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Group Holdings Limited

**2020 SDM
INTERIM REPORT**

SDM Group Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

Stock code : 8363



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

FINANCIAL HIGHLIGHTS

For the six months ended 30 June 2020 (the “**Reporting Period**”), unaudited operating results of the Group were as follows:

- revenue of the Group for the Reporting Period was approximately HK\$69.5 million (2019: approximately HK\$53.0 million);
- result of the dance academy business of the Group recorded a turnaround from a loss of approximately HK\$8.2 million for the three months ended 31 March 2020 to a profit of approximately HK\$2.1 million for the three months ended 30 June 2020;
- result of the early childhood education of the Group recorded a turnaround from a loss of approximately HK\$4.2 million for the three months ended 31 March 2020 to a profit of approximately a profit of HK\$3.1 million for the three months ended 30 June 2020;
- loss for the period attributable to the owners of the Company for the Reporting Period was approximately HK\$37.5 million (2019: approximately HK\$14.5 million); and
- basic loss per share for the Reporting Period was approximately 10.55 HK cents (2019: approximately 4.10 HK cents).

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The board of Directors (the “Board”) of the Company (together with its subsidiaries, the “Group”) is pleased to present the unaudited condensed consolidated results of the Group for the six months ended 30 June 2020, together with the unaudited comparative figures for the corresponding period in 2019, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	For the three months ended 30 June		For the six months ended 30 June	
		2020	2019	2020	2019
		(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Revenue	4	37,956	27,158	69,533	53,034
Other income		14,821	7,525	18,757	10,296
Changes in inventories of finished goods		(102)	(749)	272	(571)
Finished goods purchased		(483)	(75)	(1,362)	(783)
Advertising and promotion expenses		(3,919)	(1,556)	(8,897)	(2,653)
Depreciation and amortisation		(17,388)	(9,664)	(33,030)	(19,126)
Rental expenses		(163)	–	(620)	–
Staff and teaching consultants services costs		(27,517)	(17,054)	(56,849)	(34,359)
Other expenses		(10,767)	(9,507)	(21,172)	(18,427)
Finance costs	5	(2,558)	(2,434)	(5,472)	(4,541)
Share of results of an associate		205	–	168	–
Share of results of joint ventures		(942)	358	(1,314)	187
Loss before taxation		(10,857)	(5,998)	(39,986)	(16,943)
Income tax credit	6	63	24	118	78
Loss for the period		(10,794)	(5,974)	(39,868)	(16,865)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (CONTINUED)

	Notes	For the three months ended 30 June		For the six months ended 30 June	
		2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000	2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000
Other comprehensive income items that maybe reclassified to profit or loss					
Change in fair value on financial assets at fair value through other comprehensive income, net of tax		992	131	(401)	131
Exchange differences arising on translation of foreign operations		2,418	(512)	953	(523)
Other comprehensive income for the period, net of tax		3,410	(381)	552	(392)
Total comprehensive expense for the period		(7,384)	(6,355)	(39,316)	(17,257)
Loss for the period attributable to:					
Owners of the Company		(9,473)	(4,902)	(37,496)	(14,503)
Non-controlling interests		(1,321)	(1,072)	(2,372)	(2,362)
		(10,794)	(5,974)	(39,868)	(16,865)
Total comprehensive expense for the period attributable to:					
Owners of the Company		(6,048)	(5,283)	(36,929)	(14,895)
Non-controlling interests		(1,336)	(1,072)	(2,387)	(2,362)
		(7,384)	(6,355)	(39,316)	(17,257)
Loss per share:		HK cents	HK cents	HK cents	HK cents
Basic and diluted	7	(2.66)	(1.38)	(10.55)	(4.10)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000
Non-current assets			
Property, plant and equipment	9	29,473	30,700
Goodwill	10	136,244	83,577
Intangible assets	10	25,978	13,271
Interests in joint ventures		156	156
Loans to joint ventures		993	2,307
Interest in an associate		1,370	1,252
Deposits for acquisition of subsidiaries/businesses	11	52,708	68,037
Lease receivables		3,373	17,500
Other receivables, deposits and prepayments	12	17,629	17,959
Deferred tax assets		357	357
Right-of-use assets		138,257	129,398
		406,538	364,798
Current assets			
Inventories		2,406	2,134
Lease receivables		1,245	3,941
Trade and other receivables, deposits and prepayments	12	41,594	28,629
Amounts due from related parties		19,155	7,705
Amounts due from non-controlling shareholders of subsidiaries		4,225	4,528
Financial investments	13	13,677	49,624
Bank balances and cash		70,824	76,223
Tax recoverable		55	–
		153,181	172,784
Current liabilities			
Trade and other payables, accrued charges	14	59,490	34,562
Deferred income	14	61,533	51,939
Amounts due to related parties		1,725	1,220
Amounts due to non-controlling shareholders of subsidiaries		111	116
Provisions		6,461	1,960
Tax payable		–	801
Corporate bonds	16	–	71,000
Consideration payable		56,710	56,710
Bank and other borrowings	15	12,675	5,454
Lease liabilities		56,377	44,585
		255,082	268,347
Net current liabilities		(101,901)	(95,563)
Total assets less current liabilities		304,637	269,235

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(CONTINUED)**

	Note	30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000
Capital and reserves			
Share capital		35,810	35,410
Reserves		(143,825)	(114,690)
Equity attributable to owners of the Company		(108,015)	(79,280)
Non-controlling interests		(14,416)	(12,029)
Total equity		(122,431)	(91,309)
Non-current liabilities			
Provisions		7,164	7,283
Obligation arising from put options written to non-controlling shareholders of a subsidiary		9,459	9,459
Deferred tax liabilities		2,041	2,201
Corporate bonds	16	50,000	–
Consideration payable		28,890	28,890
Convertible notes	17	235,031	204,466
Lease liabilities		94,483	108,245
		427,068	360,544
		304,637	269,235

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the Company							Total HK\$'000	Non- controlling interests HK\$'000	Total HK\$'000
	Issued 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	Accumulated (losses) HK\$'000			
At 1 January 2019 (audited)	35,410	66,892	608	-	-	3,546	(92,593)	13,863	(6,491)	7,372
Loss for the period	-	-	-	-	-	-	(14,503)	(14,503)	(2,362)	(16,865)
Exchange differences arising on translation to presentation currency	-	-	(523)	-	-	-	-	(523)	-	(523)
Change in fair value on financial assets through other comprehensive income	-	-	-	131	-	-	-	131	-	131
Gain (Loss) and total comprehensive expense for the period	-	-	(523)	131	-	-	(14,503)	(14,895)	(2,362)	(17,257)
Acquisition of subsidiaries (Note 18)	-	-	-	-	-	(1,615)	-	(1,615)	(237)	(1,852)
At 30 June 2019 (unaudited)	35,410	66,892	85	131	-	1,931	(107,096)	(2,647)	(9,090)	(11,737)
At 1 January 2020 (audited)	35,410	66,892	544	119	8,647	508	(191,400)	(79,280)	(12,029)	(91,309)
Loss for the period	-	-	-	-	-	-	(37,496)	(37,496)	(2,372)	(39,868)
Exchange differences arising on translation to presentation currency	-	-	968	-	-	-	-	968	(15)	953
Change in fair value on financial assets through other comprehensive income	-	-	-	(401)	-	-	-	(401)	-	(401)
Gain (Loss) and total comprehensive expense for the period	-	-	968	(401)	-	-	(37,496)	(36,929)	(2,387)	(39,316)
Acquisition of subsidiaries (Note 18)	-	-	-	-	-	2,194	-	2,194	-	2,194
Issue of consideration shares (Note 18)	400	5,600	-	-	-	-	-	6,000	-	6,000
At 30 June 2020 (unaudited)	35,810	72,492	1,512	(282)	8,647	2,702	(228,896)	(108,015)	(14,416)	(122,431)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	For the six months ended 30 June	
	2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000
Net cash generated from (used in) operating activities	10,950	(17,748)
Net cash used in investing activities	(12,860)	(41,007)
Net cash (used in) generated from financing activities	(6,601)	190,213
Net increase (decrease) in cash and cash equivalents	(8,511)	131,458
Cash and cash equivalents at 1 January	76,223	54,966
Effect of foreign exchange rate changes	3,112	(240)
Cash and cash equivalents at 30 June, represented by bank balances and cash	70,824	186,184
REPRESENTED BY: Bank balances and cash	70,824	186,184

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

1. GENERAL INFORMATION

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

The Company is an investment holding company and its principal subsidiaries are mainly engaged in the (i) business of jazz and ballet and pop dance academy in Hong Kong ; (ii) operation of kindergartens and preschools 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 English learning courses for adult and national accredited vocational education and training courses on early childhood educations and care in Australia.

The unaudited condensed consolidated financial statements are presented in Hong Kong dollars ("**HK\$**"), which is the same as the functional currency of the Company.

2. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements for the six months ended 30 June 2020 has been prepared in accordance with the Hong Kong Accounting Standards ("**HKAS**") 34 "Interim financial reporting" issued by the Hong Kong Institute of Certificate Public Accountants ("**HKICPA**") and the applicable disclosure requirements of the GEM Listing Rules. The unaudited condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2019, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSS**").

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

3. ADOPTION OF NEW AND REVISED HKFRSs

In the current period, the Group has adopted all the new and revised HKFRSs issued by the HKICPA that are relevant to its operations and effective for its accounting period beginning on 1 January 2020. HKFRSs comprise HKFRS and HKAS and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's financial statements and amounts reported for the current period and prior years.

4. REVENUE AND SEGMENT INFORMATION

A. Revenue for the six months ended 30 June 2020

Revenue represents the fair value of amounts received and receivable for goods sold and services provided by the Group to outside customers, less discount during relevant periods. The Group's operation is derived from jazz and ballet and pop dance academy in Hong Kong, early childhood education in Hong Kong and Singapore and provision of audit language courses in Australia during the six months ended 30 June 2020 (six months ended 30 June 2019: jazz and ballet academy and pop dance in Hong Kong and early childhood education in Hong Kong and Singapore).

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

	For the six months ended 30 June	
	2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000
Dance academy business	19,236	29,297
Early childhood education business	21,338	14,623
Adult education and training	24,386	–
Others		
— provision of swallowing and speech treatments	3,311	4,641
— provision of photographic services for children	1,215	4,460
— others	47	13
	69,533	53,034

4. REVENUE AND SEGMENT INFORMATION (CONTINUED)

B. Segment Information

During the six months ended 30 June 2019, the Group's operation was mainly derived from jazz and ballet and pop dance academy in Hong Kong and operation of kindergartens and pre-schools in Hong Kong and Singapore.

During the six months ended 30 June 2020, upon the completion of acquisition of Ability Education Pty Ltd ("**Ability Education**") and Childrens Services Education Pty Ltd ("**CSE**"), 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.

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

Adult education and training business — provision of English learning and vocational education and training 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".

4. REVENUE AND SEGMENT INFORMATION (CONTINUED)

B. Segment Information (continued)

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

Segment revenues and results

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

For the six months ended 30 June 2020

	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	19,236	21,338	24,386	4,573	69,533
Segment (loss) profit	(6,086)	(1,115)	(15,379)	1,101	(21,479)
Other income, other gains and losses					1,970
Central corporate expenses					(19,331)
Share of results of an associate					168
Share of results of joint ventures					(1,314)
Loss before taxation					(39,986)

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

The accounting policies of the operating and reportable segments are the same as the Group's accounting policies. Segment profit (loss) represents the profit earned/losses incurred by each segment without allocation of certain other gains and losses and other income, central corporate expenses and share of results of an associate and joint ventures.

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

4. REVENUE AND SEGMENT INFORMATION (CONTINUED)

B. Segment Information (continued)

Other segment information

For the six months ended 30 June 2020

	Dance academy 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	4	365	293	-	778	1,440
Government grants and subsidies	3,660	3,510	-	-	468	7,638
Amortisation of intangible assets	-	(480)	-	(253)	-	(733)
Depreciation of property, plant and equipment	(1,922)	(1,574)	(1,129)	(60)	(57)	(4,742)
Depreciation of right-of-use assets	(9,753)	(9,100)	(7,791)	-	(911)	(27,555)
Loss on disposal of PPE	(64)	(5)	-	-	-	(69)

Geographical Information

The Group's operations during six months ended 30 June 2020 are located in Australia, Hong Kong and Singapore (six months ended 30 June 2019: Hong Kong 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 six months ended 30 June		Non-current assets as at	
	2020 HK\$'000	2019 HK\$'000	30 June 2020 HK\$'000	31 December 2019 HK\$'000
Hong Kong	25,579	40,347	103,066	96,283
Australia	24,386	-	99,223	83,147
Singapore	19,568	12,687	188,575	155,318
	69,533	53,034	390,864	334,748

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

4. REVENUE AND SEGMENT INFORMATION (CONTINUED)

Geographical Information (Continued)

Information about major customer

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

5. FINANCE COSTS

	For the six months ended 30 June	
	2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000
Interest on borrowings	329	81
Interest on corporate bonds	2,693	1,860
Interest on lease liabilities	2,450	2,600
	5,472	4,541

6. INCOME TAX CREDIT

	For the three months ended 30 June		For the six months ended 30 June	
	2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000	2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000
Current tax				
— Hong Kong Profits Tax	—	—	—	—
— Singapore Corporate Income Tax ("CIT")	(5)	36	(5)	36
Deferred tax	68	(12)	123	42
	63	24	118	78

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%.

6. INCOME TAX CREDIT (CONTINUED)

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

Singapore Corporate Income Tax (“CIT”) is calculated at 17% (six months ended 30 June 2019: 17%) of the estimated assessable profit eligible for CIT rebate of 25% (six months ended 30 June 2019: 20%), capped at Singaporean dollars (“S\$”) 15,000 (six months ended 30 June 2019: S\$10,000) for the Year of Assessment 2019 and 2020. 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\$190,000 of normal chargeable income (six months ended 30 June 2019: 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 75% tax exemption on the first S\$100,000 of normal chargeable income and a further 50% tax exemption on the next S\$100,000 of normal chargeable income (six months ended 30 June 2019: 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 six months ended 30 June 2020 as such operations incurred loss for taxation purpose for 2020.

7. LOSS PER SHARE

The calculation of basic loss per share attributable to owners of the Company is based on the loss for the three months ended 30 June 2020 and six months ended 30 June 2020 attributable to owners of the Company of approximately HK\$9,473,000 and HK\$37,496,000 respectively (2019: the loss for the three months ended 30 June 2019 and six months ended 30 June 2019 attributable to owners of the Company of approximately HK\$4,902,000 and HK\$14,503,000 respectively) and the weighted average number of ordinary shares of 356,474,000 and 355,287,000 (three months ended 30 June 2019 and six months ended 30 June 2019: 354,100,000) in issue during the three months ended 30 June 2020 and the six months ended 30 June 2020 respectively.

Diluted loss per share

Diluted loss per share for the three months ended 30 June 2020 and six months ended 30 June 2020 was the same as the basic loss per share.

As there were no dilutive potential shares during the three months ended 30 June 2019 and six months ended 30 June 2019, the diluted loss per share were the same as basic loss per share.

8. DIVIDENDS

No dividend was proposed during the six months ended 30 June 2020, nor has any dividend been proposed since the end of the reporting period (for the six months ended 30 June 2019: Nil).

9. PROPERTY, PLANT AND EQUIPMENT

During the period under review, the Group acquired property, plant and equipment of approximately HK\$6,624,000 (2019: HK\$2,380,000).

10. INTANGIBLE ASSETS

The Group tests for impairment of goodwill annually and in the financial year in which the acquisition takes place, or more frequently if there are indications that goodwill might be impaired. No impairment of goodwill was recognised during the six months ended 30 June 2020 (2019: Nil).

11. DEPOSITS FOR ACQUISITION OF SUBSIDIARIES/BUSINESS

During the six months ended 30 June 2020, the Group entered into a number of 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 with 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 earnest monies/deposits which will be utilised to settle part of the purchase consideration in the future.

12. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000
Trade receivables from third parties	14,636	4,482
Rental deposits	14,295	12,385
Staff loans (Note i)	368	368
Loan receivables (Note ii)	10,549	9,886
Management fee income receivables	4,170	3,800
Other deposits, receivables and prepayments (Note iii)	15,205	15,667
Total trade and other receivables, deposits and prepayments	59,223	46,588
Analysed as		
Current	41,594	28,629
Non-current	17,629	17,595
	59,223	46,588

Note:

- (i) In 2015, staff loans with an aggregate principal amount of HK\$2,600,000 were granted to two senior staff and are required to be repaid during the years 2016 to 2020. The amount is unsecured and interest bearing at 4.65% per annum. In accordance with the repayment schedules, staff loans amounted to HK\$368,000 (31 December 2019: HK\$368,000) are required to be repaid within one year and HK\$Nil (31 December 2019: HK\$Nil) are required to be repaid after one year. Accordingly, staff loans of HK\$368,000 (31 December 2019: HK\$368,000) are classified as current assets and staff loans of HK\$Nil (31 December 2019: HK\$Nil) are classified as non-current assets.
- (ii) The loan receivable 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.
- (iii) Contract costs capitalised as at 30 June 2020 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\$7,118,000 (as at 31 December 2019: HK\$4,395,000).

12. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS (CONTINUED)

Note: (Continued)

(iii) (Continued)

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 six months ended 30 June 2020 was HK\$7,168,000 (six months ended 30 June 2019: HK\$Nil).

There was no impairment in relation to the costs capitalised during the six months ended 30 June 2020 (six months ended 30 June 2019: HK\$Nil). As at 30 June 2020, all of capitalised contract costs that is expected to be recovered within one year.

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

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

	30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000
0 to 30 days	6,293	2,914
31 to 90 days	4,081	1,018
91 to 180 days	2,883	399
181 to 365 days	1,364	151
Over 365 days	15	–
	14,636	4,482

13. FINANCIAL INVESTMENTS

	30 June 2020 HK\$'000	31 December 2019 HK\$'000
Equity securities listed in Hong Kong	4,253	13,639
Equity securities listed in United States	–	484
Equity securities/funds listed in Singapore	–	5,493
Debt securities	9,424	27,422
Structured products — equity linked note	–	2,586
	13,677	49,624

For the six months ended 30 June 2020, the loss on change in fair value of financial assets at fair value through profit or loss amounted to HK\$624,000 (30 June 2019: loss of HK\$249,000).

The debt securities investments are listed in Singapore and denominated in United States Dollar (“**US\$**”). As at 30 June 2020, the maturity dates of the listed debt securities were beyond one year after the end of reporting period (as at 31 December 2019: beyond one year after the end of reporting period). The Group considers the intention of the investments is to hold for trading.

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

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

	30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000
Trade payable	2,907	236
Accrued staff costs	2,024	2,043
Accrued interest expenses on corporate bonds	–	3,550
Accrued audit fee	1,560	2,860
Accrued construction costs	828	4,298
Customer deposits	5,369	1,828
Advance receipt arising from a new convertible note to be issued (Note 17)	–	7,800
Other payables and accrued charges	46,802	11,947
Deferred income	61,533	31,729
	121,023	66,291

15. BANK AND OTHER BORROWINGS

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

	30 June 2020 HK\$'000	31 December 2019 HK\$'000
Bank overdraft (Note b)	–	–
Securities margin loan (Note a)	–	639
Bank borrowing (Note b)	12,675	4,815
	12,675	5,454

15. BANK AND OTHER BORROWINGS (CONTINUED)

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

	30 June 2020 HK\$'000	31 December 2019 HK\$'000
Within one year	12,675	5,359
Over one year but not exceeding two years	–	95
Over two years but not exceeding five years	–	–
	12,675	5,454

Notes:

(a) Securities margin loan

This represents securities margin financing received from stock broking house which is secured by certain collateral of the Group as disclosed in note 19. Additional funds or collateral are required if the balance of the borrowing exceeds the eligible margin value of securities pledged to the broking house. The collateral can be sold at the broking houses' discretion to settle any outstanding borrowing owed by the Group. The entire loan is repayable on demand and bears variable interest at prime rate plus 0.75% per annum (31 December 2019: prime rate plus 0.75% per annum).

(b) Bank overdraft and bank borrowing

As at 30 June 2020, bank borrowing of HK\$207,000 (31 December 2019: HK\$315,000) bears variable interest at best lending rate plus 1% per annum (31 December 2019: best lending rate plus 1% per annum). The bank overdraft and bank borrowing are secured by a property of a non-executive director and also guaranteed by a non-executive director for unlimited amount (31 December 2019: a property of a non-executive director and also guaranteed by a non-executive director for unlimited amount).

As at 30 June 2020, another bank loan of HK\$4,500,000 (31 December 2019: HK\$4,500,000) bears variable interest at HIBOR plus 1.7% or the Bank's Cost of Funds, whichever is higher, per annum (31 December 2019: 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 (31 December 2019: two properties of a non-controlling shareholder of a subsidiary and also guaranteed by this non-controlling shareholder of a subsidiary for unlimited amount).

16. CORPORATE BONDS

On 11 December 2017, the Company as the issuer entered into the Placing Agreement with Pacific Foundation Securities Limited, the Placing Agent, which is an independent third party, pursuant to which the Placing Agent agreed to act as a placing agent, for the purpose of procuring, on the best effort basis, of not less than six independent 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.

As at 31 December 2019, the corporate bonds measured at amortised cost totalling HK\$71,000,000 were recorded as current liabilities. As at 6 January 2020, the corporate bonds were matured and fully repaid by the Group.

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. Details are set out in the Company's announcement dated 2 January 2020.

As at 30 June 2020, the corporate bonds measured at amortised cost totalling HK\$50,000,000 were recorded as non-current liabilities (31 December 2019: HK\$Nil).

17. CONVERTIBLE NOTES

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.

17. CONVERTIBLE NOTES (CONTINUED)

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 30 June 2020, the Convertible Note measured at fair value through profit or loss amounted to HK\$196,276,000 (31 December 2019: HK\$204,466,000) were recorded as non-current liabilities.

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.

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.

Deposit of US\$1,000,000 (equivalent to approximately HK\$7,790,000) were received by the Company during the year ended 31 December 2019 and was included in other payables as at 31 December 2019.

The remaining balance of US\$4,000,000 (equivalent to approximately HK\$31,004,000) were received by the Company during the six months ended 30 June 2020. The total principal amount of US\$5,000,000 (equivalent to approximately HK\$38,755,000) was included in non-current liabilities as at 30 June 2020.

18. ACQUISITION OF SUBSIDIARIES

Pursuant to a 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\$7,085,000). Up to 31 December 2019, the Group has paid S\$650,000 (equivalent to approximately HK\$3,765,000) to the vendors. 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.

18. ACQUISITION OF SUBSIDIARIES (CONTINUED)

Pursuant to the sale and purchase agreement dated 14 January 2019, the Group has committed to acquire the entire equity interest of Childrens Services Education Pty Ltd (“**CSE**”) at a consideration of Australian dollars (“**AUS\$**”) 3,040,000 (equivalent to approximately HK\$14,470,000), 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. The acquisition of 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.

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\$42,510,000). 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. On 13 March 2020, the Company announced that as additional time is required for the fulfillment of the conditions precedent in the sale and purchase agreement, SDMII and the vendors entered into a supplemental agreement to the sale and purchase agreement, pursuant to which SDMII and the vendors agreed to extend the long stop date from 13 March 2020 to 29 April 2020. The acquisition of the Global Tots Group 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, 6 March 2020, 13 March 2020, 26 March 2020 and 17 April 2020 and the Company’s circular dated 26 March 2020.

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\$3,270,000). 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.

18. ACQUISITION OF SUBSIDIARIES (CONTINUED)

On 17 April 2020, SDM Management Limited, Mutual Bright Corporation Limited (“**Mutual Bright**”) (a joint venture), Mr. Hung (“**Mr. Hung**”) (a shareholder of Mutual Bright), SDM Academie Limited and the Company entered into a sale and purchase agreement under which, among other things: (i) SDM Management Limited shall dispose 50% of its equity interest in Mutual Bright to Mr. Hung for a consideration of HK\$1.00; (ii) SDM Academie Limited shall acquire the business and properties of Mutual Bright for HK\$4,000,000 (the “**Second Consideration**”); and (iii) 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 by the Company 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.

19. PLEDGE OF ASSETS

	30 June 2020 HK\$’000	31 December 2019 HK\$’000
Financial investment	–	4,052
Time deposits	9,284	9,835

20. RELATED PARTY TRANSACTIONS

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

	For the six months ended 30 June	
	2020 HK\$’000	2019 HK\$’000
Rental income from related companies (Note):		
— Rainbow Creative Arts Limited	423	236
— Dunn’s Education Limited	728	740
— Sunshine Chinese Painting	100	113
— Red Vocal Limited	–	270
	1,251	1,359
Management fee income received from joint ventures	–	1,000

20. RELATED PARTY TRANSACTIONS (CONTINUED)

Note: Rainbow Creative Arts Limited is wholly-owned by Mr. Chiu Ka Lok, one of the executive Directors and a controlling shareholder of the Group. Dunn's Education Limited is owned as to 33.33% by Mr. Chiu Ka Lok. Sunshine Chinese Painting is a sole proprietorship of Ms. Yeung Siu Foon, the non-executive Director and the mother-in-law of Mr. Chiu Ka Lok. Red Vocal Limited is 50% beneficially indirectly and controlled by Mr. Chiu Ka Lok.

As at 30 June 2020, borrowings of HK\$207,000 (31 December 2019: HK\$315,000) were guaranteed by Dr. Chun Chun, a non-executive director of the Company and pledged by a property owned by Dr. Chun Chun. Dr. Chun Chun did not charge the Group for the guarantee provided and pledge of her property.

Compensation of key management personnel

The remuneration of directors and other members of key management of the Group during the six months ended 30 June 2020 and 2019 were as follows:

	For the six months ended 30 June	
	2020 HK\$'000	2019 HK\$'000
Short-term benefits	1,117	1,079
Post-employment benefits	–	–
	1,117	1,079

21. EVENT AFTER THE REPORTING PERIOD

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 and operating results for the financial year ending 31 December 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Group continues focusing on engaging in business of jazz and ballet and pop dance academy in Hong Kong childcare business in Singapore and adult English language course in Australia during the six months ended 30 June 2020 (the “**Reporting Period**”). During the Reporting Period, the Group completed the acquisition of Childrens Services Education Pty Limited (“**CSE**”) which operates two colleges in Sydney and Melbourne, Australia. CSE is a registered training organisation in Australia and a specialist provider for national accredited vocational education and training courses on early childhood education and care which included both diploma-granting and certification-granting programmes.

During the Reporting Period, competition in the dance institution industry for children in Hong Kong was intense. The Group continued to maintain and attract students to enroll in the Group’s courses by developing new courses and enhancing courses to respond to changes in market trends so as to expand the Group’s coverage and effectively market the courses to a broader base of students.

The Group implemented a strategy to enhance the Group’s current operation, which is to engage in the kindergarten business in Hong Kong by cooperating with Chatsworth East Asia (BVI) Ltd. being international kindergartens, primary and secondary schools operated under the brand “Chatsworth” in Singapore for over 20 years.

A challenging year is expected for 2020 due to the outbreak of Coronavirus Disease 2019. The Company has implemented various measures, including launch of online teaching platforms, to cope with the adverse changes in environment.

Meanwhile, the Company has also expedited its expansion in the overseas childhood education market to diversify and further broaden its source of income. The Group will adopt investment approach prudently to consider all potential mergers or acquisitions opportunities or cooperation with strong potential partners that can maximize shareholders’ return in the long term.

Financial Review

Revenue of the Group was mainly contributed 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\$16.5 million from approximately HK\$53.0 million for the corresponding period in 2019 to approximately HK\$69.5 million for the Reporting Period. The increase was mainly due to the contribution by the College Business amounting to approximately HK\$24.4 million (2019: Nil) which was acquired in the fourth quarter of 2019 and during the Reporting period. However, due to the temporary closure of dance centres in Hong Kong during the Reporting Period, the revenue from Dance Business decreased by HK\$10.1 million comparing to the corresponding period in 2019 to approximately HK\$19.2 million.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Financial Review (Continued)

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 by approximately HK\$8.5 million or 83% from approximately HK\$10.3 million for the corresponding period in 2019 to approximately HK\$18.8 million for the Reporting Period. Other income of the Group mainly comprises government grants and subsidies, management fee income, bank interest income and rental income. The increase in other income was mainly due to the increase in government grants and subsidies, from nil for the corresponding period in 2019 to approximately HK\$7.6 million in the Reporting Period.

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.

Staff and teaching consultants services costs amounted to approximately HK\$56.8 million during the Reporting Period (2019: approximately HK\$34.4 million), representing an increase by approximately 65%. The increment was mainly due to increase in the headcount in Hong Kong, Singapore and Australia for business expansion in the second half year of 2019 and during the Reporting Period.

Other operating expenses of the Group was approximately HK\$21.2 million during the Reporting Period (2019: approximately HK\$18.4 million), representing a increase of approximately 15% as compared to the corresponding period in 2019. The increase was mainly attributable to the general expenses incurred by the College Business.

The Group recorded a loss attributable to owners of the Company amounted to approximately HK\$37.5 million for the Reporting Period (2019: HK\$14.5 million).

The net loss of the Group increased by HK\$23.0 million from HK\$16.9 million for the corresponding period in 2019 to HK\$39.9 million for the Reporting Period mainly due to the decrease in revenue from Dance Business and the increase in staff costs and other operating expenses as discussed above. However, the results of Dance Business and Childhood Education Business recorded a turnaround from losses in the first quarter of 2020 to a profit of approximately HK\$2.1 million and HK\$3.1 million respectively in the second quarter of 2020 due to the increase in such revenues and implementation of cost-saving measures.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Significant Investments

As at 30 June 2019, except for the financial investments which amounted to approximately HK\$13.7 million (31 December 2019: HK\$49.6 million) as disclosed in note 13 to the Condensed Consolidated Financial Statements, there was no other significant investment held by the Group.

Liquidity and Financial Resources

The Group generally finances its operation through internally-generated cash flows, private funds, individual investors and banking facilities during the period. As at 30 June 2020, the total bank balances and cash of the Group amounted to approximately HK\$70.8 million (31 December 2019: approximately HK\$76.2 million).

There were bank and other borrowings of HK\$12.7 million (31 December 2019: HK\$5.5 million) borrowed by the Group and corporate bonds of HK\$50.0 million (31 December 2019: HK\$71.0 million as current liabilities) issued by the Company which was classified as non-current liabilities as at 30 June 2020. As at 30 June 2020, the current ratio (defined as total current assets divided by total current liabilities) was approximately 0.60 times as compared to 0.64 times as at 31 December 2019.

In addition, the Group has issued two convertible notes, one with a face value of US\$25,000,000 (equivalent to approximately HK\$195,400,000) and another one with a face value of US\$5,000,000 (equivalent to approximately HK\$39,000,000), which was classified as non-current liabilities as at 30 June 2020 (31 December 2019: one convertible note with a face value US\$25,000,000 equivalent to approximately HK\$195,400,000).

Capital Structure

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

As at 30 June 2020, the authorised share capital of the Company was HK\$800,000,000 divided into 8,000,000,000 shares of the Company (the "Shares") of HK\$0.1 each. As at 30 June 2020, the issued share capital of the Company was HK\$35,810,000 (31 December 2019: HK\$35,410,000) divided into 358,100,000 Shares (31 December 2019: 354,100,000 shares).

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.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Capital Structure (Continued)

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. 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.

As at 30 June 2020, the Group had two outstanding convertible notes with an aggregate carrying amount of approximately HK\$235.0 million (31 December 2019: HK\$204.5 million).

On 17 April 2020, SDM Management Limited, Mutual Bright Corporation Limited (“**Mutual Bright**”) (a joint venture), Mr. Hung (“**Mr. Hung**”) (a shareholder of Mutual Bright), SDM Academie Limited and the Company entered into a sale and purchase agreement under which, among other things: (i) SDM Management Limited shall dispose 50% of its equity interest in Mutual Bright to Mr. Hung for a consideration of HK\$1.00; (ii) SDM Academie Limited shall acquire the business and properties of Mutual Bright for HK\$4,000,000 (the “**Second Consideration**”); and (iii) 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 by the Company 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.

MATERIAL ACQUISITIONS

Details of material acquisitions and disposals are set out in Note 18 to the condensed consolidated financial statements.

Commitments

The contractual commitments of the Group were primarily related to the leases of its dance centres, kindergartens, pre-schools and office premises. The Group’s operating lease commitments was recognised as lease liabilities in the Condensed Consolidated Statement of Financial Position in accordance with HKFRS 16 as at 30 June 2020 and 31 December 2019.

MATERIAL ACQUISITIONS (CONTINUED)

Treasury Policies

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

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

Charge on Group's Assets

As at 30 June 2020, 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\$196,276,000 (31 December 2019: HK\$204,466,000).

The time deposits of HK\$9,284,000 (31 December 2019: HK\$9,835,000) were pledged to secure guarantees by banks issued to the landlords of properties leased by the Group for its own use.

Employees and Remuneration Policies

With an increase in the number of subsidiaries and dance centers, staff costs of the Group, including Directors' emoluments, were approximately HK\$56.8 million for the six months ended 30 June 2020 (six months ended 30 June 2019: approximately HK\$34.4 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.

Future Plans For Material Investments and Capital Assets

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

MATERIAL ACQUISITIONS (CONTINUED)

Future Plans For Material Investments and Capital Assets (Continued)

The Group has been proactive in seeking appropriate investment opportunities to expand its business scope and to diversify its existing business. Since the second half of 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 is 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 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 in Hong Kong and oversea markets.

Contingent Liabilities

As at 30 June 2020, the Group did not have any significant contingent liabilities or guarantees (31 December 2019: Nil).

OTHER INFORMATION

Disclosure of Interests

(a) *Interests of Directors and Chief executives*

As at 30 June 2020, the interests or short positions of the Directors and chief executives of the Company in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the "SFO")), which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) to be notified to the Company and the Stock Exchange pursuant to the required standards of dealing by directors as referred to in Rule 5.46 of the GEM Listing Rules were as follows:

Long positions in the Shares of the Company

Name of Directors and chief executive	Nature of interest/ Holding capacity	Number of ordinary shares held	Number of underlying shares held	Percentage of interest in the Company's issued share capital (Note 1)
Mr. Chiu Ka Lok ("Mr. Chiu")	Interest of a controlled corporation, beneficial owner and family interest	198,750,000 (Note 2)	7,082,000	57.48%
Dr. Chun Chun	Beneficial owner and family interest	198,750,000 (Note 3)	7,082,000	57.48%
Mr. Chun Chi Ngon Richard	Beneficial owner and family interest	–	7,082,000 (Note 4)	1.98%
Ms. Yeung Siu Foon	Beneficial owner and family interest	–	7,082,000 (Note 4)	1.98%

Notes:

- (1) As at 30 June 2020, the total issued share capital of the Company was HK\$35,810,000 divided into 358,100,000 Shares of HK\$0.1 each.
- (2) Wealthy Together is wholly and beneficially owned by Mr. Chiu, an executive Director and the Chairman of the Company. Mr. Chiu is deemed to be interested in 198,750,000 Shares held by Wealthy Together by virtue of his 100% shareholding interest in Wealthy Together.

OTHER INFORMATION (CONTINUED)

Disclosure of Interests (Continued)

(a) *Directors' and Chief executive's interests in Shares (Continued)*

Long positions in the Shares of the Company (Continued)

Notes: (Continued)

- (3) Dr. Chun Chun, a non-executive Director, is the spouse of Mr. Chiu and is therefore deemed to be interested in all the shares held/owned by Mr. Chiu (by himself or through Wealthy Together) by virtue of the SFO.
- (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 (as defined below). 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 30 June 2020, none of the Directors nor chief executives of the Company had or was deemed to have any other interests or short positions in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) to be notified to the Company and the Stock Exchange pursuant to the required standards of dealing by directors as referred to in Rule 5.46 of the GEM Listing Rules.

OTHER INFORMATION (CONTINUED)

Disclosure of Interests (Continued)

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

So far as is known to the Directors, as at 30 June 2020, the following entities (not being Directors or chief executive of the Company) had, or were deemed to have, interests or short positions (directly or indirectly) in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO were as follows:

Long positions in the Shares or underlying Shares of the Company

Name of Shareholder	Nature of interest/ holding capacity	Number of Shares/ underlying Shares	Percentage of interests in the Company's issued share capital
Wealthy Together	Beneficial owner	198,750,000 (Note 1)	55.50% (Note 2)
Hui Pui Cheung	Beneficial owner	49,654,000	13.87% (Note 2)
Chen Jiaxin	Interest of a controlled corporation	28,000,000	7.82% (Note 2)
Tycoon Mind Limited	Beneficial owner	28,000,000	7.82% (Note 2)

Notes:

- (1) Wealthy Together is beneficially and wholly owned by Mr. Chiu, an executive Director and the Chairman of the Company. By virtue of the SFO, Mr. Chiu is deemed to be interested in the shares held by Wealthy Together.
- (2) As at 30 June 2020, the total issued share capital of the Company was HK\$35,810,000 divided into 358,100,000 Shares of HK\$0.1 each.

Save as disclosed above, as at 30 June 2020, the Directors were not aware of any other persons (other than the Directors and the chief executive of the Company) who had, or was deemed to have, interests or short positions in the Shares or underlying Shares of the Company which fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

SHARE OPTION SCHEME

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

The maximum number of shares which may be issued upon exercise of all share options to be granted under the Share Option Scheme shall not, in the absence of shareholders' approval, in aggregate exceed 10% in nominal amount of the total number of shares in issue immediately following the completion of the offering for the listing of the shares of the Company (i.e. 20,000,000) (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 circular dated 6 May 2019 was sent to shareholders by the Company in relation to "Proposal for Refreshment of Share Option Scheme Mandate Limit and Notice of Extraordinary General Meeting" (the "**May Circular**"). Pursuant to the Circular, the Company proposes to seek the approval of the shareholders of the Company to approve the Refreshment (as defined in the 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 at the Latest Practicable Date (as defined in the May Circular), assuming that the number of Shares in issue remains unchanged prior to the date of the extraordinary general meeting to be held by the Company on 27 May 2019 (the "**2019 May EGM**"). The Refreshment is approved by the Shareholders of the Company at the 2019 May EGM.

Pursuant to the 2019 May EGM, the Company granted 24,787,000 share options (one share for each option) at an exercise price of HK\$1.10 per share on 4 October 2019 to the Directors, substantial shareholders of the Company and their associates, certain employees of the Company and its subsidiaries and 10,623,000 share options (one share for each option) at an exercise price of HK\$1.00 per share on 11 October 2019 to certain consultants of the Company, 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 4 October 2019 and 11 October 2019 respectively.

SHARE OPTION SCHEME (CONTINUED)

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 (one share for each option) at an exercise price of HK\$1.20 per share on 11 February 2020 to certain full-time employees of the subsidiaries of the Company and business partners and consultants of the Company and 2,300,000 share options (one share for each option) at an exercise price of HK\$1.44 per share on 25 February 2020 to certain consultants and full-time employees of the subsidiaries of the Company, 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 respectively.

As at 30 June 2020, the Company had 43,590,000 outstanding share options under the Share Option Scheme carrying rights for the holders thereof to subscribe for an aggregate of 43,590,000 new Shares, details of movements of which are set out below:

Date of grant	Owners/Grantees	Number of share options					At 30 June 2020	Exercise period	Exercise Price HK\$
		At 1 Jan 2020	Granted	Exercised	Lapsed	Cancelled			
4 October 2019	Directors								
	- Mr. Chiu Ka Lok	3,541,000	-	-	-	-	3,541,000	4 October 2019 to 3 October 2022	1.10
	- Mr. Chun Chi Ngan 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
	Consultants	10,623,000	-	-	-	-	10,623,000	11 October 2019 to 10 October 2022	1.00
11 February 2020	Employees	-	3,280,000	-	500,000*	-	2,780,000	11 February 2020 to 10 February 2023	1.20
	Consultants	-	2,100,000	-	-	-	2,100,000	11 February 2020 to 10 February 2023	1.20
	Businer partner	-	1,000,000	-	-	-	1,000,000	11 February 2020 to 10 February 2023	1.20
25 February 2020	Employees	-	300,000	-	-	-	300,000	25 February 2020 to 24 February 2023	1.44
	Consultants	-	2,000,000	-	-	-	2,000,000	25 February 2020 to 24 February 2023	1.44
		35,410,000	8,680,000	-	500,000	-	43,590,000		

* During the three months ended 30 June 2020, an employee who was granted 500,000 options resigned from the position and left the Group.

COMPETING INTERESTS

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

NON-COMPETITION UNDERTAKINGS

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

For the year ended 31 December 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.

CODE OF CORPORATE GOVERNANCE PRACTICES

The Company endeavors to adopt prevailing best corporate governance practices. For the six months ended 30 June 2020, the Company had complied with all the code provisions set out in the Corporate Governance Code as contained in Appendix 15 of the GEM Listing Rules and there has been no deviation in relation thereto.

NON-COMPLIANCE WITH THE GEM LISTING RULES

Following the retirement of Mr. Lau Sik Yuen as an independent non-executive Director in the annual general meeting held on 22 June 2020, the Company has only two independent non-executive Directors, the number of which falls below the minimum number required under Rules 5.05(1) and 5.28 of the GEM Listing Rules. In order to comply with the requirements under the GEM Listing Rules, the Company will use its best endeavour to identify suitable candidate to fill up the vacancy arising from the retirement of Mr. Lau as soon as practicable and in any event within three months from 22 June 2020 as required under Rules 5.06 and 5.33 of the GEM Listing Rules, and will make further announcement as and when appropriate.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by the Directors (the "**Code of Conduct**") on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules (the "**Required Standard Dealings**"). The Company had also made specific enquiry of all the Directors and each of them was in compliance with the Code of Conduct and Required Standard Dealings during the Reporting Period. Further, the Company was not aware of any non-compliance with the required standard of dealings regarding securities transactions by the Directors for the six months ended 30 June 2020.

PURCHASE, SALE OR REDEMPTION OF SHARES

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

AUDIT COMMITTEE

The interim results during the Reporting Period are unaudited and not reviewed by the external auditors of the Company. The Company's Audit Committee, comprising Dr. Yuen Man Chun Royce and Mr. Chak Shi Shing, as the independent non-executive Directors, has reviewed with the Company's management the accounting principles and practices adopted by the Group and financial reporting matters including a review of the unaudited consolidated results of the Group for the six months ended 30 June 2020. There were no disagreements within the Audit Committee in relation to the accounting treatment adopted by the Company.

BOARD OF DIRECTORS

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

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

Hong Kong, 14 August 2020