SDM 爵士芭蕾舞學院 Jazz & Ballet Academie

SDM Group Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8363)

SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO MAJOR TRANSACTION ACQUISITION OF THE ENTIRE EQUITY INTEREST IN THE GLOBAL TOTS GROUP

Reference is made to the announcement of SDM Group Holdings Limited (the "**Company**", together with its subsidiaries, the "**Group**") dated 21 January 2020 in relation to the Acquisition (the "**Announcement**"). Unless otherwise stated, capitalised terms used herein shall have the same meanings as those defined in the Announcement.

The board (the "**Board**") of directors (the "**Directors**") of the Company would like to provide certain additional information in relation to the Acquisition.

Basis for the Consideration

The Company is of the view that enterprise value to EBITDA (the "**EV/EBITDA Ratio**") is the main reference indicator to determine the basis of the Consideration instead of price-to-earnings ratio (the "**P/E Ratio**") and price to book value.

The Group has been principally engaged in the business of dancing school in Hong Kong. In recent years, the Group has further expanded its business in relation to the childhood education business by acquisition of kindergartens, preschools, child education organisations and adult education centres in Hong Kong, Singapore and Australia. After reviewing different education businesses globally, it is discovered that EV/EBITDA Ratio, to a certain extent, is a more suitable indicator to consider the basis of consideration because EV/EBITDA Ratio takes earnings before interest, tax, depreciation and amortisation into consideration, but P/E Ratio only takes earnings into consideration. As a result, EBITDA (being used in the EV/EBITDA Ratio) could discard the differences arising from different tax jurisdictions, accounting policies and capital structure to reflect operating results of target companies.

The preliminary appraised value of 100% equity interest in the Target Companies in the Valuation Report was determined based on market approach with 17 comparable companies (the "**Comparable**") listed in Australia, Singapore, Hong Kong and the United States. The Comparable are mainly engaged in provision of child education and childcare services in Australia, Singapore, Malaysia and the People's Republic of China. Since businesses of the Comparable are engaged in different countries, they have distinct tax systems. In addition, the amount regarding finance costs, depreciation and amortisation are quite different in the Comparable. The Company is of the view that using earnings excluding items which might cost large deviations in different countries is more appropriate. Therefore, the Company considered that EBITDA is more suitable to reflect the real picture of earning abilities of different Comparable in different countries.

As mentioned, the EBIDTA is regarded as a more suitable reference for the Company to ascertain the performance of a business. Amongst the Comparable, there is only one comparable with its business is engaged in Singapore (the "**Singapore Comparable**"). The shares of the Singapore Comparable are listed on the stock exchange of Singapore. As at 30 September 2019, being the date of the Valuation Report to ascertain the value of the Target Companies, the P/E Ratio of the Singapore Comparable is 29.9 times that the Target Companies, with P/E Ratio of 20.2 times, is far lower than it.

The Consideration of S$7.8 million, being the aggregate of the Base Consideration (i.e. S$4 million) and the maximum amount of the Bonus Consideration (i.e. S$3.8 million), will only be paid according to the calculation of the Bonus Consideration as stated in the Sale and Purchase Agreement if the Collective Consolidated EBITDA Earnings for the financial year ending 31 December 2020 is not less than S$770,000. By then if the Collective Consolidated EBITDA Earnings has such a substantial improvement, it is expected that the net profit will be also increased. As such, no actual P/E Ratio can be calculated for reference as at the date hereof.

The Company is of the view that the key assets of the Target Companies are professional teaching staff and the reputation which directly related to the number of students and potential students. However, these may not be directly reflected in its combined statements of financial position. The net assets value is not the most appropriate indicator as a reference for the basis of the Consideration.

The Consideration means the total amount of the Base Consideration and the Bonus Consideration. The preliminary appraised value of S$5.22 million as stated in the Valuation Report is with the indicator of the EBIDTA of the Target Companies as at 30 September 2019. As the Bonus Consideration will be adjusted if the financial performance of the Target Company has improvement in the future, it is more appropriate to compare the Base Consideration to the preliminary appraised value of S$5.22 million which represents a discount of approximately 23.4%.

History, Scale and future business development of the Target Companies

Global Tots Pte Ltd commenced its operation since September 2014. In August 2015, Global Tots @ Braddell Pte Ltd started another educational centre. In March and July 2017, Global Tots @ Sembawang Pte Ltd and Global Tots @ Mountbatten Pte Ltd commenced their operation respectively. As at the date hereof, the maximum capacity of students studying is approximately 400 students.

The Company realised that the Vendors expanded the Business stably since 2014. With reference to the experience and observation in the child education sector of the Group in Singapore recent years, the Directors believe that there is great potential in the infant and childcare industry in Singapore as the demand for quality education keeps growing. The Target Companies still have capacity for student admission and chances for expanding existing courses. The Company are of the view that there will be high potential for future business development of the Target Companies. In light of the above, the Directors are of the view that the Consideration is fair and reasonable and the Acquisition is in the interests of the Company and the Shareholders as a whole.

In addition, the Company has no intention to appoint any of the Vendors as a Director of the Company and none of the Vendors will be appointed as a Director of the Company upon Completion.

By order of the Board
SDM Group Holdings Limited
Chiu Ka Lok
Chairman

Hong Kong, 6 February 2020

As at the date of this announcement, the executive Directors are Mr. Chiu Ka Lok and Mr. Chun Chi Ngon Richard, the non-executive Directors are Dr. Chun Chun and Ms. Yeung Siu Foon and the independent non-executive Directors are Mr. Lau Sik Yuen, Dr. Yuen Man Chun Royce and Mr. Chak Chi Shing.

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with 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 announcement 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 announcement misleading.

This announcement will remain at www.hkgem.com on the "Latest Listed Company Information" page of the GEM website for at least 7 days from the date of its posting and on the Company website at www.sdm.hk.