

SDM

Education Group

2022 SDM

THIRD QUARTERLY REPORT

SDM Education Group Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

Stock code : 8363



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FINANCIAL HIGHLIGHTS

For the nine months ended 30 September 2022, unaudited operating results of the Company together with its subsidiaries (the “**Group**”) were as follows:

- revenue of the Group for the nine months ended 30 September 2022 was approximately HK\$111.5 million (2021: approximately HK\$138.4 million);
- loss for the period attributable to the shareholders of the Company for the nine months ended 30 September 2022 amounted to approximately HK\$10.1 million as compared to a profit of approximately HK\$88.2 million for the corresponding period last year; and
- basic loss per share for the nine months ended 30 September 2022 was approximately (2.20) HK cents (2021: basic earnings per share of approximately 22.92 HK cents).

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The board of Directors (the "Board") of the Company (together with its subsidiaries, the "Group") is pleased to present the unaudited condensed consolidated results of the Group for the three months ended 30 September 2022 and the nine months ended 30 September 2022, together with the unaudited comparative figures for the corresponding period in 2021, as follows:

CONDENSED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three months and nine months ended 30 September 2022 (Unaudited)

	Notes	For the three months ended 30 September		For the nine months ended 30 September	
		2022 (Unaudited) HK\$'000	2021 (Unaudited) HK\$'000	2022 (Unaudited) HK\$'000	2021 (Unaudited) HK\$'000
Revenue	4	42,333	46,773	111,547	138,413
Other income		22,350	22,016	44,551	39,991
Changes in inventories of finished goods		(254)	(472)	(167)	(292)
Finished goods purchased		(4,913)	(3,995)	(7,951)	(6,568)
Advertising and promotion expenses		(1,926)	(1,988)	(3,548)	(5,208)
Depreciation and amortisation		(13,286)	(13,922)	(41,898)	(44,125)
Staff and teaching consultants services costs		(30,592)	(27,617)	(81,996)	(88,377)
Other expenses		(8,270)	(10,647)	(23,871)	(29,999)
(Loss)/gain on change in fair value of consideration payables	5	-	(2,343)	-	103,005
Share option expenses		(165)	(1,005)	(385)	(5,822)
Finance costs	6	(1,394)	(3,654)	(5,976)	(11,624)
Share of results of an associate		(164)	(1)	(266)	55
Share of results of joint ventures		(107)	(763)	(501)	(443)
Profit/(loss) before taxation		3,612	2,382	(10,461)	89,006
Income tax credit	7	443	166	410	285
Profit/(loss) for the period		4,055	2,548	(10,051)	89,291

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

For the three months and nine months ended 30 September 2022 (Unaudited)

	Notes	For the three months ended 30 September		For the nine months ended 30 September	
		2022 (Unaudited) HK\$'000	2021 (Unaudited) HK\$'000	2022 (Unaudited) HK\$'000	2021 (Unaudited) HK\$'000
Other comprehensive income					
Item that maybe reclassified to profit or loss					
Change in fair value on financial assets at fair value through other comprehensive income, net of tax		-	-	-	-
Exchange differences arising on translation of foreign operations		1,378	4,522	7,756	6,270
Other comprehensive income for the period, net of tax		1,378	4,522	7,756	6,270
Total comprehensive income for the period		5,433	7,070	(2,295)	95,561
Profit/(Loss) for the period attributable to:					
Owner of the Company		5,490	2,220	(10,051)	88,182
Non-controlling interests		(1,435)	328	-	1,109
		4,055	2,548	(10,051)	89,291
Total comprehensive income/(loss) for the period attributable to:					
Owner of the Company		7,141	7,334	(663)	95,367
Non-controlling interests		(1,708)	(264)	(1,632)	194
		5,433	7,070	(2,295)	95,561
		HK cents	HK cents	HK cents	HK cents
Earnings/(loss) per share:					
Basic and diluted	8	1.19	0.57	(2.20)	22.92

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended 30 September 2022

1. GENERAL INFORMATION

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

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

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

2. BASIS OF PREPARATION

The unaudited condensed consolidated financial statement for the nine months ended 30 September 2022 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 2021, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSS**").

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

3. ADOPTION OF NEW AND REVISED HKFRSs

In the current period, the Group has adopted all the new and revised HKFRSs issued by the HKICPA that are relevant to its operations and effective for its accounting period beginning on 1 January 2022. 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.

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

4. REVENUE AND SEGMENT INFORMATION

Revenue represents the fair value of amounts received and receivable for goods sold and services provided by the Group to outside customers, less discount during relevant periods. The Group's operation is derived from jazz and ballet and pop dance academy in Hong Kong, early childhood education in Hong Kong and Singapore during the current period.

For the purpose of resources allocation and performance assessment, the chief operating decision maker ("**CODM**") (i.e. the chief executive officer of the Group) has reviewed the overall results and financial position of the Group as a whole. Specifically, the Group's reportable segments under HKFRS 8 are as follows:

Dance academy business — jazz and ballet and pop dance academy in Hong Kong.

Early childhood education business — operation of kindergartens and preschools in Hong Kong and Singapore.

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

The Group's adult education and training business in Australia was discontinued in 2021.

4. REVENUE AND SEGMENT INFORMATION (CONTINUED)

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

	For the three months ended 30 September		For the nine months ended 30 September	
	2022 (Unaudited) HK\$'000	2021 (Unaudited) HK\$'000	2022 (Unaudited) HK\$'000	2021 (Unaudited) HK\$'000
Dance academy business	14,117	19,918	31,117	54,517
Early childhood education business	25,352	23,918	73,448	69,588
Adult education and training business (discontinued)	-	(98)	-	6,273
Others				
— provision of swallowing and speech treatments	707	719	3,186	3,034
— provision of photographic services	2,157	2,316	3,796	5,001
	42,333	46,773	111,547	138,413

4. 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 nine months ended 30 September 2022

	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	31,117	73,448	–	6,982	111,547
Segment (loss)/profit	(8,641)	13,245	–	761	5,365
Other income, other gains and losses					5,004
Central corporate expenses					(19,678)
Share option expenses					(385)
Share of results of an associate					(266)
Share of results of joint ventures					(501)
Loss before taxation					(10,461)

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 or 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)

Other segment information

For the nine months ended 30 September 2022

	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	-	114	-	-	114
Government grants and subsidies	2,950	3,637	327	-	6,914
Amortisation of intangible assets	(458)	(2,486)	(174)	-	(3,118)
Depreciation of property, plant and equipment	(2,551)	(2,293)	(20)	(76)	(4,940)
Depreciation of right-of-use assets	(14,764)	(17,806)	-	(1,270)	(33,840)
Interest on lease liabilities	(1,003)	(2,766)	-	(34)	(3,803)
Share of results of associates	-	-	-	(266)	(266)
Share of results of joint venture	-	-	-	(501)	(501)

Geographical Information

The Group's operations during the current period are located in Hong Kong and Singapore.

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

	For the three months ended 30 September		For the nine months ended 30 September	
	2022 (Unaudited) HK\$'000	2021 (Unaudited) HK\$'000	2022 (Unaudited) HK\$'000	2021 (Unaudited) HK\$'000
Hong Kong	22,049	24,362	45,899	65,784
Singapore	20,284	22,509	65,648	66,356
Australia (discontinued)	-	(98)	-	6,273
	42,333	46,773	111,547	138,413

Information about major customer

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

5. GAIN ON CHANGE IN FAIR VALUE OF CONSIDERATION PAYABLE

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 (BVI) Limited (“**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 (“**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 and Stage Production House Limited (collectively refer to as the “**Global Win Group**”).

The Global Win Consideration Payable is recognised at fair value. Subsequent to the initial recognition, the Global Win Consideration Payable is measured at fair value with changes in fair value recognised in profit or loss. The fair value of the Global Win 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. During the year ended 31 December 2020 and 31 December 2021, 26,500,000 shares and 53,500,000 shares, respectively were issued. As at 30 September 2021, the fair value of the remaining 53,500,000 consideration shares is HK\$11,880,000 (31 December 2020: HK\$128,400,000) which is determined by reference to the quoted market price of HK\$0.22 (31 December 2020: HK\$2.40) per each of the ordinary shares of the Company at 30 September 2021. The Group recognised a gain on change in fair value of Global Win Consideration Payable of HK\$103,005,000 in profit or loss during the nine months ended 30 September 2021. Since the Consideration Payable has been fully settled in the prior years, no fair value change thereof was recognised for the current period.

Since the Consideration Payable has been fully settled in the prior years, no fair value change thereof was recognised for the current period.

6. FINANCE COSTS

	For the three months ended 30 September		For the nine months ended 30 September	
	2022	2021	2022	2021
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Interest on borrowings	578	2,417	2,173	2,525
Interest on corporate bonds	-	313	-	5,415
Interest on lease liabilities	816	924	3,803	3,684
	1,394	3,654	5,976	11,624

7. INCOME TAX (EXPENSE)/CREDIT

	For the three months ended 30 September		For the nine months ended 30 September	
	2022	2021	2022	2021
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Current tax				
— Hong Kong Profits Tax	-	(1)	(122)	(103)
— Singapore Corporate Income Tax ("CIT")	6	(135)	(9)	(525)
Deferred tax	437	302	541	913
	443	166	410	285

The provision for Hong Kong Profits Tax for 2022 is calculated at 16.5% (2021: 16.5%) of the estimated assessable profits for the year, except for one subsidiary of the Group which is a qualifying corporation under the two-tiered profits tax rates regime. Under the two-tiered profits tax rates regime, the first HK\$2,000,000 of profits of qualifying entities are taxed at 8.25%, and the profits above HK\$2,000,000 are taxed at 16.5%. The provision for Hong Kong Profits Tax for this subsidiary was calculated at the same basis in 2021.

7. INCOME TAX CREDIT/(EXPENSE) (CONTINUED)

Singapore CIT is calculated at 17% (2021: 17%) of the estimated assessable profit. 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 from year of assessment 2020 onwards. 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\$200,000 of normal chargeable income from year of assessment 2020 onwards.

No provision for corporate tax has been made for the Group's operation in Australia for the nine months ended 30 September 2021 as such operations incurred loss for taxation purpose for 2021.

8. (LOSS)/EARNINGS PER SHARE

The calculation of basic earnings per share attributable to owners of the Company is based on the profit for the three months ended 30 September 2022 and loss for the nine months ended 30 September 2021 attributable to owners of the Company of approximately HK\$5,655,000 and HK\$9,886,000 respectively (2021: the profit for the three months ended 30 September 2021 and the nine months ended 30 September 2021 attributable to owners of the Company of approximately HK\$2,220,000 and HK\$88,182,000 respectively) and the weighted average number of ordinary shares of 457,600,000 and 457,600,000 (2021: weighted average number of ordinary shares of the three months ended 30 September 2021 and nine months ended 30 September 2021: 409,084,000 and 392,851,000 respectively) in issue during the three months ended 30 September 2022 and nine months ended 30 September 2022 respectively.

Diluted earnings per share

Diluted earnings per share for the three months ended 30 September 2021 and 2022 and nine months ended 30 September 2021 and 2022 was the same as the basic loss per share.

9. DIVIDENDS

No dividend was proposed during the nine months ended 30 September 2022, nor has any dividend been proposed since the end of the reporting period (for the nine months ended 30 September 2021: Nil).

10. RESERVES

	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	Total HK\$'000	Non- controlling interests HK\$'000	Total HK\$'000
At 1 January 2021 (audited)	38,460	133,707	(5,868)	-	9,790	(2,080)	(502,132)	(328,123)	(2,534)	(330,657)
Profit for the period	-	-	-	-	-	-	88,182	88,182	1,109	89,291
Exchange differences arising on translation to presentation currency	-	-	7,185	-	-	-	-	7,185	(915)	6,270
Total comprehensive income for the period	-	-	7,185	-	-	-	88,182	95,367	194	95,561
Grant of share options	-	-	-	-	5,822	-	-	5,822	-	5,822
Issue of consideration shares	-	10,865	-	-	-	-	-	10,865	-	10,865
At 30 September 2021 (unaudited)	38,460	144,572	1,317	-	15,612	(2,080)	(413,950)	(216,069)	(2,340)	(218,409)
	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	Total HK\$'000	Non- controlling interests HK\$'000	Total HK\$'000
At 1 January 2022 (audited)	45,760	158,522	(204)	31,566	14,842	(13,669)	(463,631)	(226,814)	8,624	(218,190)
Loss for the period	-	-	-	-	-	-	(10,051)	(10,051)	-	(10,051)
Exchange differences arising on translation to presentation currency	-	-	9,388	-	-	-	-	9,388	(1,632)	7,756
Profit (Loss) and total comprehensive loss for the period (restated)	-	-	9,388	-	-	-	(10,051)	(663)	(1,632)	(2,295)
Grant of share options	-	-	-	-	385	-	-	385	-	385
Lapse of share options	-	-	-	-	(1,195)	-	1,195	-	-	-
At 30 September 2022 (unaudited)	45,760	158,522	9,184	31,566	14,032	(13,669)	(472,487)	(227,092)	6,992	220,100

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.

During the nine months ended 30 September 2022 (the “**Reporting Period**”), the Group had 23 wholly-owned dance centres, one kindergarten in Hong Kong and 14 pre-schools in Singapore. Besides offering wide range of dance courses for children generally between the age of 2 and 16, the Group also develops operations of day care centres, kindergartens and enrichment courses in Singapore. 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

Hong Kong

The Group continues focusing on engaging in business of jazz and ballet and pop dance academy in Hong Kong, and early childhood education business in Hong Kong and Singapore. 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.

Due to the pandemic of COVID-19, all the dance centres of the Group have been closed since January 2022 in order to comply with HKSAR government’s anti-epidemic regulations and measures. Therefore, the revenue from this segment decreased significantly for the Reporting Period. The dance centres were re-opened in April 2022 and the operations resumed back to normal since then.

Singapore

Despite the outbreak of the COVID-19 pandemic since 2020, the school hours in Singapore were not affected to a large extent. The students continue having lectures and tutorials at school. Together with the Government support, the performance of the Group’s early childhood education business in Singapore was only slightly affected by the outbreak of the COVID-19 pandemic. The performance has been improving gradually since 2021. As at 30 September 2022, the number of enrollment was approximately 1,100 out of total capacity of approximately 1,600.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Business Review (Continued)

Australia

The outbreak of COVID-19 pandemic brought adverse impact to the business in Australia. As most of the customers are overseas students, the total number of students dropped significantly as a result of the boundary lockdown in Australia. This resulted in a significant and adversely affected the financial performance of the business in Australia. In 2021, the Group is in the view that release of travel restrictions amongst different countries may still take a long period of time. In order to minimize costs and release the Group from future cash flow burden, the Group has ceased its operation in Australia in April 2021. However, the Group is still optimistic in the education market in Australia. The Group will not give up seeking opportunities in Australia if the haze of COVID-19 is eliminated and travel between different countries resumes to be normal.

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 for the Reporting Period was mainly contributed by (i) dance academy business in Hong Kong (the "**Dance Academy Business**") and (ii) early childhood education business in Hong Kong and Singapore (the "**Early Childhood Education Business**"). Total revenue decreased by approximately HK\$26.9 million from approximately HK\$111.5 million for the corresponding period in 2021 to approximately HK\$138.4 million for the Reporting Period. The decrease was mainly due to the contribution by the decrease in revenue from Dance Academy Business in Hong Kong decreased from approximately HK\$54.5 million for the corresponding period last year to approximately HK\$31.1 million for the nine months ended 30 September 2022, representing a decrease by approximately HK\$23.4 million or approximately 43%.

Other income of the Group was approximately HK\$44 million (2021: HK\$40 million). Other income of the Group mainly comprises the management fee income, franchise fee income, sublease rental income, examination handling income, government grants and rent concessions.

Staff and teaching consultants services costs amounted to approximately HK\$81.9 million during the Reporting Period (2021: approximately HK\$88.3 million), representing a decrease by approximately 7%. The decrease was mainly due to reduce salaries during the Reporting Period.

Other operating expenses of the Group was approximately HK\$24.7 million during the Reporting Period (2021: approximately HK\$29.9 million), representing a decrease of approximately 17% as compared to the corresponding period in 2021. The decrease was mainly due to the cessation of operations in Australia since April 2021.

The Group recorded a loss attributable to owners of the Company for the Reporting Period of approximately HK\$10.1 million as compared to a profit of approximately HK\$89.2 million for the corresponding period of last year. The change from profit to loss was mainly due to decrease in revenue from Dance Academy Business as mentioned above and absence of gain on change in fair value of consideration payables during the Reporting Period (2021: gain on change in fair value of consideration payables of approximately HK\$103.0 million).

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Discontinued Operations

As mentioned under “Business Review”, the Group has ceased its business operations in Australia since April 2021. The amounts of revenues from such business – adult education and training business were nil and approximately HK\$6.3 million for the Reporting Period and for the nine months ended 30 September 2021, respectively. The loss from these discontinued operations attributable to the owners of the Group was nil and approximately HK\$4.5 million for the Reporting Period and for the nine months ended 30 September 2021, respectively.

Potential Settlement of Convertible Note

On 11 January 2022, SDM Asia Limited, the wholly-owned subsidiary of the Company, being the issuer (the “**Issuer**”) of the convertible note in the principal amount of US\$25 million (the “**Convertible Note**”), and the Company received the letter from the legal adviser of the noteholder of the Convertible Note (the “**Noteholder**”), requesting to redeem the Convertible Note upon certain events of default (the “**EOD Redemption Notice**”). After consulting the legal adviser of the Group, the Issuer and the Company jointly issued a letter to the Noteholder, pursuant to which the Group reiterated its view that no events of default had occurred.

On 23 February 2022, a purported deed of appointment of receivers of the security documents related to the Convertible Note was alleged to have been executed by the Noteholder. The Noteholder attempted to appoint two receivers (the “**Receivers**”) to take over the Company’s rights and interest in the shares of the Issuer. After consulting legal advice from the legal adviser of the Group, the Company issued a letter to the Issuer’s register agent reaffirming that no events of default had occurred and the purported appointment of Receivers was therefore invalid.

During the course of finalizing the annual results of the Company for the year ended 31 December 2021, the Company considered it is unlikely the Convertible Note will be converted by the Noteholder and the Company will therefore be required to settle the Convertible Note in cash upon its maturity on 31 March 2023. In addition, the Company intends to maintain a healthy cash balance to cater for any further impact of COVID-19 to the business operations of the Company. As such, the Company initiated a discussion with the Noteholder to explore the possibility of settlement of the Convertible Note.

The Company and the Noteholder have recently come to a preliminary understanding of the settlement of the Convertible Note by way of a disposal of certain subsidiary, transfer of assets or in cash, or a combination of the above, as consideration for the settlement of the Convertible Note to the Noteholder. The Company will actively communicate with the Noteholder regarding the settlement of the Convertible Note and take any measures to safeguard the interests of the Company in a timely manner as and when appropriate.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Potential Settlement of Convertible Note (Continued)

Please refer to the Company's announcement dated 14 April 2022 for details.

As of the date of this report, no formal agreements in relation to the settlement of the Convertible Note has been entered between the Issuer and the Noteholder.

Capital Structure

As at 30 September 2022, the authorised share capital of the Company was HK\$800,000,000, divided into 8,000,000,000 shares (the "Shares") of HK\$0.1 each. As at 30 September 2022 and 31 December 2021, the issued share capital of the Company was HK\$45,760,000, divided into 457,600,000 shares of HK\$0.1 each.

As at 31 December 2021, the Group has outstanding convertible notes with carrying amount of approximately HK\$281.8 million. The convertible note with face value of US\$25 million (equivalent to HK\$194.9 million) carries interest at 8% per annum and will mature on 31 March 2023. The convertible note with face value of USD5.85 million (equivalent to HK\$45.6 million) carries interest at 8% per annum and will mature on 16 January 2024. The repayment of the convertible notes is guaranteed by the Company.

As at 30 September 2022, the Group had outstanding convertible notes with carrying amount of approximately HK\$267.6 million (2021: HK\$290.8 million). The convertible note with face value of US\$25 million (equivalent to HK\$250.7 million) carries interest at 8% per annum and will mature on 31 March 2023. The convertible note with face value of approximately USD6.4 million (equivalent to approximately HK\$16.9 million) carries interest at 8% per annum and will mature on 30 April 2024. The repayment of the convertible notes is guaranteed by the Company.

Charges on the Group's Assets

As at 30 September 2022 and 2021, the entire shares in SDM Asia Limited and SDM Australian Education Limited held by the Group were pledged as securities for the two convertible notes which the details are mentioned under the section "Capital Structure" as above.

MATERIAL ACQUISITIONS

No material acquisitions were taken place during the Reporting Period.

SIGNIFICANT INVESTMENTS

As at 30 September 2022, there were no significant investments held by the Group (2021: Nil).

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

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

The Group has been proactive in seeking appropriate investment opportunities to expand its business scope and to diversify its existing business. The Group officially stepped foot on the mainstream education market overseas through its proposed acquisition of several pre-schools in Singapore since 2018 and education business in Australia since 2019.

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 a excellent investment opportunity for the Group to further establish its position in education and related businesses.

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

MATERIAL EVENTS AFTER THE REPORTING DATE

There are no material events after the Reporting Period.

CONTINGENT LIABILITIES

As at 30 September 2022, the Group did not have any significant contingent liabilities (2021: Nil).

OTHER INFORMATION

Disclosure of Interests

(a) *Interests of Directors and chief executives*

As at 30 September 2022, the interests or short positions of the Directors and chief executives of the Company in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the "SFO")), which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) to be notified to the Company and the Stock Exchange pursuant to the required standards of dealings by Directors as referred to in rule 5.46 of the GEM Listing Rules were as follows:

Long positions in the Shares of the Company

Name of 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	278,750,000 (Note 2)	7,082,000	62.46%
Dr. Chun Chun	Beneficial owner and family interest	278,750,000 (Note 3)	7,082,000	62.46%
Mr. Chun Chi Ngon Richard	Beneficial owner and family interest	–	7,082,000 (Note 4)	1.55%
Ms. Yeung Siu Foon	Beneficial owner and family interest	–	7,082,000 (Note 4)	1.55%

OTHER INFORMATION (CONTINUED)

Disclosure of Interests (Continued)

(a) **Interests of Directors and chief executives (Continued)**

Long positions in the Shares of the Company (Continued)

Notes:

- (1) As at 30 September 2022, the total issued share capital of the Company was HK\$45,760,000 divided into 457,600,000 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. Mr. Chiu Ka Lok beneficially owned 24,000,000 shares and Dr. Chun Chun being the spouse of Mr. Chiu Ka Lok, beneficially owned 56,000,000 shares. By virtue of the SFO Mr. Chiu Ka Lok is deemed to be interested in 278,750,000 shares.
- (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 September 2022, none of the Directors nor chief executives of the Company had or was deemed to have any other interests or short positions in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) to be notified to the Company and the Stock Exchange pursuant to the required standards of dealings by Directors as referred to in rule 5.46 of the GEM Listing Rules.

OTHER INFORMATION (CONTINUED)

Disclosure of Interests (Continued)

(b) **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 30 September 2022, the following entities (not being Directors or chief executive of the Company) had, or were deemed to have, interests or short positions (directly or indirectly) in the Shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to section 336 of the SFO were as follows:

Long positions in the Shares or underlying Shares of the Company

Name of substantial Shareholder	Nature of interest/ holding capacity	Number of shares/ underlying shares	Percentage of interests in the Company's issued share capital
Wealthy Together	Beneficial owner	198,750,000 (Note 1)	43.43% (Note 2)
Hui Pui Cheung	Beneficial owner	39,980,000	8.74% (Note 2)
Chen Jiaxin	Interest of a controlled corporation	28,000,000	6.12% (Note 2)
Tycoon Mind Limited	Beneficial owner	28,000,000	6.12% (Note 2)

Notes:

- (1) Wealthy Together is beneficially and wholly-owned by Mr. Chiu, an executive Director and the Chairman of the Company. By virtue of the SFO, Mr. Chiu is deemed to be interested in the shares held by Wealthy Together.
- (2) As at 30 September 2022, the total issued share capital of the Company was HK\$45,760,000, divided into 457,600,000 Shares of HK\$0.1 each.

Save as disclosed above, as at 30 September 2022, 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.

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.

SHARE OPTION SCHEME (CONTINUED)

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, 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 and 26,730,000 share options at an exercise price of HK\$0.80 per share on 15 June 2021 to certain employees, supplier and business partners 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, 25 February 2020 and 15 June 2021 respectively.

As at 30 September 2022, the Company had 54,797,000 outstanding share options under the Share Option Scheme carrying rights for the holders thereof to subscribe for an aggregate of 54,797,000 new Shares, details of movements of which are set out below:

Date of grant	Owners/Grantees	Number of share options					At 30 September 2022	Exercise period	Exercise Price HK\$
		At 1 January 2022	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 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 February 2020	Employees	980,000	-	-	-	-	980,000	11 February 2020 to 10 February 2023	1.20
	Consultants	2,100,000	-	-	(2,100,000)	-	-	11 February 2020 to 10 February 2022	1.20
	Business partner	1,000,000	-	-	(1,000,000)	-	-	11 February 2020 to 10 February 2022	1.20
25 February 2020	Employee	300,000	-	-	-	-	300,000	1 January 2023 to 24 February 2023	1.44
	Consultants	2,000,000	-	-	-	-	2,000,000	1 January 2023 to 24 February 2023	1.44
15 June 2021	Employees	15,192,000	-	-	-	-	15,192,000	15 June 2021 to 14 June 2024	0.40
	Supplier	3,846,000	-	-	-	-	3,846,000	15 June 2021 to 14 June 2024	0.40
	Business partner	7,692,000	-	-	-	-	7,692,000	15 June 2021 to 14 June 2024	0.40
		57,897,000	-	-	(3,100,000)	-	54,797,000		

COMPETING INTERESTS

The Directors are not aware of any business or interest of the Directors or the controlling Shareholders 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 the Group) not to directly or indirectly be involved in or undertake any business that directly or indirectly competes, or may compete, with the Group's business or undertaking, or hold shares or interest in any companies or business that compete directly or indirectly with the business engaged by the Group from time to time except where the controlling Shareholders hold less than 5% of the total issued share capital of any company (whose shares are listed on the Stock Exchange or any other stock exchange) which is engaged in any business that is or may be in competition with any business engaged by any member of the Group.

For the year ended 31 December 2021, the Company has received an annual written confirmation from each of the controlling Shareholders 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 nine months ended 30 September 2022, the Company had complied with all the code provisions set out in the Corporate Governance Code as contained in Appendix 15 of the GEM Listing Rules and there has been no deviation in relation thereto.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by the Directors (the **"Code of Conduct"**) on terms no less exacting than the required standard of dealings set out in rules 5.48 to 5.67 of the GEM Listing Rules (the **"Required Standard of Dealings"**). The Company had also made specific enquiry of all the Directors and each of them was in compliance with the Code of Conduct and Required Standard of Dealings during the Reporting Period. Further, the Company was not aware of any non-compliance with the required standard of dealings regarding securities transactions by the Directors for the nine months ended 30 September 2022.

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 financial information in this report has not been audited by the auditor of the Company. The Company's audit committee (the "**Audit Committee**"), comprising Dr. Hung Siu Ying Patrick, Dr. Kao Ping Suen and Mr. Chak Shi Shing being the independent non-executive Directors, has reviewed with the Company's management the accounting principles and practices adopted by the Group and financial reporting matters including a review of the unaudited consolidated results of the Group for the nine months ended 30 September 2022. 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), Mr. Chun Chi Ngon Richard (Chief Executive Officer) and Dr. Chun Chun as the executive Directors, Ms. Yeung Siu Foon as the non-executive Director and Dr. Hung Siu Ying Patrick, Dr. Kao Ping Suen and Mr. Chak Shi Shing, as the independent non-executive Directors.

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

Hong Kong, 14 November 2022