**
Net cash inflow from operating activities	**358**
Net cash outflow from investing activities	**(633)**
Net cash inflow from financing activities	**638**
Net cash inflow	**363**

43 LITIGATION

During 2017, a subsidiary of the Group was sued for failure to deliver vacant possession of a premise, where the Company used to lease it for its dance centre, to the landlord which claimed against the Company for damages. The Group considered the likehood being claimed as at 31 December 2019 was remote.

44 EVENTS AFTER THE REPORTING PERIOD

(a) On 2 January 2020, the Company and Innovax Securities Limited entered into a placing agreement for the placing of unlisted bonds issued by the Company with an aggregate principal amount of up to HK$50,000,000. One of the investors is a substantial shareholder of the Company who has committed to subscribe for HK$49,600,000 of the principal amount of such unlisted bonds. Further details of this transaction are set out in the Company's announcement dated 2 January 2020.

(b) On 17 January 2020, the Company and SDM Australian Education Limited, a wholly-owned subsidiary of the Company, entered into a subscription agreement (the "**Subscription Agreement**") with Golden Pursue Limited, an independent third party.

44 EVENTS AFTER THE REPORTING PERIOD (CONTINUED)

(b) (continued)

Pursuant to the Subscription Agreement, SDM Australian Education Limited conditionally agreed to issue and Golden Pursue Limited has conditionally agreed to subscribe for a convertible note in the principal amount of US$5,000,000 (equivalent to approximately HK$39,000,000) (the "**New Convertible Note**"). The New Convertible Note will bear coupon interest at the rate of 8% per annum. Unless previously redeemed, converted or repaid and cancelled in accordance with the terms and conditions of the Subscription Agreement, the New Convertible Note shall have a term of 48 months. Further details of this transaction are set out in the Company's announcement dated 17 January 2020.

US$5,000,000 (equivalent to approximately HK$39,000,000) and US$1,000,000 (equivalent to approximately HK$7,800,000) were received by the Company during the year ended 31 December 2019 and was included in other payables as at 31 December 2019.

(c) The acquisition of the assets of the Moriah Group was completed after the Group has paid the balance of consideration in January 2020. Details are set out in the Company's announcements dated 28 June 2019 and 30 September 2019. The Group is assessing the fair value of assets and liabilities of the Moriah Group on the completion date.

(d) The acquisition of Childrens Services Education Pty Ltd ("**CSE**") was completed after the Group has paid the balance of consideration in January 2020. Further details of this transaction 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. The Group is assessing the fair value of assets and liabilities of CSE on the completion date.

(e) Pursuant to the memorandum of understanding dated 7 August 2019 entered into between SDM Intentional Investments Pte Ltd ("**SDMII**") as purchaser and the shareholders of target entities which are composed of six private companies limited by shares incorporated in Singapore as vendors, SDMII intended to acquire all of shares of the target entities. On 21 January 2020, SDMII entered into the sale and purchase agreement with three third-party individuals. Pursuant to the sale and purchase agreement, the Group has conditionally agreed to conduct and complete the acquisition of four private companies (the "**Global Tots Group**") in full for a maximum aggregate consideration of S$7,800,000 (equivalent to approximately HK$45,000,000). The Global Tots Group provides day-care and educational services including, but not limited to, developing and running educational and enrichment programmes and providing day-care services to infant and children. The transaction constitutes a major transaction acquisition of the Company under the GEM Listing Rules and was completed on 20 April 2020. Further details of this transaction are set out in the Company's announcements dated 7 August 2019, 21 January 2020, 6 February 2020, 13 February 2020 and 6 March 2020 and 13 March 2020 and the Company's circular dated 26 March 2020. The Group is assessing the fair value of assets and liabilities of Global Tots Group on the completion date.

(f) On 11 February 2020 and 25 February 2020, the Company granted 6,380,000 share options (one share for each option) and 2,300,000 share options (one share for each option) respectively to certain eligible participants, subject to the acceptance of the grantees, under the share option scheme adopted by the Company on 26 September 2014. Further details of this transaction are set out in the Company's announcements dated 11 February 2020 and 25 February 2020.

44 EVENTS AFTER THE REPORTING PERIOD (CONTINUED)

(g) A deed of indemnity ("**Deed**") was entered into between the Company and the representative (the "**Indemnifier**") of an investment manager. The investment manager managed an investment portfolio of the Group with full discretionary investment decision. Pursuant to the Deed, in consideration of the Company continuing to maintain the accounts with the investment manager, the Indemnifier undertook with the Company that the Indemnifier should pay the Company an indemnifying amount under the terms of the Deed which was calculated as HK$7,000,000 minus the total value of all the assets (net of any liabilities) under the investment portfolio of the Company. The Company disposed of all the investments (so far as they are tradeable) covered by the Deed as at 5 March 2020. On 11 March 2020, the Company withdrew all the investment account balance totalling HK$4,179,000 and received an indemnified amount of HK$821,000 from the Indemnifier.

(h) On 1 April 2020, SDM-Ichiban Preschool Pte. Ltd., a wholly owned subsidiary of the Company, and Ichiban (Noble) Childcare Pte. Ltd and Ichiban (Yunnan) Childcare Centre (collectively "**the Ichiban Entities**") entered into a sale and purchase agreement ("**Ichiban SPA**").

Pursuant to the Ichiban SPA, the Group has conditionally agreed to purchase certain assets of the Ichiban Entities at a cash consideration of S$600,000 (equivalent to approximately HK$3,264,000). The acquisition of the assets of the Ichiban Entities was completed on 1 April 2020. Further details of this transaction are set out in the Company's announcement dated 1 April 2020 and 16 April 2020. The Group is assessing the fair value of assets of the Ichiban Entities acquired on the completion date.

(i) On 17 April 2020, SDM Management Limited, Mutual Bright Corporation Limited ("**Mutual Bright**") (a joint venture), Mr. Hung (a shareholder of Mutual Bright), SDM Academie Limited and the Company entered into a sale and purchase agreement under which SDM Management Limited shall dispose 50% of its equity interest in Mutual Bright to Mr. Hung for a consideration of HK$1.00; under the same agreement, SDM Academie Limited shall acquire the business and properties of Mutual Bright for HK$4,000,000 (the "**Second Consideration**"); and under the same agreement, SDM Management Limited shall acquire 50% equity interest in Well Team International Development Limited (a joint venture) for HK$2,000,000 (the "**Third Consideration**"). The aggregation of the Second Consideration and the Third Consideration of HK$6,000,000 shall be settled and discharged by the Company's allotment and issuance of 4,000,000 consideration shares under the general mandate granted by the shareholders of the Company on 6 May 2019 at the issue price of HK$1.50 per consideration share. Further details of this transactions are set out in the Company's announcement dated 17 April 2020.

(j) The Coronavirus Disease 2019 outbreak (the "**COVID-19 Outbreak**") since early 2020 has brought uncertainties to the economic environment and has impacted on the Group's operations and financial position.

The Group has been closely monitoring the impact of the developments of the COVID-19 Outbreak on the Group's businesses and has put in place contingency measures. These contingency measures include temporary suspension of classes, introduction of online courses and implementation of temporary cost-saving measures.

As far as the Group's businesses are concerned, the COVID-19 Outbreak has caused class suspensions and extended the course duration which would delay revenue recognition of the Group. Based on the information currently available, management estimates that this would result in a negative impact to the revenue for the financial year ending 31 December 2020. These estimated impacts have not been reflected in the financial information as of 31 December 2019. The Group is not able to estimate the financial effect as the COVID-19 Outbreak is expected to impact the Group for a period ending after the issuance of these consolidated finance statements.

45 COMPARATIVE FIGURES

Certain comparative figures for the year ended 31 December 2018 have been restated to conform with current year's presentation. The Group has initially applied HKFRS 16 at 1 January 2019 with the modified retrospective approach. Under this approach, comparative information relating to this transition is not restated. Further details are disclosed in Note 2.

46 FINANCIAL INFORMATION OF THE COMPANY

	31 December 2019 HK$'000	31 December 2018 HK$'000
Non-current assets		
Investments in subsidiaries	**92,453**	32,001
Other receivables and prepayments	**–**	368
Amounts due from subsidiaries	**94,457**	100,115
	186,910	132,484
Current assets		
Other receivables, deposits and prepayments	**2,144**	576
Amounts due from subsidiaries	**–**	34,353
Amounts due from related parties	**393**	360
Financial investments	**5,000**	3,587
Bank balances and cash	**28,194**	246
	35,731	39,122
Current liabilities		
Other payables and accrued charges	**7,302**	5,700
Amounts due to related parties	**199**	200
Amounts due to subsidiaries	**139,498**	39,796
Consideration payable	**56,710**	15,635
Bank and other borrowings	**639**	1,904
Corporate bonds	**71,000**	–
	275,348	63,235
Net current liabilities	**(239,617)**	(24,113)
Total assets less current liabilities	**(52,707)**	108,371
Non-current liabilities		
Corporate bonds	**–**	69,225
Consideration payable	**28,890**	31,565
	28,890	100,790
Net (liabilities)/assets	**(81,597)**	7,581
Capital and reserves		
Share capital	**35,410**	35,410
Reserves (Note)	**(117,007)**	(27,829)
Total equity	**(81,597)**	7,581

Particulars of the principal subsidiaries of the Company at 31 December 2019 and 2018 are set out in Note 42.

46 FINANCIAL INFORMATION OF THE COMPANY (CONTINUED)

Note: **RESERVES OF THE COMPANY**

	Share premium HK$'000	Other reserve HK$'000	Share options reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
As at 1 January 2018	66,892	(1,685)	–	(42,322)	22,885
Loss and total comprehensive income for the year	–	–	–	(50,714)	(50,714)
As at 31 December 2018	**66,892**	**(1,685)**	**–**	**(93,036)**	**(27,829)**
Grant of share options	**–**	**–**	**8,647**	**–**	**8,647**
Loss and total comprehensive income for the year	**–**	**–**	**–**	**(97,825)**	**(97,825)**
As at 31 December 2019	**66,892**	**(1,685)**	**8,647**	**(190,861)**	**(117,007)**

FINANCIAL SUMMARY

For the five years ended 31 December 2015, 2016, 2017, 2018 and 2019

RESULTS

	2015 HK$'000	2016 HK$'000	2017 HK$'000	2018 HK$'000	**2019** **HK$'000**
Revenue	56,254	61,663	64,326	76,492	**128,724**
Loss before taxation	(4,636)	(10,640)	(26,983)	(59,554)	**(105,884)**
Income tax expense	(42)	(43)	42	(170)	**(427)**
Loss for the year	(4,678)	(10,683)	(26,941)	(59,724)	**(106,311)**
Loss for the year attributable to:					
Equity shareholders of the Company	(4,528)	(10,429)	(25,702)	(53,505)	**(98,807)**
Non-controlling interests	(150)	(254)	(1,239)	(6,219)	**(7,504)**
	(4,678)	(10,683)	(26,941)	(59,724)	**(106,311)**

ASSETS AND LIABILITIES

	2015 HK$'000	2016 HK$'000	2017 HK$'000	2018 HK$'000	**2019** **HK$'000**
Total assets	70,862	69,055	186,778	191,236	**537,582**
Total liabilities	(37,194)	(47,408)	(124,948)	(183,864)	**(628,891)**
Net assets	33,668	21,647	61,830	7,372	**(91,309)**
Equity attributable to equity shareholders of the Company	33,814	22,047	63,415	13,863	**(79,280)**
Non-controlling interests	(146)	(400)	(1,585)	(6,491)	**(12,029)**
Total equity	33,668	21,647	61,830	7,372	**(91,309)**

SDM Group Holdings Limited