
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional advisers.

If you have sold or transferred all your shares in SDM Group Holdings Limited, you should at once hand this circular to the purchaser, the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.


SDM Group Holdings Limited
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 8363)

**MAJOR TRANSACTION
ACQUISITION OF THE ENTIRE INTEREST
IN THE GLOBAL TOTS GROUP**

AND

NOTICE OF EXTRAORDINARY GENERAL MEETING

Capitalised terms used in this cover page shall have the same meanings as those defined in this circular.

A letter from the Board is set out on pages 5 to 21 of this circular.

A notice convening the EGM to be held on Friday, 17 April 2020 at 2:30 p.m. at No.6 Cambridge Road, Kowloon Tong, Kowloon, Hong Kong is set out on pages EGM-1 to EGM-2 of this circular.

A form of proxy for use at the EGM is enclosed with this circular. Whether or not you are able to attend the EGM, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar and transfer office in Hong Kong, Union Registrars Limited at Suites 3301-04, 33/F, Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish, and in such event, the form of proxy shall be deemed to be revoked.

This circular will remain on the "Latest Listed Company Information" page of the GEM website of the Stock Exchange at www.hkgem.com for a minimum period of 7 days from the date of its publication and on the Company's website at www.sdm.hk.

26 March 2020

CHARACTERISTICS OF GEM

GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors of the Company should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.

Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

CONTENTS

	<i>Page</i>
Definitions	1
Letter from the Board	5
Appendix I — Financial information of the Group	I-1
Appendix II — Accountants' report of the Target Companies	II-1
Appendix III — Unaudited pro forma financial information of the Enlarged Group	III-1
Appendix IV — Management discussion and analysis on the Target Companies	IV-1
Appendix V — Valuation report on the Target Companies	V-1
Appendix VI — General Information	VI-1
Notice of EGM	EGM-1

DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions have the following meanings:

“Acquisition”	the acquisition of the entire portfolio of the Sale Shares, all the Assets and the IP Rights of the Target Companies in full by the Purchaser from the Vendors pursuant to the Sale and Purchase Agreement
“Announcements”	the announcements of the Company dated 21 January 2020, 6 February 2020, 13 February 2020, 6 March 2020 and 13 March 2020 in relation to, among other things, the Acquisition
“Assets”	the list of assets and inventory set out in the Sale and Purchase Agreement
“Admiralty Branch”	Global Tots @ Admiralty Pte. Ltd., which is wholly owned by the Vendors
“Approval”	the requisite approval(s) for the purposes of and with respect to the Acquisition and other related matters contemplated under the Sale and Purchase Agreement given by and from both the Stock Exchange and the Shareholders
“associate(s)”	has the same meaning ascribed to it under the GEM Listing Rules
“Balance”	the balance of the Base Consideration in the amount of S\$2,800,000 (equivalent to approximately HK\$16,156,000)
“Base Consideration”	the base consideration for the Acquisition in the amount of S\$4,000,000 (equivalent to approximately HK\$23,080,000)
“Board”	the board of Directors
“Bonus Consideration”	the bonus consideration up to the maximum amount of S\$3,800,000 (equivalent to approximately HK\$21,926,000)
“Business”	the provision of day-care and educational services including, but not limited to, developing and running educational and enrichment programmes and providing day-care services to children
“Business Day”	a day on which banks in Singapore are open for normal banking business (excluding Saturdays, Sundays and public holidays)
“Collective Consolidated EBITDA Earnings”	EBITDA less depreciation expenses of right-of-use of assets in relation to the adoption of the International Financial Reporting Standard 16 (IFRS 16) for and over the financial year ending 31 December 2020

DEFINITIONS

“Company”	SDM Group Holdings Limited, a company incorporated under the laws of the Cayman Islands with limited liability and the Shares of which are listed on the GEM
“Completion”	the completion of the Acquisition
“Completion Date”	the date on which Completion takes place, which shall be 5 Business Days after the Long Stop Date
“Consideration”	the total amount of the Base Consideration and the Bonus Consideration, being the monetary amount in aggregate paid and to be paid by the Purchaser to the Vendors for the Sale Shares, but shall not include the additional amount to be paid by the Purchaser to the Vendors at the Completion for settlement of apportionment accounts pursuant to the Sale and Purchase Agreement
“Director(s)”	the director(s) of the Company
“Earnest Monies”	the sum of S\$400,000 (equivalent to approximately HK\$2,308,000), being the refundable deposit equivalent to 10% of the Base Consideration paid to the Vendors under and pursuant to the MOU
“EBITDA”	the earnings before interest, tax, depreciation and amortisation
“ECDA”	Early Childhood Development Agency in Singapore
“EGM”	the extraordinary general meeting of the Company to be held on Friday, 17 April 2020 at 2:30 p.m. at No.6 Cambridge Road, Kowloon Tong, Kowloon, Hong Kong to approve, inter alia, the Sale and Purchase Agreement and the transactions contemplated thereunder
“Enlarged Group”	the Group as enlarged by the Acquisition
“Further Deposit”	the sum of S\$800,000 (equivalent to approximately HK\$4,616,000) to be paid by the Purchaser to the Vendors, being the further refundable deposit equivalent to 20% of the Base Consideration
“GEM”	the GEM of the Stock Exchange
“GEM Listing Rules”	The Rules Governing the Listing of Securities on the GEM
“Global Tots Management”	Global Tots Management Pte. Ltd., which is wholly owned by the Vendors

DEFINITIONS

“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Auditor”	an independent auditor conducting an audit of financial statements in accordance with Singapore Standard on Auditing (SSA)
“IP Rights”	the trademark (as set out in the Sale and Purchase Agreement), logo, trade name, goodwill and all intellectual property rights, including but not limited to, the inherent right to own and use the name “Global Tots Preschool” in the current form and manner, the corresponding proprietary marks, designs, symbols, emblems, insignia, fascia, slogans, copyrights, know-how, customer information, drawings, plans and other identifying materials details, as well as all teaching curriculum and materials developed and improved from time to time, and all other proprietary rights whatsoever owned by or available to the Target Companies
“Key Appointment Holders”	shall have the meaning ascribed to it under the Early Childhood Development Centres Act 2017 of Singapore
“Latest Practicable Date”	23 March 2020, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein
“Long Stop Date”	29 April 2020, being the date by which the Approval is to be obtained and conditions precedent of the Sale and Purchase Agreement are to be satisfied by the Vendors and/or the Target Companies in full, or such other date the Parties agree to
“MOU”	the non-legally binding memorandum of understanding dated 7 August 2019 entered into by the Vendors and the Purchaser in relation to acquisition of six private companies which are limited by shares incorporated in Singapore
“Premises”	the property on and address at which the Business is carried on and where the childcare centre of each of the Target Companies is established and operated
“Purchaser”	SDM International Investments Pte. Ltd., a company incorporated in Singapore with limited liability and an indirect wholly-owned subsidiary of the Company
“Purchaser’s Appointed Solicitors”	Apex Law LLC

DEFINITIONS

“Refund”	collectively, the First Refund, the Second Refund and the Further Refund
“Sale and Purchase Agreement”	the sale and purchase agreement dated 21 January 2020 entered into between the Vendors and the Purchaser in respect of the Acquisition
“Sale Shares”	100% of the shares in each of the Target Companies
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s) from time to time
“Singapore”	the Republic of Singapore
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Companies” (or each a “Target Company”, or “Global Tots Group”)	Global Tots Pte. Ltd., Global Tots @ Mountbatten Pte. Ltd., Global Tots @ Braddell Pte. Ltd., and Global Tots @ Sembawang Pte. Ltd., each being a company incorporated in Singapore with limited liability
“Vendors” (or each a “Vendor”)	Mr. Lau, Mr. Choe and Ms. Lau
“Vendors’ Appointed Solicitors”	NLC Law Asia LLC
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“S\$”	Singapore dollars, the lawful currency of Singapore
“%”	per cent.

In this circular, the conversion of S\$ into HK\$ has been made at the rate of S\$1.00=HK\$5.77. Such conversion rate is included in this circular for indicative purpose only.

LETTER FROM THE BOARD



SDM Group Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8363)

Executive Directors:

Mr. Chiu Ka Lok (*Chairman*)

Mr. Chun Chi Ngon Richard (*Chief Executive Officer*)

Non-executive Directors:

Dr. Chun Chun

Ms. Yeung Siu Foon

Independent non-executive Directors:

Mr. Lau Sik Yuen

Dr. Yuen Man Chun Royce

Mr. Chak Chi Shing

Registered office:

Clifton House

75 Fort Street

P.O. Box 1350

Grand Cayman

KY1-1108

Cayman Islands

*Head office and principal place
of business in Hong Kong:*

Room 202B, 2/F

Liven House

61-63 King Yip Street

Kwun Tong

Kowloon

Hong Kong

26 March 2020

To the Shareholders

Dear Sir or Madam,

**MAJOR TRANSACTION
ACQUISITION OF THE ENTIRE INTEREST
IN THE GLOBAL TOTS GROUP
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

INTRODUCTION

Reference is made to the voluntary announcement of the Company dated 7 August 2019 in relation to the MOU entered into between the Purchaser and the Vendors in relation to the acquisition of six private companies which are limited by shares incorporated in Singapore. The Parties agreed to conduct and complete the acquisition of four private companies in accordance with the Sale and Purchase Agreement, and the remaining two private companies, being the Admiralty Branch and the Global Tots Management, will be wound up or struck off after the Completion Date.

LETTER FROM THE BOARD

References are also made to the Announcements whereby the Board announced that after trading hours on 21 January 2020, the Purchaser entered into the Sale and Purchase Agreement with the Vendors, pursuant to which the Vendors have conditionally agreed to sell, and the Purchaser has conditionally agreed to purchase, the Sale Shares, all Assets and IP Rights of the Target Companies in full at the maximum aggregate Consideration of S\$7,800,000 (equivalent to approximately HK\$45,006,000).

The purpose of this circular is to provide you with, among other things, (i) further details of the Sale and Purchase Agreement and the transactions contemplated thereunder; (ii) the accountants' report of the Target Companies; (iii) the unaudited pro forma financial information of the Enlarged Group; (iv) the valuation report on the Target Companies; and (v) a notice of the EGM and a proxy form.

THE SALE AND PURCHASE AGREEMENT

The principal terms of the Sale and Purchase Agreement are as follow:

Date: 21 January 2020 (after trading hours)

Parties:

(i) Purchaser: SDM International Investments Pte. Ltd., an indirect wholly-owned subsidiary of the Company

(ii) Vendors: Lau Tse Kit (“**Mr. Lau**”), Choe Peng Meng (“**Mr. Choe**”) and Lau Shih-Venn, Vivienne (“**Ms. Lau**”)

(each a “**Party**” and collectively, the “**Parties**”)

As at the Latest Practicable Date, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Vendors and their respective ultimate beneficial owner(s) are third parties independent of the Company and connected persons of the Company (as defined under the GEM Listing Rules).

Assets to be acquired

Subject to the terms and conditions of the Sale and Purchase Agreement, the Vendors as beneficial owners shall sell, and the Purchaser shall purchase, the Sale Shares free from all encumbrances and third party rights of any kind but together with all rights now attached or thereafter attaching to the Sale and Purchase Agreement, including all rights to receive any and all dividends or other distributions declared, made or paid on and after the Completion Date, and upon Completion, the Purchaser shall be the sole beneficial owner of not only the Sale Shares together with all rights now attached or thereafter attaching to the Sale and Purchase Agreement, including all rights to receive any and all dividends or other distributions declared, made or paid on and after the Completion Date but also that of all Assets and IP Rights of the Target Companies in full as defined in this circular and free from any encumbrance whatsoever, which shall include but not be limited to the following:

LETTER FROM THE BOARD

- (a) all issued and paid-up Sale Shares in full, particulars of the respective shareholding and share capital of each Target Company, whether issue as shown in the later parts of this circular;
- (b) the Assets; and
- (c) the IP Rights.

As mentioned, the Parties agreed to conduct and complete the acquisition of four private companies in accordance with the Sale and Purchase Agreement, and the remaining two private companies, being the Admiralty Branch and the Global Tots Management, will be wound up or struck off after the Completion Date.

During the negotiation, the Company was informed by the Vendor that the tenancy agreement of the Admiralty Branch would be expired soon. Also, it had low utilisation of student capacity and was a loss-making entity. Most students of the Admiralty Branch have been transferred to the Target Companies. Global Tots Management provided enrichment programs only to the Admiralty Branch instead of other schools. After arm's length negotiation between the Parties, the Admiralty Branch and the Global Tots Management are not included in the Acquisition.

Consideration

The Consideration shall be the total of the Base Consideration and the Bonus Consideration to be paid by the Purchaser to the Vendors at the Completion pursuant to the Sale and Purchase Agreement. The Base Consideration shall be S\$4,000,000 (equivalent to approximately HK\$23,080,000). The Vendors may be paid the Bonus Consideration up to the maximum amount of S\$3,800,000 (equivalent to approximately HK\$21,926,000).

The payment of the Base Consideration shall not be subject to any condition precedent save that the Acquisition having been completed on the Completion Date in accordance with the Sale and Purchase Agreement (or else, Refund shall take place).

The payment of the Bonus Consideration shall be calculated based on (a) the financial period of the Target Companies from 1 January 2020 to 31 December 2020; and (b) the annual audited Collective Consolidated EBITDA Earnings of all Target Companies being not less than S\$770,000 (equivalent to approximately HK\$4,442,900).

Payment of any such Bonus Consideration shall be made on a pro-rata basis based on a multiple of 5.2 times the Collective Consolidated EBITDA Earnings (the "**5.2 Multiple**"), less the Base Consideration. The Vendors shall only be entitled to the Bonus Consideration provided that a minimum Collective Consolidated EBITDA Earnings of S\$770,000 (equivalent to approximately HK\$4,442,900) is achieved. The Parties agreed that the Independent Auditor appointed by the Purchaser, and agreed to by the Vendors, shall be the certifying authority as to whether the Bonus Consideration is payable to the Vendors based on the terms set out in the Sale and Purchase Agreement (the "**Bonus Consideration Certification**"). The Parties further agreed that the Bonus Consideration Certification issued by the Independent Auditor shall be final and conclusive and the Vendors agreed and undertook not to raise any objections to the Bonus Consideration Certification.

LETTER FROM THE BOARD

In addition to the Base Consideration and the Bonus Consideration payable by the Purchaser to Vendors pursuant to the terms as set out in the Sale and Purchase Agreement, the Parties agreed that the following sums shall be paid by the Purchaser to the Vendors on the Completion Date by way of a cashier's order:

- (a) the total respective sums of the rental deposits that had been paid out by the Vendors with respect to the leases as set out in the Sale and Purchase Agreement (the "**Rental Deposits**");
- (b) the prepayments paid out by the Vendors up to and including the Completion Date, with respect to pro-rated premiums of all insurance policies purchased in favour of the respective Target Companies, as well as all security deposit sums paid to each and any third-party service providers and/or vendors of the Target Companies including, without limitation to, the relevant utilities, telecommunications companies, subscription, pest control, secretarial and printer, website and software maintenance service providers, full particulars of which are as set out in the Sale and Purchase Agreement (the "**Vendors' Prepayments**");
- (c) total value of the bank balances as at the Completion Date for the Target Companies bank accounts as set out in the Sale and Purchase Agreement ("**Target Companies Bank Accounts**"); and
- (d) total unpaid students' fee(s) due and payable to the Target Companies as at the date immediately preceding the Completion Date (the "**Unpaid Students' Fees**"). The Parties agreed that all other sums of the Unpaid Students' Fees received only on or after the Completion Date shall be paid out to the Vendors by way of bank transfer within 14 days from the date of receipt of any such Unpaid Students' Fees by the Purchaser.

For the avoidance of doubt, the total student deposits paid to the Target Companies on or after the Completion Date shall be due and payable to the Purchaser.

For the above estimated amount including the Rental Deposit, the Vendors' Prepayments, the Target Companies Bank Accounts and the Unpaid Students' Fees, the Purchaser will reimburse the Vendors and shall not exceed S\$1,000,000 (equivalent to approximately HK\$5,770,000).

The Parties agreed that the Consideration shall be settled and discharged by the Purchaser in the following manner and disbursed in the respective stages as below:

Earnest Monies

The Earnest Monies in the sum of S\$400,000 (equivalent to approximately HK\$2,308,000), being the refundable deposit equivalent to 10% of the Base Consideration paid to the Vendors under and pursuant to the MOU, had initially been transferred in full by the Purchaser to the bank account of one of the Target Companies, Global Tots Pte. Ltd., and had thereafter been paid out to, and duly received by, the respective Vendors in equal shares (with each Vendor being paid one-third (1/3) of the Earnest Monies) as shareholders of Global Tots Pte. Ltd. at the relevant time by depositing the Earnest Monies into the banking accounts of the respective Vendors in equal shares.

LETTER FROM THE BOARD

The Parties unanimously agreed that the Vendors shall hold their respective amounts of Earnest Monies as stakeholder pending Completion, and the Vendors shall not use, dispose of or otherwise utilise the Earnest Monies or any part thereof without prior written approval of the Purchaser, and the Vendors irrevocably, jointly and severally agreed that the Earnest Monies shall be refunded to the Purchaser in full free of interest in the event of termination of the Sale and Purchase Agreement in accordance with the terms therein or in the event the Acquisition fails to be completed in accordance with the Sale and Purchase Agreement, and the Vendors shall irrevocably, jointly and severally refund the entire amount of the Earnest Monies free from any deduction or interest whatsoever within 7 days from the date on which the Purchaser calls on the Vendors for such refund (the “**First Refund**”), and none of the Vendors shall interfere with or prohibit the First Refund.

Further Deposit

The Purchaser shall pay to the Vendors the Further Deposit in the amount of S\$800,000 (equivalent to approximately HK\$4,616,000), being equivalent to 20% of the Base Consideration upon execution of the Sale and Purchase Agreement by depositing the Further Deposit into the respective bank accounts of the Vendors, with each Vendor being paid one-third (1/3) of the Further Deposit, and Parties unanimously agreed that the Vendors shall irrevocably, jointly and severally hold the entire amount of the Further Deposit as stakeholder pending Completion, and none of the Vendors shall use, dispose of or otherwise utilise the Further Deposit or any part thereof without prior written approval of the Purchaser, and the Vendors irrevocably, jointly and severally agree that the entire amount of the Further Deposit shall be refunded to the Purchaser together with the Earnest Monies in full free of interest in the event of termination of the Sale and Purchase Agreement in accordance with the terms therein or in the event the Acquisition fails to be completed in accordance with the Sale and Purchase Agreement free from any deduction or interest whatsoever within 7 days from the date on which the Purchaser calls on the Vendors for such refund (the “**Second Refund**”), and none of the Vendors shall interfere with, obstruct or prohibit the Second Refund.

Balance

In the event the Completion takes place on or before 28 February 2020, the Balance in the amount of S\$2,800,000 (equivalent to approximately HK\$16,156,000) shall be paid by the Purchaser to the Vendors on the Completion Date to the respective bank accounts of the Vendors, with each Vendor being virtually entitled to be paid one-third (1/3) of the Balance.

In the event the Completion takes place after 28 February 2020, the Parties unanimously agreed that the Balance shall instead be transferred to the designated banking account of the Vendors’ Appointed Solicitors, who shall act as escrow agent, and such Balance is to be held by the Vendors’ Appointed Solicitors as stakeholders (the “**Stakeholding Monies**”). The Vendors’ Appointed Solicitors shall hold the Stakeholding Monies for the period commencing 28 February 2020 and shall only release the Stakeholding Monies on the Completion Date. For the avoidance of doubt, the Vendors irrevocably, jointly and severally agreed that notwithstanding the Vendors’ joint and several receipt of the Balance in accordance with this paragraph, the entire amount of the Balance shall be returned to the Purchaser in full together with the Vendors’ irrevocable, joint and several refund of

LETTER FROM THE BOARD

the Earnest Monies and the Further Deposit free of interest in the event of termination of the Sale and Purchase Agreement in accordance with the terms therein or in the event the Acquisition fails to be completed in accordance with the Sale and Purchase Agreement, and the Vendors shall irrevocably refund the entire amount of the Further Deposit free from any deduction or interest whatsoever within 7 days from the date on which the Purchaser calls on the Vendors for such refund (the “**Further Refund**”), and none of the Vendors shall interfere with, obstruct or prohibit the Further Refund.

At Completion, the Earnest Monies, the Further Deposit and the Balance shall, subject to other provisions in the Sale and Purchase Agreement, be utilised for full and final settlement and discharge of the Base Consideration. In case of the Refund having to take place, the Purchaser shall, and shall be irrevocably entitled to, recover the entire amount of the Base Consideration as if the said aggregate sum of S\$4,000,000 (equivalent to approximately HK\$23,080,000) were a debt due and owing by the Vendors and the Vendors’ Appointed Solicitors jointly and severally to the Purchaser.

Bonus Consideration

The Vendors may be entitled to the Bonus Consideration the aggregate amount of which shall not exceed S\$3,800,000 (equivalent to approximately HK\$21,926,000). Payment of any such Bonus Consideration, which shall be paid by the Purchaser to the respective Vendors in equal shares, with each Vendor being entitled to be paid one-third (1/3) of the Bonus Consideration. Any payment of the Bonus Consideration shall be conditional upon the Collective Consolidated EBITDA Earnings for the financial year ending 31 December 2020 being not less than S\$770,000 (equivalent to approximately HK\$4,442,900), with the actual amount of the Bonus Consideration to be computed on a pro-rata basis based on a multiple of 5.2 times the Collective Consolidated EBITDA Earnings, less the Base Consideration provided that the amount of Bonus Consideration shall not exceed S\$3,800,000 (equivalent to approximately HK\$21,926,000).

For avoidance of any doubt, the Vendors shall only be entitled to the Bonus Consideration provided that a minimum Collective Consolidated EBITDA Earnings of S\$770,000 (equivalent to approximately HK\$4,442,900) is achieved. The Parties agreed that the Independent Auditor appointed by the Purchaser, and agreed to by the Vendors, shall be the certifying authority as to whether the Bonus Consideration is payable to the Vendors based on the terms set out in the Sale and Purchase Agreement and that the Purchaser shall only appoint either of the two Singapore audit firms, namely RSM Chio Lim LLP or Foo Kon Tan LLP & Chio Lin, as such certifying authority on the Bonus Consideration. The Parties further agreed that the Bonus Consideration Certification issued by the Independent Auditor shall be final and conclusive and the Vendors jointly agreed and undertook not to raise any objection to the Bonus Consideration Certification.

Such appointment of the Independent Auditor by the Purchaser shall be concluded no later than 15 January 2021 or such extended date as the Parties may mutually agree and all such costs, charges and other expenses relating to or in connection with the preparation and issuance of the Bonus Consideration Certification by the Independent Auditor shall be borne solely by the Purchaser in full.

LETTER FROM THE BOARD

For clarity, the manner of calculation of the Bonus Consideration is set out below:

Bonus Consideration = (Collective Consolidated EBITDA Earnings x 5.2) – Base Consideration

The Bonus Consideration is capped at S\$3,800,000 (equivalent to approximately HK\$21,926,000).

The Parties agreed that for the purposes of calculation and payment of the Bonus Consideration, the Vendors shall provide all necessary accounts to the Independent Auditor no later than 31 January 2021 and the Independent Auditor shall in turn, issue the Bonus Consideration Certificate no later than 31 March 2021. The Parties further agreed that the Bonus Consideration shall be settled and discharged by the Purchaser remitting one-third (1/3) of the actual amount to each of the bank accounts of the Vendors within 5 Business Days from the date of issuance of the Bonus Consideration Certification.

Basis for the Consideration

The Base Consideration is determined after arm's length negotiations between the Parties with reference to (i) the EBITDA of the Target Companies for the nine months ended 30 September 2019 (i.e. S\$793,000, equivalent to approximately HK\$4,575,610); and (ii) the appraised value of 100% equity interest in the Target Companies as at 30 September 2019 as conducted by an independent valuer of S\$5,295,000 (equivalent to approximately HK\$30,552,150) with market approach (the "**Valuation Report**").

On the above calculation for the Bonus Consideration, the 5.2 Multiple is determined after arm's length negotiations between the Parties with reference to the range of the market comparable according to the Valuation Report. The aggregate of the Base Consideration and the Bonus Consideration will be upward adjusted to a maximum of S\$7,800,000 (equivalent to approximately HK\$45,006,000). The maximum of the Bonus Consideration is determined after arm's length negotiations between the Parties with reference to (i) the current cash flow position of the Group, since the Bonus Consideration will be paid by the Company to the Vendors only when the Collective Consolidated EBITDA Earnings for the financial year ending 31 December 2020 being not less than S\$770,000 and there will be no effect on the current cash flow position of the Company; and (ii) the then and the future business development of the Target Companies. As the Business has been expanded stably for the past few years (please refer to the section "Information on the Target Companies" below for details), the Directors believe that there will be great potential in the infant and childcare industry in Singapore as the demand for quality education keeps growing. The minimum Collective Consolidated EBITDA Earnings of S\$770,000 (equivalent to approximately HK\$4,442,900) is determined after arm's length negotiations between the Parties with reference to, among others, (i) the latest profit or loss account of the Target Companies; and (ii) the current market situation in Singapore.

The Company is of the view that enterprise value to EBITDA ratio (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 ratio.

LETTER FROM THE BOARD

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 EBITDA 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 being the aggregate of the Base Consideration and the Bonus Consideration, 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 (equivalent to approximately HK\$4,442,900). 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 Latest Practicable Date.

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.

LETTER FROM THE BOARD

The Consideration means the total amount of the Base Consideration and the Bonus Consideration. The appraised value of S\$5,295,000 (equivalent to approximately HK\$30,552,150) as stated in the Valuation Report is with the indicator of the EBITDA 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 appraised value which represents a discount of approximately 24.5%.

In light of the above, the Directors consider that the Consideration and stages of payment are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Conditions Precedent

The Completion is conditional on the following conditions being satisfied and/or fulfilled by the Long Stop Date (collectively, the “**Non-Waivable Conditions Precedent**”):

- (a) The Purchaser having obtained all necessary authorisations, approvals, licenses and/or permissions and consents, and procuring the registration and filing of all relevant documents with the Stock Exchange and all other relevant governmental institutions and/or regulatory authorities with respect to all transactions contemplated under the Sale and Purchase Agreement;
- (b) The Target Companies having satisfactory complied with all requirements and conditions stipulated by relevant governmental authority and/or agency, in particular, all applicable regulations with respect to the student-teacher ratio as prescribed by ECDA; and
- (c) The Parties having executed the relevant escrow agreement with the Vendors’ Appointed Solicitors on and with respect to the escrow agent’s stakeholding of the Balance by Vendors’ Appointed Solicitors’ as escrow agent, and none of the Non-Waivable Conditions Precedents shall be waived by any Party.

The Completion shall be further conditional on the following conditions precedent being satisfied and/or fulfilled, unless so waived at the sole discretion of the Purchaser but not by any of the Vendors (collectively, the “**Waivable Conditions Precedent**”):

- (a) The Vendors are to commence the winding up or striking off of the Admiralty Branch and the Global Tots Management after the Completion Date. The Vendors shall complete the winding up or striking off of the Admiralty Branch and Global Tots Management as soon as practicable. The Vendors shall proceed to lodge with Accounting and Corporate Regulatory Authority applications to effect a name change of the Admiralty Branch and Global Tots Management within two weeks from the Completion Date. The new names of the Admiralty Branch and Global Tots Management shall not bear the words “Global Tots” or any combination of words that would associate the Admiralty Branch and Global Tots Management with the brand name “Global Tots”;

LETTER FROM THE BOARD

- (b) The Vendors having delivered up to the Purchaser by the Completion Date the evidentiary documents of the Target Companies for the inspection by the Purchaser (the “**Evidence**”) and the Vendors covenant that all the Evidence provided shall be accurate and current at the date of receipt of the Evidence by the Purchaser;
- (c) A complete and accurate list of all employees, whether full-time or part-time, currently employed;
- (d) Any and all shareholders’ and directors’ loans outstanding at the date of the Sale and Purchase Agreement, as the case may be, having been written off the Target Companies’ books; and
- (e) The remaining balance of the Global Tots Pte. Ltd.’s SME Working Capital loan with OCBC Bank (the “**Loan**”) shall be fully repaid and discharged, and all personal guarantee(s) arising out of or in connection with the Loan shall be released accordingly.

Save as otherwise stated, if any conditions precedent above (save and except the Waivable Conditions which have been waived by the Purchaser in accordance with the above) shall not have been fulfilled or satisfied by the Long Stop Date, the Sale and Purchase Agreement shall, unless the Parties agree in writing to postpone the Long Stop Date to another date (being a Business Day), automatically terminate and cease to be of any effect except for certain clauses in the Sales and Purchase Agreement which shall remain valid, binding and effective, and none of the Parties shall have any claim of any nature or liabilities under the Sale and Purchase Agreement whatsoever against the other Party save for the Refund.

Furthermore, the Vendors shall immediately upon the Completion, use their best endeavours to initiate and comply with, at their expense, the change in Key Appointment Holders procedure set out in ECDA’s email to the Vendors dated 30 December 2019 at 8.19 am as set out in the Sale and Purchase Agreement, and procure that the same is duly completed within 5 weeks from the Completion Date.

For the change in Key Appointment Holders procedures, the Vendors shall first apply to ECDA for In-Principle Application for addition of new Key Appointment Holders and removal of existing Key Appointment Holders. Upon receipt of notification from ECDA to proceed, an application will be made by the Vendors to the Accounting and Corporate Regulatory Authority of Singapore (“**ACRA**”) for changes of shareholders. The revised and updated information of shareholders applied to ACRA will be uploaded to ECDA afterwards, and the change of shareholders will take place on one month after informing ECDA and customers of the Target Companies.

LETTER FROM THE BOARD

Completion

Completion of the Acquisition of all Target Companies shall take place simultaneously as practicably possible. Completion shall take place upon the completion of the matters described in the Sale and Purchase Agreement by the performance of the Parties of their respective obligations on the Completion Date.

Upon Completion, Mr. Choe, Ms. Lau and Ms. Pearl Ong Lee Lee (being the spouse of Mr. Choe) (the “**Operations Managers**”) shall continue to manage all operational matters of the Business of each Target Company including, without limitation to, the management of the day-to-day operations of the Target Companies and running of the Business of each Target Company as a going concern up to and including 31 December 2020 (the “**Operational Matters**”) by forming a committee (the “**Operations Committee**”) for the benefit of the continuity of each Business. The Operations Committee shall exercise their discretion and management powers insofar as is necessary in performing and discharging any and all of its responsibilities related to or in connection with the Operational Matters, which shall include but not be limited to, the incurring of any necessary expenses arising out of any Operational Matters. For the avoidance of doubt, the Operations Committee shall be subject to the supervision and oversight of the board of directors of the respective Target Companies (collectively, the “**Target Companies Boards**”). The Target Companies Boards shall also retain full management and control over each respective Target Company including, but not limited to, all financial and human resources matters of each Target Company. The Operations Committee shall be responsible for providing quarterly reports to the Target Companies Boards. The Purchaser may, at its option, procure the preparation of monthly reports, at its own expense. The Operations Committee shall be deemed to be dissolved and has no further duties and obligations under the Sale and Purchase Agreement as of 31 December 2020. For the avoidance of doubt, the Purchaser agreed that the Operations Managers shall not attract or assume any liabilities either in contract or tort in the formation of the Operations Committee, the discharge of their duties, responsibilities and functions howsoever under the Operations Committee and the Purchaser released and indemnified the Operations Managers in full from any liabilities either in contract or tort in the discharge of their duties, responsibilities and functions under the Operations Committee.

In order not to affect the transitional period upon the Completion, the Operations Committee will manage the Target Companies until 31 December 2020. During the period from the Completion Date to 31 December 2020, the Company will appoint managers into the Target Companies to observe the operations. Also, the Company will consider to retain the Operations Managers after 31 December 2020 depending on their performance. The Group has been engaged in child education related business such as operation of kindergartens and pre-schools in Hong Kong and Singapore as well as business of jazz and ballet and pop dance academy in Hong Kong. It has around 14 core members in Singapore running 9 pre-schools, and each core member has over 15 years of experience in the education industry. The Company is of the view that after the dismissal of the Operations Committee, the Company can still manage and operate the Target Companies smoothly.

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.

LETTER FROM THE BOARD

Termination

Each Party shall be entitled to terminate the Sale and Purchase Agreement immediately by notice in writing to the other Party but not after 30 days of the event in question first coming to the attention of the relevant Party entitled to give the notice if any of the events set out below shall occur. The said events are:

- (a) if any Party commits a material breach of its obligations under the Sale and Purchase Agreement and in the case of a breach capable of remedy, fails to remedy the same within 30 days of being specifically notified to do so by the non-breaching Party; or
- (b) any Party ceasing or threatening to cease substantially or wholly to carry on its areas of business and duties; or
- (c) any encumbrancer taking possession of or a receiver or trustee being appointed over the whole or any part of the undertaking, property or assets of any Party; or
- (d) the making of an order or the passing of a resolution for the winding up of any Party.

The Refund shall survive any termination of the Sale and Purchase Agreement.

Indulgence and waiver

The Parties agreed that the aggregate sum of S\$326,000 (equivalent to approximately HK\$1,881,020) (the “**Sum**”) being the amount received by the Vendors as collective sole shareholders, from the respective Target Companies which had been paid to them during September 2019, shall not be returned to the Purchaser. The Parties further agreed that the Sum shall not be deducted from the total EBITDA in the calculation of the aggregate sum of the Collective Consolidated EBITDA Earnings.

INFORMATION ON THE TARGET COMPANIES

The Target Companies are companies incorporated in Singapore with limited liabilities and are principally engaged in the operation of infant and childcare business in Singapore.

Global Tots Pte. Ltd. commenced its operation since September 2014. It is located at No. 1, 3 Jalan Hitam Manis, Singapore 278418. It provides infant care, play group, nursery and kindergarten, and target families with kids from 3 months to 6 years old. As at December 2019, there are in total 108 students and 26 tutors and support staff.

In August 2015, Global Tots @ Braddell Pte. Ltd. commenced their operation as an educational centre. It is located at 6 Muswell Hill, Singapore 358421. It operates play group, nursery and kindergarten, and target families with kids from 18 months to 6 years old. There are in total 34 students and 11 tutors and support staff as at December 2019.

LETTER FROM THE BOARD

Global Tots @ Sembawang Pte. Ltd. commenced their operation in March 2017 at 579 Sembawang Place, Singapore 758427. It provides infant care, play group, nursery and kindergarten. Families with kids from 3 months to 6 years old are its target. As at December 2019, there are in total 41 students and 12 tutors and support staff.

In July 2017, Global Tots @ Mountbatten Pte. Ltd. commenced their operation at 5A Crescent Road, Singapore 439291. It operates play group, nursery and kindergarten. Families with kids from 18 months to 6 years old are its target. There are in total 54 students and 13 tutors and support staff as at December 2019.

As at the Latest Practicable Date, the maximum capacity of students studying in the Target Companies is approximately 400 students.

FINANCIAL INFORMATION OF THE TARGET COMPANIES

Set out below is a summary of the financial information of the Target Companies as extracted from their consolidated audited financial information for the years ended 31 December 2017 and 31 December 2018 prepared in accordance with the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants:

	For the year ended 31 December 2017	For the year ended 31 December 2018
	(Audited)	(Audited)
	<i>S\$'000</i>	<i>S\$'000</i>
Revenue	2,937	3,588
Profit before taxation	25	213
Profit after taxation	8	198
Net assets	639	837

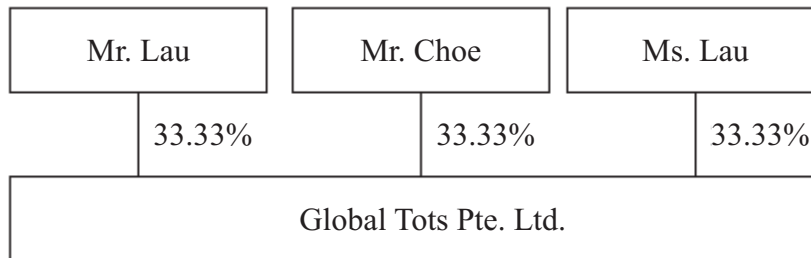
LETTER FROM THE BOARD

SHAREHOLDING STRUCTURE OF THE TARGET COMPANIES

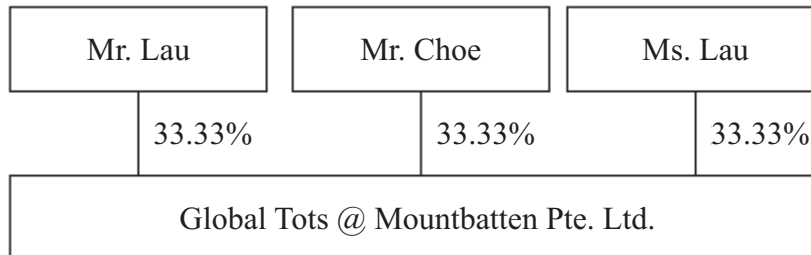
Set out below are the shareholding structures of the Target Companies (i) as at the date of the Sale and Purchase Agreement; and (ii) immediately after the Completion:

(i) As at the date of the Sale and Purchase Agreement

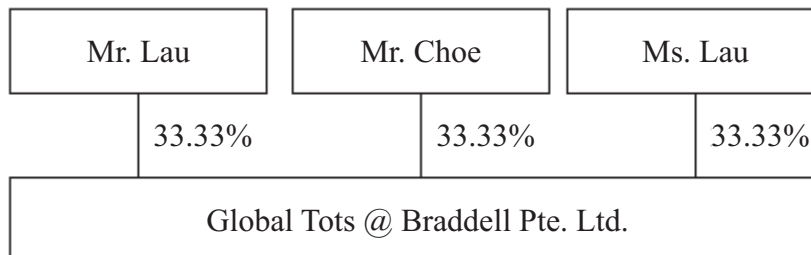
Global Tots Pte. Ltd.



Global Tots @ Mountbatten Pte. Ltd.

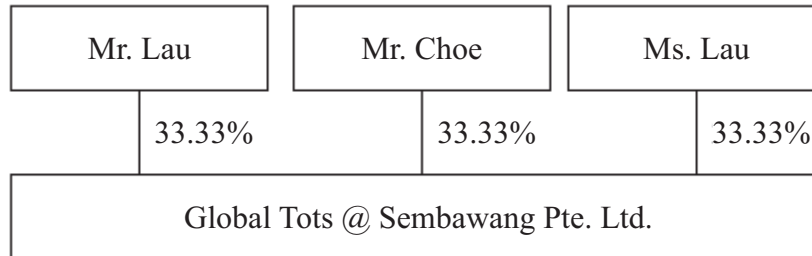


Global Tots @ Braddell Pte. Ltd.



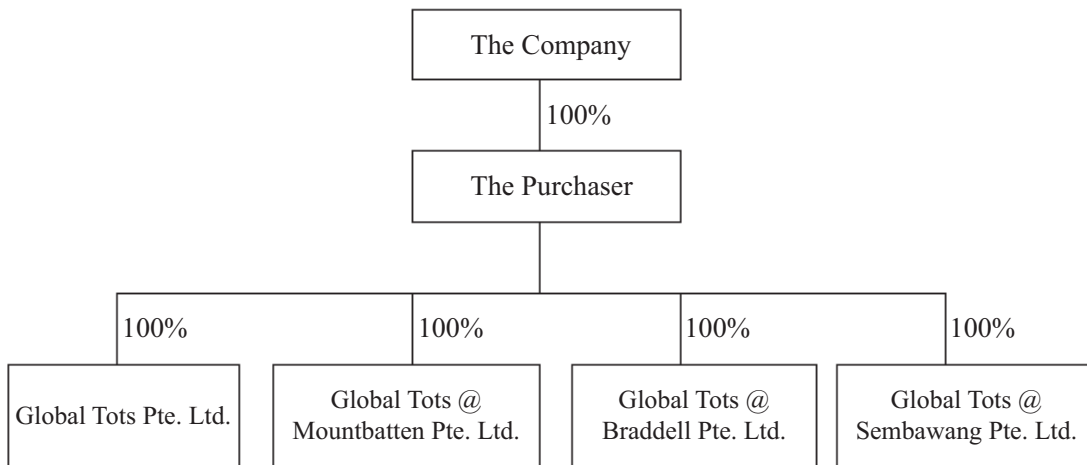
LETTER FROM THE BOARD

Global Tots @ Sembawang Pte. Ltd.



Note: The percentage figures included in the above tables have been rounded to 2 decimal places as each of the Vendors owns one-third of the issued ordinary shares of each of the Target Companies.

(ii) Immediately after the Completion



Upon Completion and subject to audit, the Target Companies will become indirect wholly-owned subsidiaries of the Company and the financial results, assets and liabilities of the Target Companies will be consolidated into the accounts of the Group.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Company is an investment holding company and its principal subsidiaries are mainly engaged in (i) business of jazz and ballet and pop dance in Hong Kong; (ii) operation of kindergartens and preschools in Hong Kong and Singapore; (iii) provision of swallowing and speech treatments; (iv) provision of photographic services; and (v) provision of English learning courses for adult and national accredited vocational education and training courses on early childhood education and care in Australia.

LETTER FROM THE BOARD

The Group has been proactive in seeking appropriate investment opportunities to expand its business scope and to diversify its existing business in the child educational sector. Since the Target Companies provide 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 Directors consider that the Acquisition is in line with the business strategy of the Group which is to develop and expand the market of education centers for children in Singapore. In view of (i) the current business plan of the Group to develop early childhood business in Singapore market and to promote and integrate dancing programs into childcare programs; and (ii) the recently acquired assets by the Group in relation to the operation and management of the childcare centre as announced on 30 September 2019 by the Company, it is expected that the Group will further expand the Singapore market and increase its market share in the child educational sector in Singapore upon Completion which may further enhance competitiveness and profitability of the Group.

Moreover, 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 consider that the terms of the Sale and Purchase Agreement are fair and reasonable and on normal commercial terms and the Acquisition is in the interests of the Company and the Shareholders as a whole.

GEM LISTING RULES IMPLICATIONS

As the highest applicable percentage ratios (as defined under Chapter 19 of the GEM Listing Rules) in respect of the Acquisition exceed 25% but less than 100%, the Acquisition constitutes a major transaction under the Rule 19.06(3) of the GEM Listing Rules and is subject to reporting, announcement and shareholders' approval requirements under Chapter 19 of the GEM Listing Rules. As no Shareholder has any material interest in the Acquisition and none of the Vendor or his/her associates hold any Share as at the Latest Practicable Date, no Shareholder is required to abstain from voting at the EGM for approving the Sale and Purchase Agreement and the transaction contemplated thereunder.

THE EGM

The Company will convene the EGM on Friday, 17 April 2020 at 2:30 p.m. at No.6 Cambridge Road, Kowloon Tong, Kowloon, Hong Kong to consider the Sale and Purchase Agreement and the transactions contemplated thereunder. A notice of the EGM is set out on pages EGM-1 to EGM-2 of this circular.

In compliance with the GEM Listing Rules, voting on the ordinary resolution to be proposed at the EGM will be conducted by way of poll. Any Shareholder with a material interest in the Acquisition and his/her/its associate(s) are required to abstain from voting on the resolution approving the same in accordance with the GEM Listing Rules.

LETTER FROM THE BOARD

To the best of the Directors' knowledge having made all reasonable enquiries, none of the Shareholders is required to abstain from voting in respect of the ordinary resolutions approving the Sale and Purchase Agreement and the transactions contemplated thereunder at the EGM.

A form of proxy for use at the EGM is enclosed with this circular. Whether or not you are able to attend the EGM, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar and transfer office in Hong Kong, Union Registrars Limited at Suites 3301-04, 33/F, Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish, and in such event, the form of proxy shall be deemed to be revoked.

RECOMMENDATION

The Directors consider that the terms of the Sale and Purchase Agreement, including the Consideration, are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends the Shareholders to vote in favour of the resolution in relation to the Sale and Purchase Agreement to be proposed at the EGM.

ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendices to this circular.

Shareholders and potential investors of the Company should note that the Completion is subject to the fulfilment or waiver of the conditions precedent as set out in the Sale and Purchase Agreement (as the case may be) and the Completion thereof may or may not proceed. Shareholders and potential investors of the Company are therefore reminded to exercise caution when dealing in the securities of the Company.

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

1. FINANCIAL INFORMATION

Financial information of the Group for each of the three years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, are disclosed in the following documents which have been published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.sdm.hk).

The condensed consolidated financial statements of the Group for the six months ended 30 June 2019 has been set out in pages 2 to 26 of the 2019 interim report of the Company which was posted on 14 August 2019 on the Stock Exchange's website (www.hkexnews.hk). Please also see below quick link to the 2019 interim report:

<https://www1.hkexnews.hk/listedco/listconews/gem/2019/0814/gln20190814121.pdf>

The audited consolidated financial statements of the Group for the year ended 31 December 2018 has been set out in pages 47 to 141 of the 2018 annual report of the Company which was posted on 29 March 2019 on the Stock Exchange's website (www.hkexnews.hk). Please also see below quick link to the 2018 annual report:

<http://www3.hkexnews.hk/listedco/listconews/GEM/2019/0329/GLN20190329055.pdf>

The audited consolidated financial statements of the Group for the year ended 31 December 2017 has been set out in pages 44 to 111 of the 2017 annual report of the Company which was posted on 29 March 2018 on the Stock Exchange's website (www.hkexnews.hk). Please also see below quick link to the 2017 annual report:

<http://www3.hkexnews.hk/listedco/listconews/GEM/2018/0329/GLN20180329189.pdf>

The audited consolidated financial statements of the Group for the year ended 31 December 2016 has been set out in pages 43 to 95 of the 2016 annual report of the Company which was posted on 30 March 2017 on the Stock Exchange's website (www.hkexnews.hk). Please also see below quick link to the 2016 annual report:

<http://www3.hkexnews.hk/listedco/listconews/GEM/2017/0330/GLN20170330299.pdf>

2. INDEBTEDNESS OF THE GROUP

As at the close of business on 31 January 2020, being the latest practicable date for the purpose of this statement of indebtedness prior to printing of the circular, the Enlarged Group had outstanding indebtedness of approximately HK\$437.6 million, which comprised of:

- (i) Unsecured corporate bonds of approximately HK\$50 million;
- (ii) Secured convertible note of approximately US\$3.0 million (equivalent to approximately HK\$23.4 million);
- (iii) Secured convertible note of approximately US\$25.0 million (equivalent to approximately HK\$195.0 million);
- (iv) Secured borrowing from a financial institution of approximately HK\$0.6 million;
- (v) Secured bank borrowings of approximately HK\$4.8 million;
- (vi) An unsecured amount due to the Vendors of approximately S\$2.8 million (equivalent to approximately HK\$16.2 million); and
- (vii) Lease liabilities of approximately HK\$147.6 million.

Lease liabilities as at 31 January 2020 arose from the recognition of right-of-use assets and relevant lease liabilities under HKFRS16. Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities and normal trade payables, the Enlarged Group did not have any debt securities issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness liabilities under acceptance or acceptance credits, debentures, mortgages, charges, hire purchase or finance lease commitments, guarantees or contingent liabilities.

3. WORKING CAPITAL

Taking into account the Acquisition and the financial resources available to the Enlarged Group, including the internally generated funds, the Directors are of the opinion that in the absence of unforeseeable circumstances, the Enlarged Group has sufficient working capital available for its requirements, that is for at least the next 12 months from the date of this circular.

4. MATERIAL ADVERSE CHANGE

Reference is made to the profit warning announcement of the Company dated 10 May 2019 in relation to the expected loss for the three months ended 31 March 2019 and the first quarterly results announcement of the Company dated 15 May 2019 (the “**First Quarterly Announcements**”). As disclosed in the First Quarterly Announcements, despite the increase in revenue contributed by the early childhood education business, the net loss of the Group increased as a result of the increase

in legal and professional fees, amortisation of intangible assets acquired during second half of 2018 and staff costs for the three months ended 31 March 2019. Please refer to the First Quarterly Announcements for further details.

Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2018 (being the date to which the latest published audited consolidated financial statements of the Group were made up).

5. BUSINESSES ACQUIRED AFTER 31 DECEMBER 2018

As disclosed in the announcements of the Company dated 14 January 2019, 29 January 2019, 29 March 2019, 21 May 2019, 30 August 2019, 23 September 2019 and the circular of the Company dated 3 September 2019, on 14 January 2019, the Company as a guarantor, Australian Apex Education Pty Ltd (which is a wholly-owned subsidiary of the Company) as a purchaser, and MEGT (Australia) Ltd as a vendor entered into the sale and purchase agreements (as supplemented by the deed of variations dated 29 March 2019), pursuant to which the vendor agreed to sell, and the purchaser agreed to acquire, the entire issued share capital of Ability Education Pty Ltd (“**Ability Education**”) and Childrens Services Education Pty Ltd (“**Childrens Services**”) at an aggregate consideration of AUD7,600,000, which was settled in the following manner:

- (i) For Ability Education, the net consideration would be calculated according to the following formula:

Net consideration = Gross consideration + Target working capital (subject to adjustment)

The gross consideration is AUD4,560,000, and the target working capital of Ability Education is net liabilities of AUD4,522,135. As such the net consideration is approximately AUD37,865.

The net consideration shall be satisfied by the purchaser in cash in the following manner:

- (a) a deposit of AUD100,000 was paid by the purchaser to an escrow account; and
- (b) the remaining balance shall be paid by the purchaser to the vendor upon the completion of acquisition of Ability Education, subject to adjustment of the target working capital of Ability Education with the its adjustment amount.

- (ii) For Childrens Services, the net consideration would be calculated according to the following formula:

Net consideration = Gross consideration + Target working capital (subject to adjustment)

The gross consideration is AUD3,040,000, and the target working capital of Childrens Services is net liabilities of AUD1,222,259. As such the net consideration is approximately AUD1,817,741.

The net consideration shall be satisfied by the purchaser in cash in the following manner:

- (a) a deposit of AUD100,000 was paid by the purchaser to an escrow account; and
- (b) the remaining balance shall be paid by the purchaser to the vendor upon the completion of acquisition of Childrens Services, subject to adjustment of the target working capital of Childrens Services with the its adjustment amount.

Completion of acquisition of Ability Education and Childrens Services took place on 30 September 2019 and 2 January 2020 respectively. Details of the financial information of Ability Education and Childrens Services for each of the three years ended 30 June 2016, 2017 and 2018 and the nine months ended 31 March 2018 and 2019 have been set out in the circular of the Company dated 3 September 2019 (from pages II-1 to II-39 and III-1 to III-35), which has been posted on the websites of the Stock Exchange (<https://www1.hkexnews.hk/listedco/listconews/gem/2019/0902/gln20190902057.pdf>).

The aggregate of the remuneration payable to and benefits in kind receivable by the Directors are not varied in consequence of such acquisition.

6. MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP

Set out below is a discussion and analysis of the Group's results of operation for each of the three years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019. The information set out below is principally extracted from the annual reports of the Company for the three years ended 31 December 2016, 2017 and 2018 and the interim report of the Company for the six months ended 30 June 2019, respectively, in order to provide further information relating to the financial condition and results of the operations of the Group during the periods stated.

A. For the six months ended 30 June 2019***Business review***

The Group continues focusing on engaging in business of jazz and ballet and pop dance academy in Hong Kong and pre-school education in Hong Kong and Singapore during the six months ended 30 June 2019.

Competition in the dance institution industry for children in Hong Kong was intense. During the six months ended 30 June 2019, the Group operated twenty three dance centres in Hong Kong and continued to maintain and attract the 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 of its dance academy business and effectively market the courses to a broader base of students. The Company has no intention to dispose, downsize and/or terminate the dance academy business.

The Group implemented a strategy to enhance the Group's current operation, which is to engage in the kindergarten business in Hong Kong by cooperating with Chatsworth, being international kindergartens, primary and secondary schools operated under the brand "Chatsworth" in Singapore for over 20 years. 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.

As at 30 June 2019, the Group operates (i) twenty three dance centers in Hong Kong; (ii) one kindergarten in Hong Kong; (iii) six kindergartens and/or preschools in Singapore; and (iv) one treatment centre for the provision of swallowing and speech treatments in Hong Kong.

Financial review***Dance academy business***

Revenue of the dance academy business was mainly contributed by the self-operated dance centres in respect of the provision of elementary courses, CSTD jazz courses, RAD ballet courses etc. to the students. During the six months ended 30 June 2019, the dance academy business contributed revenue of approximately HK\$29.3 million, representing an increase of approximately 1.4% as compared to the revenue of approximately HK\$28.9 million for the corresponding period.

Early childhood education business

The Group commenced the early childhood education business upon the establishment of the kindergarten in Hong Kong and the completion of the acquisition of six kindergartens in Singapore in 2018. During the six months ended 30 June 2019,

the early childhood education business contributed revenue of approximately HK\$14.6 million and a segment loss of approximately HK\$5.1 million as (i) the kindergarten in Hong Kong will only commence its first curriculum in September 2019; and (ii) the Group only completed acquisition of the kindergartens in Singapore in the second half of 2018.

Others

Revenue for the others segment represented revenue from the provision of swallowing and speech treatments and provision of photograph services for children in Hong Kong. The Group recorded revenue of approximately HK\$9.1 million and a segment profit of approximately HK\$2.3 million from such segment of the six months ended 30 June 2019.

Other income

Other income of the Group increased by approximately 46.5% from approximately HK\$7.0 million for the six months ended 30 June 2018 to approximately HK\$10.3 million for the six months ended 30 June 2019.

Loss attributable to the owners of the Company

The loss attributable to the owners of the Company increased by approximately HK\$6.2 million to approximately HK\$14.5 million for the six months ended 30 June 2019 mainly due to the increase in staff costs and other operating expenses.

Liquidity, financial resources, capital structure and treasury policy

The Group generally finances its operation through internally-generated cash flows and bank facilities provided by the banks during the six months ended 30 June 2019. As at 30 June 2019, the total bank balances and cash of the Group amounted to approximately HK\$186.2 million (As at 31 December 2018: approximately HK\$55.0 million).

The Group has a bank borrowing of approximately HK\$2.4 million as at 30 June 2019. As at 30 June 2019, the current ratio (defined as total current assets divided by total current liabilities) was approximately 2.51 times as compared to 1.22 times as at 31 December 2018.

As at 30 June 2019, the issued share capital of the Company was HK\$35,410,000 divided into 354,100,000 Shares.

As at 30 June 2019, the Group had outstanding corporate bonds with carrying amount of approximately HK\$264.9 million, which were recorded as non-current liabilities.

The Group adopts a conservative approach towards its treasury policies. The Group's credit risk is primarily attributable to trade receivables, amounts due from related parties, pledged bank deposit and bank balances. In the view of the business nature of the Group, the Directors considered that the credit risks of trade receivables are immaterial after considering the credit quality and financial ability of the relevant financial institutions and there is no history of delay or default in settlement by them. The management considered there was no recoverability problem from the related parties of the Group. The pledged bank deposit and the bank balances are deposited with banks which have good reputation.

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.

Exposure to fluctuation in exchange rates and any related hedges

As at 30 June 2019, the Group have certain bank deposits, other receivables and deposits which has exchanged to foreign currency denominated in Renminbi ("RMB"), United States Dollars ("USD"), Singapore Dollar ("S\$") and AUD which may expose the Group to foreign currency risk. The Group was exposed to certain foreign currency exchange risks but it does not anticipate future currency fluctuations to cause material operational difficulties or liquidity problems. The Group currently had no foreign currency hedging policy. However, the management will monitor foreign exchange position and will consider appropriate action should the circumstances change.

Significant investment, material acquisitions and disposals

As at 30 June 2019, except for short-term investments including the financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income amounted to approximately HK\$32.4 million, there was no other significant investment held by the Group.

During the six months ended 30 June 2019, save for the proposed Acquisition, the Group did not conduct any material acquisitions and disposals.

Contingent liabilities and capital commitment

As at 30 June 2019, the Group did not have any significant contingent liabilities and capital commitments.

Pledge of assets

As at 30 June 2019, the Group pledged its financial assets at fair value through profit or loss amounted to HK\$3.8 million against its outstanding security margin account balances.

Employees and remuneration policies

With increase in number of subsidiaries and dance centers, staff costs of the Group, including Directors' emoluments, were approximately HK\$34.4 million for the six months ended 30 June 2019 (2018: approximately HK\$16.7 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.

B. For the year ended 31 December 2018***Business review***

The Group continues focusing on engaging in business of jazz and ballet and pop dance academy in Hong Kong.

During the year ended 31 December 2018, competition in the dance institution industry for children in Hong Kong was intense. During the year ended 31 December 2018, the Group operated twenty three dance centres in Hong Kong and continued to maintain and attract the 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 of its dance academy business and effectively market the courses to a broader base of students. The Company has no intention to dispose, downsize and/or terminate the dance academy business.

The Group implemented a strategy to enhance the Group's current operation, which is to engage in the kindergarten business in Hong Kong by cooperating with Chatsworth being operated international kindergartens, primary and secondary schools under the brand "Chatsworth" in Singapore for over 20 years.

Meanwhile, the Company will also expedite its expansion in the overseas market to diversify and further broaden 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 that maximize shareholders' return in the long term.

During the year ended 31 December 2018, with the establishment of a kindergarten in Hong Kong and completion of the acquisition of a number of subsidiaries as detailed under the section headed "Significant investment, material acquisitions and disposals" below, the Group has commenced (i) the early childhood education business; and (ii) the operation of the provision of swallowing and speech treatments and provision of photographic services for children in Hong Kong.

As at 31 December 2018, the Group operates (i) twenty three dance centres in Hong Kong; (ii) one kindergarten in Hong Kong; (iii) six kindergartens and/or preschools in Singapore; and (iv) one treatment centre for the provision of swallowing and speech treatments in Hong Kong.

Financial review

During the year ended 31 December 2018, with the completion of the acquisition of a number of subsidiaries as detailed under the section headed “Significant investment, material acquisitions and disposals” below, the Group has three operating segments, namely (i) the dance academy business; (ii) early childhood education business; and (iii) others including the operation of the provision of swallowing and speech treatments and provision of photographic services for children in Hong Kong.

Dance academy business

Revenue of the dance academy business was mainly contributed by the self-operated dance centres in respect of the provision of elementary courses, CSTD jazz courses, RAD ballet courses etc. to the students. During the year ended 31 December 2018, the dance academy business contributed revenue of approximately HK\$61.7 million, representing a decrease of approximately 4.0% as compared to the revenue of approximately HK\$64.3 million for the corresponding year, which was mainly attributable to the increasing competition as discussed above. The dance academy business record a loss of approximately HK\$14.7 million for the year ended 31 December 2018.

Early childhood education business

Upon the establishment of the kindergarten in Hong Kong and the completion of the acquisition of six kindergartens in Singapore as discussed above, the Group commenced the early childhood education business during the year ended 31 December 2018 and recorded revenue of approximately HK\$9.5 million. The early childhood education business recorded a loss of approximately HK\$13.2 million for the year ended 31 December 2018 as (i) the kindergarten in Hong Kong recorded a loss of approximately HK\$10.0 million as the first curriculum will only commence in September 2019; (ii) the Group only completed acquisition of the kindergartens in Singapore during the year, details of which are disclosed under the section headed “Significant investment, material acquisitions and disposals” below; and (iii) transaction cost including but not limited to legal and professional fees for the above acquisitions of approximately HK\$2.6 million.

Others

Revenue for the others segment represented revenue from the provision of swallowing and speech treatments and provision of photograph services for children in Hong Kong. The Group recorded revenue of approximately HK\$5.3 million and a segment profit of approximately HK\$1.7 million from such segment for the year ended 31 December 2018.

Other income

Other income of the Group increased slightly by approximately 22% from approximately HK\$10.4 million for the year ended 31 December 2017 to approximately HK\$12.7 million for the year ended 31 December 2018.

Loss attributable to owners of the Company

The Group recorded a loss attributable to owners of the Company amounted to approximately HK\$53.5 million for the year ended 31 December 2018 while the Group recorded a loss attributable to owners of the Company amounted to approximately HK\$25.7 million for the year ended 31 December 2017. Such increase in loss was mainly due to the one-off non-operation costs in 2018. According to the HKFRS accounting standard, during the year 2018, the impairment losses on goodwill and fair value change in consideration of acquisition of subsidiaries amounted to HK\$15.2 million were included. Furthermore, legal and professional fee for acquisition of local and overseas subsidiaries amounted to HK\$5.3 million and license fee to government for waiver of land use amounted to HK\$2.5 million were included. These one-off expenses were incurred in the acquisition of subsidiaries and expanding business in the international preschools market.

Liquidity, financial resources, capital structure and treasury policy

The Group generally finances its operation through internally-generated cash flows and bank facilities provided by the banks during the year ended 31 December 2018. As at 31 December 2018, the total bank balances and cash of the Group amounted to approximately HK\$55 million (2017: approximately HK\$133.8 million). The Group has a bank borrowing of approximately HK\$3 million as at 31 December 2018 and none as at 31 December 2017. As at 31 December 2018, the current ratio (defined as total current assets divided by total current liabilities) was approximately 1.22 times as compared to 3.5 times as at 31 December 2017.

As at 31 December 2018 and 2017, the issued share capital of the Company was HK\$35,410,000 divided into 354,100,000 Shares.

As at 31 December 2018, the Group had outstanding corporate bonds with carrying amount of approximately HK\$69.2 million (2017: Nil). The corporate 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

repayment of the bonds is guaranteed by Wealthy Together Limited, is wholly and beneficially owned by Mr. Chiu Ka Lok, an executive Director and the Chairman of the Company.

The Group adopts a conservative approach towards its treasury policies. The Group's credit risk is primarily attributable to trade receivables, amounts due from related parties, pledged bank deposit and bank balances. In the view of the business nature of the Group, the Directors considered that the credit risks of trade receivables are immaterial after considering the credit quality and financial ability of the relevant financial institutions and there is no history of delay or default in settlement by them. The management considered there was no recoverability problem from the related parties of the Group. The pledged bank deposit and the bank balances are deposited with banks which have good reputation.

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.

Exposure to fluctuation in exchange rates and any related hedges

As at 31 December 2018, the Group have certain bank deposits, other receivables and deposits which has exchanged to foreign currency denominated in Renminbi (“RMB”), United States Dollars (“USD”), Singapore Dollar (“S\$”) and AUD which may expose the Group to foreign currency risk. The Group was exposed to certain foreign currency exchange risks but it does not anticipate future currency fluctuations to cause material operational difficulties or liquidity problems. The Group currently had no foreign currency hedging policy. However, the management will monitor foreign exchange position and will consider appropriate action should the circumstances change.

Significant investment, material acquisitions and disposals

As at 31 December 2018, except for the held-for-trading investments amounted to approximately HK\$3.6 million, there was no other significant investment held by the Group.

During the year ended 31 December 2018, the Group has conducted the following material acquisitions and disposals.

Acquisition of Global Win Group

Pursuant to the sales and purchase agreement dated 18 September 2017 and subsequent supplemental agreements dated 30 March 2018 and 19 June 2018 (collectively referred to the “**Global Win S&P Agreements**”) entered into by the Company and an executive director, Mr. Chiu Ka Lok, and a non-executive director, Dr. Chun Chun, (collectively referred to as the “**Global Win Vendors**”), the Company acquired the entire issued share capital of Global Win on 31 July 2018 with total

consideration of HK\$32,000,000 which shall be satisfied by way of issue of 80,000,000 new Shares of the Company to each of the Global Win Vendors in proportion to their respective shareholdings in Global Win. The principal assets of Global Win are its investment in the wholly owned subsidiaries, Hong Kong Speech & Swallowing Therapy Co. Limited (“**Hong Kong Speech**”) and Stage Photography Company Limited (“**Stage Photography**”). Hong Kong Speech is engaged in the provision of swallowing and speech treatments. Stage Photography is engaged in the provision of photographic services for children. Please refer to the circular of the Company dated 6 July 2018 for details.

Upon completion of the acquisition on 31 July 2018, the financial results of Global Win Group was consolidated into the financial statements of the Company, which contributed revenue and net profit of approximately HK\$5.3 million and HK\$1.7 million respectively for the year ended 31 December 2018.

Acquisition of the Columbia Group

Pursuant to the sales and purchase agreement dated 29 June 2018 (the “**Columbia S&P Agreement**”) entered into by a wholly-owned subsidiary of the Company and two independent third parties, the Group acquired 90% issued share capital of Columbia Academy Pte Limited and Columbia Junior Academy Pte Limited, companies incorporated in Singapore with limited liabilities (collectively referred to as the “**Columbia Group**”) on 3 July 2018 with total cash consideration of S\$2,059,000. Columbia Group is principally engaged in the operation of two preschools under the brand “Columbia Academy” in Singapore. Please refer to the announcement of the Company dated 29 June 2018 for details.

Upon completion of the acquisition on 3 July 2018, the financial results of Columbia Group was consolidated into the financial statements of the Company, which contributed revenue and net profit of approximately HK\$4.9 million and HK\$0.5 million respectively for the year ended 31 December 2018.

Acquisition of Tinkerland

Pursuant to the sales and purchase agreement dated 3 October 2018 (the “**Tinkerland S&P Agreement**”) entered into by a wholly-owned subsidiary of the Company and two independent third parties, the Group acquired 90% issued share capital of Tinkerland Private Limited (“**Tinkerland**”), a company incorporated in Singapore with limited liabilities on 3 October 2018 with total cash consideration of S\$1,890,000. Tinkerland is principally engaged in the operation of a pre-school in Singapore. Please refer to the announcement of the Company dated 3 October 2018 for details.

Upon completion of the acquisition on 3 October 2018, the financial results of Tinkerland was consolidated into the financial statements of the Company, which contributed revenue and net profit of approximately HK\$1.6 million and HK\$0.2 million respectively for the year ended 31 December 2018.

Acquisition of Happy Family Business

On 1 November 2018, a wholly-owned subsidiary of the Company entered into the sale and purchase agreements (the “**Happy Family S&P Agreements**”) with two independent third parties, pursuant to which the vendors have conditionally agreed to sell and the subsidiary has conditionally agreed to purchase certain assets relating to the business of operating and managing the childcare centres currently carried out by the vendors (the “**Happy Family Business**”) at total cash consideration of S\$1,250,000. Please refer to the announcement of the Company dated 1 November 2018 for details. The acquisition of the Happy Family Business was completed on 1 January 2019.

Acquisition of BTT Group

Pursuant to the sales and purchase agreement dated 12 November 2018 entered into by a wholly owned subsidiary of the Company and three independent third parties, the Group acquired the entire issued share capital of Between Two Trees Pte Limited and The Lighthouse Keepers Pte Limited (collectively referred to as the “**BTT Group**”), companies incorporated in Singapore with limited liabilities on 12 November 2018 with total cash consideration of S\$1,350,000. BTT Group is principally engaged in the operation of a pre-school in Singapore. Please refer to the announcement of the Company dated 12 November 2018 for details.

Upon completion of the acquisition on 12 November 2018, the financial results of BTT Group was consolidated into the financial statements of the Company, which contributed revenue and net profit of approximately HK\$1.0 million and HK\$0.1 million respectively for the year ended 31 December 2018.

Disposal of Metro Noble Limited

On 11 April 2018, the Group disposed of 100% of the entity interest in Metro Noble Limited for a cash consideration of HK\$7,200,000.

Contingent liabilities and capital commitment

The Group had no material contingent liabilities as at 31 December 2018.

As at 31 December 2018, the Group did not have any significant capital commitments except the followings:

- (i) The Group has commitment to contribute a registered capital of RMB3,000,000 (2017: RMB3,000,000) to its subsidiaries of each of 廣州德理隆商務服務有限公司 (“**Guangzhou Delilong**”) and 廣州樂動心弦文化發展有限公司 as at 31 December 2018; and

- (ii) Pursuant to Columbia S&P Agreement and Tinkerland S&P Agreement, the Group has commitment to acquire the remaining equity interest of Columbia Group and Tinkerland at a total cash consideration of S\$324,000; and
- (iii) Pursuant to Happy Family S&P Agreements, the Group has commitment to acquire the Happy Family Businesses at a consideration of S\$1,250,000. Up to 31 December 2018, the Group has paid S\$575,000 to the Happy Family Vendors.

Pledge of assets

As at 31 December 2018, the Group pledged its held for trading investments amounted to HK\$3.6 million against its outstanding security margin account balances.

Employees and remuneration policies

With increase in number of subsidiaries, staff costs of the Group, including Directors' emoluments, were approximately HK\$38 million for the year ended 31 December 2018 (2017: approximately HK\$26.2 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.

C. For the year ended 31 December 2017***Business review***

The Group continues focusing on engaging in business of jazz and ballet and pop dance academy in Hong Kong and the PRC.

During the year ended 31 December 2017, competition in the dance institution industry for children in Hong Kong is intense, the Group continues to maintain and attract the 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 decides to implement a strategy to enhance the Group's current operation, which is to engage in the kindergarten business in Hong Kong by cooperating with Chatsworth being operated international kindergartens, primary and secondary schools under the brand "Chatsworth" in Singapore for over 20 years.

Meanwhile, the Company will also expedite its expansion in the overseas market to diversify and further broaden 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 that maximize shareholders' return in the long term.

Financial review

Revenue was mainly contributed by the self-operated dance centres in respect of the provision of elementary courses, CSTD jazz courses, RAD ballet courses etc. to the students. For the year ended 31 December 2017, the Group recorded revenue of approximately HK\$64.3 million, representing an increase of approximately 4.3% compared with the revenue of approximately HK\$61.7 million for corresponding year. There was no significant change for the total revenue as compared to the year ended 31 December 2016.

During the year ended 31 December 2017, the revenue from the provision of elementary courses was the main source of revenue which amounted to approximately HK\$30.4 million (2016: approximately HK\$29.7 million), representing approximately 47.2% (2016: approximately 48.1%) of the Group's total revenue. Revenue generating from the provision of CSTD jazz courses and RAD ballet courses during the year ended 31 December 2017 were approximately HK\$21.1 million (2016: approximately HK\$19.4 million) and HK\$3.7 million (2016: approximately HK\$3.7 million) respectively, representing approximately 32.8% (2016: approximately 31.4%) and approximately 5.8% (2016: approximately 6.0%) of the Group's total revenue respectively. There were no significant changes as compared to year ended 31 December 2016.

Other income of the Group increased by approximately 23.8% from approximately HK\$8.4 million for the year ended 31 December 2016 to approximately HK\$10.4 million for the year ended 31 December 2017.

Rental expenses of the Group increased by approximately 15% from approximately HK\$22.1 million for the year ended 31 December 2016 to approximately HK\$25.4 million for the year ended 31 December 2017, which was mainly due to the increment in rental expenses of the Group's leased dance centres and its head office.

Staff costs mainly comprise salaries, performance bonuses and retirement benefits scheme contributions paid to the directors, instructors, teaching assistants, sales and marketing staff, operating staff and administrative staff. Staff costs increased by approximately 6.1% from approximately HK\$24.7 million for the year ended 31 December 2016 to approximately HK\$26.2 million for the year ended 31 December 2017.

Other operating expenses of the Group increased by approximately 17.3%, from approximately HK\$23.8 million for the year ended 31 December 2016 to approximately HK\$27.9 million for the year ended 31 December 2017, which was mainly attributable to additional professional fees incurred for continuing obligations, consultancy fee and credit card charges.

The Group recorded a loss attributable to owners of the Company amounted to approximately HK\$25.7 million for the year ended 31 December 2017 (2016: approximately HK\$10.4 million). Such increase in loss was mainly due to the oneoff non-operation costs during the year ended 31 December 2017 including (i) loss on disposal of subsidiaries; and (ii) impairment losses on goodwill, other receivable and amount due from joint ventures.

Liquidity, financial resources, capital structure and treasury policy

The Group generally finances its operation through internally-generated cash flows and bank facilities provided by the banks during the year. As at 31 December 2017, the total bank balances and cash of the Group amounted to approximately HK\$133.8 million (2016: approximately HK\$22.3 million).

There was no bank borrowings of the Group as at 31 December 2017 and 2016.

As at 31 December 2017, the current ratio (defined as total current assets divided by total current liabilities) was approximately 3.3 times as compared to that 0.99 times as at 31 December 2016.

As at 31 December 2017, the gearing ratio (calculating based on total bank borrowings and obligation arising from put options written to non-controlling shareholders of subsidiary and other payables, divided by total equity and multiplied by 100%) was approximately 122.1% (2016: approximately 4.2%).

As at 31 December 2017, the issued share capital of the Company was HK\$35,410,000 divided into 354,100,000 Shares.

The Group adopts a conservative approach towards its treasury policies. The Group's credit risk is primarily attributable to trade receivables, rental deposits, amounts due from related parties, pledged bank deposit and bank balances. In the view of the business nature of the Group, the Directors considered that the credit risks of trade receivables are immaterial after considering the credit quality and financial ability of the relevant financial institutions and there is no history of delay or default in settlement by them. The management of the Group considered that the credit risks of rental deposits are insignificant after considering the financial ability of the counterparties. The management considered there was no recoverability problem from the related parties of the Group. The pledged bank deposit and the bank balances are deposited with banks which have good reputation.

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.

Exposure to fluctuation in exchange rates and any related hedges

As at 31 December 2017, the Group has certain bank deposits, other receivables and deposits and available-for-sale investments which has exchanged to foreign currency denominated in RMB, which may expose the Group to foreign currency risk. The Group was exposed to certain foreign currency exchange risks but it does not anticipate future currency fluctuations to cause material operational difficulties or liquidity problems. The Group currently had no foreign currency hedging policy. However, the management will monitor foreign exchange position and will consider appropriate action should the circumstances change. As at 31 December 2017, the bank deposits, other receivables and deposits and available-for-sale investments denominated in RMB are approximately HK\$43.4 million (2016: Nil), HK\$2.5 million (2016: HK\$5.5 million) and HK\$5.8 million (2016: Nil) respectively.

Significant investment, material acquisitions and disposals

During the year ended 31 December 2017, the Group did not have any significant investments.

During the year ended 31 December 2017, the Group has conducted the following material acquisitions and disposals.

Acquisition of Octopus Group

On 6 January 2017, the Group acquired 60% of the issued share capital of Octopus Group Limited (“**Octopus**”) and the consideration was settled by cash of HK\$500,000 and issue of 2,400,000 new Shares of the Company. Octopus and its subsidiaries are

engaged in providing extracurricular programs and English courses to kindergartens in Hong Kong and the PRC and running English training centre in the PRC.

Disposal of Octopus Group

On 27 December 2017, the Group disposed 60% of the equity interest in Octopus for cash consideration of HK\$1,460,000.

Contingent liabilities and capital commitment

As at 31 December 2017, the Group did not have any material contingent liabilities.

As at 31 December 2017, the Group did not have any significant capital commitments except the followings:

- (i) The Group has commitment to contribute registered capital of RMB3,000,000 (2016: Nil) to Guangzhou Delilong as at 31 December 2017; and
- (ii) Pursuant to the Global Win S&P Agreements, the Company agreed to purchase the entire issued share capital of Hong Kong Speech and Stage Photography with a total consideration of HK\$32,000,000 by issuing 80,000,000 new Shares of the Company to each of the Global Win Vendors in proportion to their respective shareholdings in Hong Kong Speech and Stage Photography. As at 31 December 2017, the acquisition was still in process and not completed.

Pledge of assets

As at 31 December 2017, the Group did not pledge any assets.

Employees and remuneration policies

As at 31 December 2017, the Group employed a total of 123 full-time and 91 part-time employees (2016: 132 full-time and 93 part-time employees) respectively. Staff costs of the Group, including Directors' emoluments, were approximately HK\$26.2 million for the year ended 31 December 2017 (2016: approximately HK\$24.7 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.

D. For the year ended 31 December 2016***Business review***

The Group continues focusing on engaging in business of jazz and ballet and pop dance academy in Hong Kong and the PRC.

During the year ended 31 December 2016, competition in the dance institution industry for children in Hong Kong is intense, the Group continues to maintain and attract the 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 decides to implement a new strategy to enhance the Group's current operation, which is to engage in the kindergarten business in Hong Kong by cooperating with Chatsworth being operated international kindergartens, primary and secondary schools under the brand "Chatsworth" in Singapore for over 20 years.

On 29 December 2016, the Group established a new subsidiary located in Kowloon Tong for preparing the development of the operation of day care centres, kindergartens and indoor theme-based kids clubs.

Meanwhile, the Company will also expedite its expansion in the PRC and 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 that maximize shareholders' return in the long term.

Financial review

Revenue was mainly contributed by the self-operated dance centres in respect of the provision of elementary courses, CSTD jazz courses, RAD ballet courses etc. to the students. For the year ended 31 December 2016, the Group recorded revenue of approximately HK\$61.7 million, representing an increase of approximately 9.6% compared with the revenue of approximately HK\$56.3 million for corresponding year. There was no significant change for the total revenue as compared to the year ended 31 December 2015.

During the year under review, the revenue from the provision of elementary courses was the main source of revenue which amounted to approximately HK\$29.7 million (2015: approximately HK\$29.4 million), representing approximately 48.1% (2015: approximately 52.2%) of the Group's total revenue.

Revenue generating from the provision of CSTD jazz courses and RAD ballet courses during the year ended 31 December 2016 were approximately HK\$19.4 million (2015: approximately HK\$17.0 million) and HK\$3.7 million (2015: approximately

HK\$4.1 million) respectively, representing approximately 31.4% (2015: approximately 30.2%) and approximately 6.0% (2015: approximately 7.3%) respectively. There were no significant changes as compared to year ended 31 December 2015.

Other income of the Group remained stable from approximately HK\$8.2 million for the year ended 31 December 2015 to approximately HK\$8.4 million for the year ended 31 December 2016.

Rental expenses of the Group increased by approximately 13.9% from approximately HK\$19.4 million for the year ended 31 December 2015 to HK\$22.1 million for the year ended 31 December 2016 was due to the five centres opened in the second half of 2015, representing approximately 34.5% and 35.8% respectively of the revenue for the years ended 31 December 2015 and 2016.

Staff costs mainly comprise salaries, performance bonuses and retirement benefits scheme contributions paid to the directors, instructors, teaching assistants, sales and marketing staff, operating staff and administrative staff. Increased in staff costs by approximately 16.5% from approximately HK\$21.2 million for the year ended 31 December 2015 to approximately HK\$24.7 million for the year ended 31 December 2016 was due to the new centres opened in 2015.

Other operating expenses of the Group increased by approximately 12.3%, from approximately HK\$21.2 million for the year ended 31 December 2015 to approximately HK\$23.8 million for the year ended 31 December 2016, which was mainly attributable to additional professional fees incurred for continuing obligations consultancy fee and credit card charges.

The Group recorded a loss attributable to owners of the Company amounted to approximately HK\$10.4 million for the year ended 31 December 2016 while the Group recorded a loss attributable to owners of the Company amounted to approximately HK\$4.5 million for the year ended 31 December 2015. Such increase in loss was mainly due to the additional operation costs of the New Centres in 2015, which were reflected in the increase in (i) rental expenses; (ii) staff costs and (iii) other operating expenses for the year.

Liquidity, financial resources, capital structure and treasury policy

The Group generally finances its operation through internally-generated cash flows and bank facilities provided by the banks during the year. As at 31 December 2016, the total bank balances and cash of the Group amounted to approximately HK\$22.3 million (2015: approximately HK\$29.4 million).

There was no bank borrowings of the Group as at 31 December 2016 and 2015.

As at 31 December 2016, the current ratio (defined as total current assets divided by total current liabilities) was approximately 0.99 times as compared to that 1.5 times as at 31 December 2015.

As at 31 December 2016, the gearing ratio (calculating based on total bank borrowings and amounts due to related parties which is non-trade nature divided by total equity and multiplied by 100%) was approximately 11.5% (2015: approximately 5.5%).

As at 31 December 2015 and 2016, the issued share capital of the Company was HK\$20,000,000 divided into 200,000,000 Shares.

The Group adopts a conservative approach towards its treasury policies. The Group's credit risk is primarily attributable to trade receivables, rental deposits, amounts due from related parties, pledged bank deposit and bank balances. In the view of the business nature of the Group, the Directors considered that the credit risks of trade receivables are immaterial after considering the credit quality and financial ability of the relevant financial institutions and there is no history of delay or default in settlement by them. The management of the Group considered that the credit risks of rental deposits are insignificant after considering the financial ability of the counterparties. The management considered there was no recoverability problem from the related parties of the Group. The pledged bank deposit and the bank balances are deposited with banks which have good reputation.

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.

Exposure to fluctuation in exchange rates and any related hedges

As at 31 December 2016, the Group has certain bank deposits, other receivables and deposits and available-for-sale investments which has exchanged to foreign currency denominated in RMB, which may expose the Group to foreign currency risk. The Group was exposed to certain foreign currency exchange risks but it does not anticipate future currency fluctuations to cause material operational difficulties or liquidity problems. The Group currently had no foreign currency hedging policy. However, the management will monitor foreign exchange position and will consider appropriate action should the circumstances change. The bank deposits, other receivables and deposits and available-for-sale investments denominated in RMB as mentions above are equivalent to approximately Nil (2015: HK\$21.4 million), HK\$5.5 million (2015: HK\$0.4 million) and NIL (2015: HK\$10.1 million) respectively.

Significant investment, material acquisitions and disposals

During the year ended 31 December 2016, the Group acquired a new company located in Kowloon Tong, which being prepared for development of kindergartens business in 2017. The total capital expenditure and other initial investment incurred incidental to the opening of such company were approximately HK\$1.2 million.

Contingent liabilities and capital commitment

The Group had no material contingent liabilities as at 31 December 2016 (2015: Nil).

As at 31 December 2016, the Group did not have any significant capital commitments except the followings:

- (i) On 14 March 2016, the Group entered into a conditional sale and purchase agreement with two independent third parties pursuant to which the Group will acquire 60% equity interest in Octopus. The total consideration of the acquisition consists of HK\$500,000 cash and issuance of 2,400,000 new shares by the Company. Cash consideration of HK\$250,000 as at 31 December 2016 was paid and the remaining consideration was considered as capital commitment as at 31 December 2016; and
- (ii) Pursuant to the cooperative agreement entered with an independent third party on 5 October 2016 for setting up kindergarten business in Guangzhou, the total investment cost of the Group is RMB2,000,000. As at 31 December 2016, RMB1,100,000 was paid by the Group and the remaining investment cost of RMB900,000 is considered as capital commitment as at 31 December 2016.

Pledge of assets

As at 31 December 2016, the Group did not pledge any assets.

Employees and remuneration policies

As at 31 December 2016, the Group employed a total of 132 full-time and 93 part-time employees (2015: 120 full-time and 111 part-time employees) respectively. Staff costs of the Group, including Directors' emoluments, were approximately HK\$24.7 million for the year ended 31 December 2016 (2015: approximately HK\$21.2 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.

7. EFFECT OF THE ACQUISITION ON THE EARNINGS AND ASSETS AND LIABILITIES OF THE GROUP

Following the completion and subject to audit, the Target Companies will become indirect wholly-owned subsidiaries of the Company and the financial results, assets and liabilities of the Target Companies will be consolidated into the accounts of the Group.

As referred to in “Appendix III — Unaudited Pro Forma Financial Information of the Enlarged Group” to this circular, on the basis of the notes set out therein for the purposes of illustrating the effects of the Acquisition, the financial effects of the Acquisition on the Group if the Acquisition had taken place and had been completed on 30 June 2019 and 31 December 2018 would be as follows:

- (a) the unaudited consolidated total assets of the Group would have increased by approximately HK\$26.61 million, or approximately 6.0%, from approximately HK\$443.59 million as at 30 June 2019 to approximately HK\$470.20 million;
- (b) the unaudited consolidated total liabilities of the Group would have increased by approximately HK\$27.68 million, or approximately 6.08%, from approximately HK\$455.32 million as at 30 June 2019 to approximately HK\$483.0 million; and
- (c) the audited loss after tax of the Group would have decreased by approximately HK\$0.08 million, or approximately 0.13%, from approximately HK\$59.72 million for the year ended 31 December 2018 to approximately HK\$59.64 million.

8. BUSINESS OVERVIEW AND PROSPECTS

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

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

Going forward, the Group will implement a strategy to enhance the Group’s current operation, which is to engage in the operation of day care centres, kindergartens and indoor theme-based kid clubs through acquisition.

Meanwhile, the Company will also expedite its expansion in Singapore and other overseas markets to 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 that maximize shareholders’ return in the long term.

APPENDIX II ACCOUNTANTS' REPORT OF THE TARGET COMPANIES

The following is the text of a report on the Target Companies, prepared for the sole purpose of incorporation in this circular, received from the independent reporting accountant, D & PARTNERS CPA LIMITED, Certified Public Accountants, Hong Kong.



ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION OF TARGET COMPANIES TO THE DIRECTORS OF SDM GROUP HOLDINGS LIMITED

INTRODUCTION

We report on the historical financial information of Global Tots Pte. Ltd., Global Tots @ Braddell Pte. Ltd., Global Tots @ Sembawang Pte. Ltd., and Global Tots @ Mountbatten Pte. Ltd. (hereinafter collectively referred as the “**Target Companies**”) set out on pages II-1 to II-47, which comprises the combined statements of financial position of the Target Companies as at 31 December 2016, 2017, 2018 and 30 September 2019, the combined statements of profit or loss and other comprehensive income, the combined statements of changes in equity and the combined statements of cash flows of the Target Companies for each of the three years ended 31 December 2016, 2017 and 2018 and the nine months ended 30 September 2019 (the “**Relevant Periods**”) and a summary of significant accounting policies and other explanatory information (together, the “**Historical Financial Information**”). The Historical Financial Information forms an integral part of this report, which has been prepared for inclusion in the circular of the SDM Group Holdings Limited (the “**Company**”) dated 26 March 2020 (the “**Circular**”) in connection with the major transaction in relation to the proposed acquisition of 100% of the issued share capital of the Target Companies (the “**Acquisition**”).

DIRECTORS' RESPONSIBILITY FOR THE HISTORICAL FINANCIAL INFORMATION

The directors of the Target Companies are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in notes 1 to the Historical Financial Information, and for such internal control as the directors of the Target Companies determines is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

The directors of the Target Companies are responsible for the contents of the Circular in which the Historical Financial Information of the Target Companies are included, and such information is prepared based on accounting policies materially consistent with those of the Company.

APPENDIX II ACCOUNTANTS' REPORT OF THE TARGET COMPANIES

REPORTING ACCOUNTANTS' RESPONSIBILITY

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants' consider internal control relevant to the entities' preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in notes 1 to the Historical Financial Information in order to design procedures that appropriate in the circumstance, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

OPINION

In our opinion the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the Target Companies' financial position as at 31 December 2016, 2017, and 2018 and 30 September 2019, and of the Target Companies' financial performance and cash flows for the Relevant Periods in accordance with the basis of preparation and presentation set out in notes 1 to the Historical Financial Information.

REVIEW OF STUB PERIOD COMPARATIVE FINANCIAL INFORMATION

We have reviewed the stub period comparative financial information of the Target Companies which comprises the combined statements of profit or loss and other comprehensive income, the combined statement of changes in equity and the combined statements of cash flows for the nine months ended 30 September 2018 and other explanatory information (the "**Stub Period Comparative Financial Information**"). The directors of the Target Companies are responsible for the preparation and presentation of the Stub Period Comparative Financial Information in accordance with the basis of preparation and presentation set out in notes 1 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong

APPENDIX II ACCOUNTANTS' REPORT OF THE TARGET COMPANIES

Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing (“**HKSAs**”) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountants’ report, is not prepared, in all material respects, in accordance with the basis of preparation and presentation set out in notes 2 and 3 to the Historical Financial Information.

REPORT ON MATTERS UNDER THE RULES GOVERNING THE LISTING OF SECURITIES ON THE GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED AND THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page II-4 have been made.

Dividends

We refer to note 11 to the Historical Financial Information which states that no dividends have been paid or declared by the Target Companies in respect of the Relevant Periods.

D & PARTNERS CPA LIMITED

Certified Public Accountants

Hong Kong, 26 March 2020

Yeung Chun Yue David

Practising certificate number P05595

APPENDIX II ACCOUNTANTS' REPORT OF THE TARGET COMPANIES

HISTORICAL FINANCIAL INFORMATION OF TARGET COMPANIES

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The combined financial statements of the Target Companies, on which the Historical Financial Information is based, were audited by us in accordance with the HKSAAs issued by the HKICPA and have been prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA ("**Underlying Financial Statements**").

The Historical Financial Information is presented in Singapore dollars ("**SGD**"), which is also the functional currency of the Target Companies, and all values are rounded to the nearest thousand ("**SGD'000**") except when otherwise indicated.

APPENDIX II ACCOUNTANTS' REPORT OF THE TARGET COMPANIES

COMBINED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	<i>Notes</i>	Year ended 31 December			Nine months ended 30 September	
		2016 <i>SGD '000</i>	2017 <i>SGD '000</i>	2018 <i>SGD '000</i>	2018 <i>SGD '000</i>	2019 <i>SGD '000</i>
					(unaudited)	
Revenue	5	2,095	2,937	3,588	2,703	2,661
Other income	6	280	350	506	388	385
Depreciation		(86)	(136)	(131)	(99)	(552)
Rental expenses		(366)	(607)	(696)	(522)	—
Amortisation		—	(21)	(21)	(21)	—
Staff costs		(1,195)	(1,874)	(2,305)	(1,735)	(1,788)
Advertising and promotion expenses		(19)	(52)	(39)	(32)	(20)
Other expenses		(281)	(557)	(677)	(510)	(445)
Finance costs	7	(10)	(15)	(12)	(9)	(126)
		418	25	213	163	115
Profit before tax	9	418	25	213	163	115
Income tax expense	8	(24)	(17)	(15)	(14)	(19)
		394	8	198	149	96
Profit and total comprehensive income for the year/period		394	8	198	149	96

APPENDIX II ACCOUNTANTS' REPORT OF THE TARGET COMPANIES

COMBINED STATEMENTS OF FINANCIAL POSITION

		As at 31 December			As at
	<i>Notes</i>	2016	2017	2018	30 September
		<i>SGD'000</i>	<i>SGD'000</i>	<i>SGD'000</i>	2019
					<i>SGD'000</i>
Non-current assets					
Property, plant and equipment	13	134	252	168	96
Right-of-use assets	14	—	—	—	2,288
Intangible assets	15	—	21	—	—
Goodwill	16	—	697	697	697
Rental deposits	17	138	177	178	134
		<u>272</u>	<u>1,147</u>	<u>1,043</u>	<u>3,215</u>
Current assets					
Trade receivables, deposits and prepayments	17	77	77	79	60
Amounts due from directors	21	717	115	499	326
Bank balances and cash	18	363	251	279	682
		<u>1,157</u>	<u>443</u>	<u>857</u>	<u>1,068</u>
Current liabilities					
Other payables and accrued charges	19	331	451	472	520
Deferred income	20	167	247	291	290
Bank borrowings	24	275	220	262	203
Tax payables		8	5	17	25
Lease liabilities	25	—	—	—	572
		<u>781</u>	<u>923</u>	<u>1,042</u>	<u>1,610</u>
Net current assets/(liabilities)		<u>376</u>	<u>(480)</u>	<u>(185)</u>	<u>(542)</u>
Total assets less current liabilities		<u>648</u>	<u>667</u>	<u>858</u>	<u>2,673</u>
Non-current liabilities					
Deferred tax liabilities	23	17	28	21	12
Lease liabilities	25	—	—	—	1,728
		<u>17</u>	<u>28</u>	<u>21</u>	<u>1,740</u>
Net assets		<u><u>631</u></u>	<u><u>639</u></u>	<u><u>837</u></u>	<u><u>933</u></u>
Capital and reserves					
Combined share capital	22	1,440	1,440	1,440	1,440
Accumulated losses		<u>(809)</u>	<u>(801)</u>	<u>(603)</u>	<u>(507)</u>
Total equity		<u><u>631</u></u>	<u><u>639</u></u>	<u><u>837</u></u>	<u><u>933</u></u>

APPENDIX II ACCOUNTANTS' REPORT OF THE TARGET COMPANIES

COMBINED STATEMENTS OF CHANGES IN EQUITY

	Share capital <i>SGD'000</i>	Accumulated losses <i>SGD'000</i>	Total equity <i>SGD'000</i>
At 1 January 2016	1,260	(1,203)	57
Profit and total comprehensive income for the year	—	394	394
Issue of shares	180	—	180
	1,440	(809)	631
At 31 December 2016 and 1 January 2017	1,440	(809)	631
Profit and total comprehensive income for the year	—	8	8
	1,440	(801)	639
At 31 December 2017 and 1 January 2018	1,440	(801)	639
Profit and total comprehensive income for the year	—	198	198
	1,440	(603)	837
At 31 December 2018 and 1 January 2019	1,440	(603)	837
Profit and total comprehensive income for the period	—	96	96
	1,440	(507)	933
	1,440	(507)	933
For the nine months ended 30 September 2018 (unaudited)			
At 1 January 2018	1,440	(801)	639
Profit and total comprehensive income for the period	—	149	149
	1,440	(652)	788
At 30 September 2018 (Unaudited)	1,440	(652)	788

APPENDIX II ACCOUNTANTS' REPORT OF THE TARGET COMPANIES

COMBINED STATEMENTS OF CASH FLOWS

	Year ended 31 December			Nine months ended 30 September	
	2016	2017	2018	2018	2019
	<i>SGD '000</i>	<i>SGD '000</i>	<i>SGD '000</i>	<i>SGD '000</i>	<i>SGD '000</i>
				(unaudited)	
OPERATING ACTIVITIES					
Profit before taxation	418	25	213	163	115
Adjustments for:					
Depreciation	86	136	131	99	552
Amortisation	—	21	21	21	—
Finance costs	10	15	12	9	126
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Operating cash flows before movements in working capital	514	197	377	292	793
(Increase)/decrease in trade receivables, deposits and prepayments	(55)	(39)	(3)	(103)	19
(Increase)/decrease in amounts due from directors	(861)	602	(384)	(201)	173
Increase/(decrease) in other payables and accrued charges	55	120	21	(14)	48
Increase/(decrease) in deferred income/contract liabilities	43	80	44	46	(1)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Cash (used in)/generated from operations	(304)	960	55	20	1,032
Income tax paid	(4)	(9)	(10)	(10)	(20)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
NET CASH (USED IN)/ GENERATED FROM OPERATING ACTIVITIES	<hr/> (308)	<hr/> 951	<hr/> 45	<hr/> 10	<hr/> 1,012

APPENDIX II ACCOUNTANTS' REPORT OF THE TARGET COMPANIES

	Year ended 31 December			Nine months ended 30 September	
	2016 <i>SGD '000</i>	2017 <i>SGD '000</i>	2018 <i>SGD '000</i>	2018 <i>SGD '000</i> (unaudited)	2019 <i>SGD '000</i>
INVESTING ACTIVITIES					
Purchases of items of property, plant and equipment	(83)	(243)	(47)	(42)	(17)
Payment for acquisition of business	—	(750)	—	—	—
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
NET CASH USED IN					
INVESTING ACTIVITIES	<u>(83)</u>	<u>(993)</u>	<u>(47)</u>	<u>(42)</u>	<u>(17)</u>
FINANCING ACTIVITIES					
Interest paid	(10)	(15)	(12)	(9)	(11)
New bank borrowings raised	300	—	101	—	—
Repayment of bank borrowings	(25)	(55)	(59)	(44)	(59)
Repayment of lease liabilities	—	—	—	—	(522)
Proceeds from issue of shares	180	—	—	—	—
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
NET CASH GENERATED FROM/(USED IN)					
FINANCING ACTIVITIES	<u>445</u>	<u>(70)</u>	<u>30</u>	<u>(53)</u>	<u>(592)</u>
NET INCREASE/(DECREASE) IN					
CASH AND CASH EQUIVALENTS	54	(112)	28	(85)	403
CASH AND CASH EQUIVALENTS AT					
BEGINNING OF THE YEAR/PERIOD	<u>309</u>	<u>363</u>	<u>251</u>	<u>251</u>	<u>279</u>
CASH AND CASH EQUIVALENTS AT					
END OF THE YEAR/PERIOD	<u><u>363</u></u>	<u><u>251</u></u>	<u><u>279</u></u>	<u><u>166</u></u>	<u><u>682</u></u>

NOTES TO HISTORICAL FINANCIAL INFORMATION

1. GENERAL INFORMATION AND BASIS OF PREPARATION AND PRESENTATION

1.1 General information

Global Tots Pte. Ltd., Global Tots @ Braddell Pte. Ltd., Global Tots @ Sembawang Pte. Ltd. and Global Tots @ Mountbatten Pte. Ltd. were limited liability companies incorporated and domiciled in Singapore on 14 April 2014, 9 April 2015, 20 May 2016 and 25 August 2016 respectively, with fiscal financial year ended on 31 December. During the Relevant Periods, the Target Companies were wholly and jointly-owned by the three shareholders, Mr. Lau Tse Kit (“LTK”), Mr. Choe Peng Meng (“CPM”) and Ms. Lau Shih-Venn, Vivienne (“LSVV”), which are also directors of the Target Companies.

The address of registered office and principal place of business of Global Tots Pte. Ltd. is 3 Jalan Hitam Manis, Chip Bee Gardens, Singapore 278418.

The address of registered office and principal place of business of Global Tots @ Braddell Pte. Ltd. is 6 Muswell Hill, Singapore 358421.

The address of registered office and principal place of business of Global Tots @ Sembawang Pte. Ltd. is 579 Sembawang Place, Goldwood Gardens, Singapore 758427.

The address of registered office and principal place of business of Global Tots @ Mountbatten Pte. Ltd. is 3 Jalan Hitam Manis, Chip Bee Gardens, Singapore 278418 and 5A Crescent Road, Singapore 439291.

The Target Companies are engaged in provision of early childhood education service and other related service in Singapore.

The Historical Financial Information is presented in Singapore dollars (“SGD”), which is the same as the functional currency of the Target Companies.

1.2 Basis of preparation and presentation

The combined statements of profit or loss and other comprehensive income, combined statements of changes in equity and combined statements of cash flows for the Relevant Periods include the combined results and cash flows of the entities comprising the Target Companies as if they constituted as a single reporting unit throughout the Relevant Periods, or since the respective dates of their incorporation of the individual company, where this is a shorter period.

The combined statements of financial position as at 31 December 2016, 2017 and 2018 and 30 September 2019 have been prepared to present the assets and liabilities of the entities comprising the Target Companies as if they constituted as a single reporting unit as at those dates.

The Historical Financial Information has been prepared based on the accounting policies set out in Note 3 which conforms with Hong Kong Financial Reporting Standards (“HKFRSs”), issued by Hong Kong Institute of Certified Public Accountants (the “HKICPA”). In addition, the Historical Financial Information include the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Company Ordinance.

APPENDIX II ACCOUNTANTS' REPORT OF THE TARGET COMPANIES

In preparing the Historical Financial Information, the directors of the Target Companies has given careful consideration to the future liquidity of the Target Companies in light of the fact that, as at 30 September 2019, the Target Companies' net current liabilities of SGD542,000. The directors of the Target Companies has considered the estimated cash flows of the Target Companies for the next twelve months from the end of the reporting period, which enable the Target Companies to meet in full its financial obligation as and they fall due for the foreseeable future. Accordingly, the directors of the Target Companies consider that the Target Companies has sufficient working capital to finance its operations and the Historical Financial Information has been prepared on a going concern basis.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Historical Financial Information has been prepared based on the accounting policies set out in note 3 which conform with HKFRSs issued by HKICPA. In addition, the Historical Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Hong Kong Companies Ordinance (Cap. 622).

For the purpose of preparing and presenting the Historical Financial Information for the Relevant Periods, the Target Companies has consistently applied Hong Kong Accounting Standards (“**HKASs**”), HKFRSs, its revised amendments and interpretations which are effective for its accounting period beginning on 1 January 2016 throughout the Relevant Periods except that the Target Companies adopted HKFRS 9 “Financial Instruments” and HKFRS 15 “Revenue from Contracts with Customers and the related Amendments” on 1 January 2018 and HKFRS 16 “Leases” on 1 January 2019. Details of the changes in the accounting policies for revenue recognition under HKFRS 15, financial instruments under HKFRS 9 and leases under 16 are set out in note 2.1, note 2.2 and note 2.3 respectively below.

2.1 HKFRS 15 Revenue from Contracts with Customers

The Target Companies has applied HKFRS 15 for the first time in the current year. HKFRS 15 superseded HKAS 18 “Revenue”, HKAS 11 “Construction Contracts” and the related interpretations.

The Target Companies has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening accumulated losses (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Target Companies has elected to apply the Standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 “Revenue” and HKAS 11 “Construction Contracts” and the related interpretations.

The Target Companies recognises revenue from early childhood education service and other related service which arise from contracts with customers.

Information about the Target Companies' performance obligations and the accounting policies resulting from application of HKFRS 15 are disclosed in notes 3 and 5 respectively.

Apart from providing more extensive disclosures for the Target Companies' revenue transactions, the application of HKFRS 15 has not had a significant impact on the financial position and/or financial performance of the Target Companies.

2.2 HKFRS 9 Financial Instruments

For the year ended 31 December 2018, the Target Companies have applied HKFRS 9 “Financial Instruments” and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for (1) the classification and measurement of financial assets and financial liabilities, (2) expected credit losses (“ECL”) for financial assets and (3) general hedge accounting.

The Target Companies have applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening accumulated losses and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 “Financial Instruments: Recognition and Measurement”

Accounting policies resulting from application of HKFRS 9 are disclosed in note 3.

Classification and measurement of financial assets and financial liabilities

The directors of the Target Companies have reviewed and assessed the Target Companies’ financial assets and financial liabilities at 1 January 2018 based on the facts and circumstances that existed at that date and concluded that there was no material impact on the Target Companies’ combined statements of financial position upon adoption of HKFRS 9.

Impairment under ECL model

At 1 January 2018, the directors of the Target Companies have reviewed and assessed the Target Companies’ existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9 and have concluded that no material financial impact exists, and therefore no adjustment to the opening accumulated losses at 1 January 2018 has been recognised.

2.3 Impacts and changes in accounting policies from initial application of HKFRS 16

Summary of effects arising from initial application of HKFRS 16

HKFRS 16 “Leases”

The Target Companies have applied HKFRS 16 for the first time for the nine months ended 30 September 2019. HKFRS 16 superseded HKAS 17 and the related interpretations.

Definition of a lease

The Target Companies has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC) – Int 4 *Determining whether an arrangement contains a Lease* and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Target Companies have not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Target Companies apply the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

APPENDIX II ACCOUNTANTS' REPORT OF THE TARGET COMPANIES

As a lessee

The Target Companies have applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019.

As at 1 January 2019, the Target Companies recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities adjusted by prepaid or accrued lease payments by applying HKFRS 16.C(8)(ii) transition. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Target Companies applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

- i. excluded initial direct costs from measuring the right-of-use assets at the date of initial application;
- ii. applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment. Specifically, discount rate for certain leases of properties in Singapore were determined on a portfolio basis.

When recognising the lease liabilities for leases previously classified as operating leases, the Target Companies have applied incremental borrowing rates of the relevant Target Companies at the date of initial application. The incremental borrowing rate applied by the Target Companies is 6.25%.

	At 1 January 2019 <i>SGD '000</i>
Operating lease commitments as at 31 December 2018	1,171
Add: Lease liabilities resulting from lease modification of existing leases (<i>Note</i>)	2,004
	<u>3,175</u>
Lease liabilities discounted at relevant incremental borrowing rates relating to operating lease recognised upon application of HKFRS 16 as at 1 January 2019	<u>2,707</u>
Analysed as:	
Current	547
Non-current	2,160
	<u>2,707</u>

Note: The Target Companies renewed the leases of certain properties by entering into new lease contracts which commence after date of initial application, these new contracts are accounted as lease modifications of the existing contracts upon application of HKFRS 16.

APPENDIX II ACCOUNTANTS' REPORT OF THE TARGET COMPANIES

The carrying amount of right-of-use assets for own use as at 1 January 2019 comprises the following:

	<i>Note</i>	Right-of-use assets SGD'000
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16		2,707
Adjustments on rental deposits at 1 January 2019	<i>(a)</i>	<u>44</u>
		<u><u>2,751</u></u>

- (a) Before the application of HKFRS 16, the Target Companies considered refundable rental deposits paid rights and obligations under leases to which HKAS 17 applied under deposits. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use of the underlying assets and were adjusted to reflect the discounting effect at transition. Accordingly, SGD44,000 was adjusted to refundable rental deposits paid and right-of-use assets.

The following adjustments were made to the amounts recognised in combined statements of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 December 2018 SGD'000	Adjustments SGD'000	Carrying amounts under HKFRS 16 at 1 January 2019 SGD'000
Non-current assets			
Right-of-use assets	—	2,751	2,751
Rental deposits	178	(44)	134
Non-current liabilities			
Lease liabilities	—	(547)	(547)
Current liabilities			
Lease liabilities	—	(2,160)	(2,160)
	<u>—</u>	<u>(2,160)</u>	<u>(2,160)</u>

Note: For the purpose of reporting cash flows for the nine months ended 30 September 2019, movements have been computed based on opening combined statements of financial position as at 1 January 2019 as disclosed above.

APPENDIX II ACCOUNTANTS' REPORT OF THE TARGET COMPANIES

New and amendments to HKFRSs in issue but not yet effective

At the date of this report, the Target Companies have not early applied the following new and amendments to HKFRSs and the new interpretations that have been issued but are not yet effective:

HKFRS 17	Insurance Contracts ²
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to HKAS 1 and HKAS 8	Definition of Material ¹

¹ Effective for annual periods beginning on or after 1 January 2020

² Effective for annual periods beginning on or after 1 January 2021

³ Effective for annual periods beginning on or after a date to be determined

The directors of the Target Companies anticipate that the application of these new and amendments to HKFRSs will have no material impact on the combined financial statements of the Target Companies in the foreseeable future.

3. SIGNIFICANT ACCOUNTING POLICIES

The Historical Financial Information has been prepared in accordance with the accounting policies set out below which conform with HKFRSs issued by the HKICPA. In addition, the Historical Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on the GEM of The Stock Exchange of Hong Kong Limited (“**Listing Rules**”) and by the Hong Kong Companies Ordinance.

The Historical Financial Information has been prepared on the historical cost basis.

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Target Companies takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in the Historical Financial Information is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 “Shared-based payment”, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 “Inventories” or value in use in HKAS 36 “Impairment of assets”.

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

APPENDIX II ACCOUNTANTS' REPORT OF THE TARGET COMPANIES

The principal accounting policies are set out below.

Business combination

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

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

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 “Income taxes” and HKAS 19 “Employee benefits”, respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Target Companies entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 “Non-current assets held for sale and discontinued operations” are measured in accordance with that standard.

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

Revenue from contracts with customers

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

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

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

- the customer simultaneously receives and consumes the benefits provided by the Target Companies’ performance as the Target Companies perform;
- The Target Companies’ performance creates and enhances an asset that the customer controls as the Target Companies perform; or
- The Target Companies’ performance does not create an asset with an alternative use to the Target Companies and the Target Companies have an enforceable right to payment for performance completed to date.

APPENDIX II ACCOUNTANTS' REPORT OF THE TARGET COMPANIES

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

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

A contract liability represents the Target Companies' obligation to transfer goods or services to a customer for which the Target Companies have received consideration (or an amount of consideration is due) from the customer.

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

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

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

Revenue recognition (prior to 1 January 2018)

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Target Companies and when specific criteria have been met for each of the Target Companies' activities.

Borrowing costs

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

Government grants

Government grants and subsidies are not recognised until there is reasonable assurance that the Target Companies will comply with the conditions attaching to them and that the grants will be received.

Government grants and subsidies that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Target Companies with no future related costs are recognised in profit or loss in the period in which they become receivable.

APPENDIX II ACCOUNTANTS' REPORT OF THE TARGET COMPANIES

Property, plant and equipment

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

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

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

Intangible assets

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

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at costs less accumulated amortisation and any accumulated impairment losses.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Goodwill

Goodwill arises on the acquisition of subsidiaries represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identified net assets acquired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units (“CGUs”), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

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

Impairment on tangible and intangible assets other than goodwill

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

When it is not possible to estimate the recoverable amount of an individual asset individually, the Target Companies estimates the recoverable amount of the cash-generated unit (“CGUs”) to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

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

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

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

Leases (upon application of HKFRS 16 on 1 January 2019 in accordance with transition in note 2)

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application, the Target Companies assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

The Target Companies as a lessee

Allocation of consideration to components of a contract.

For a contract that contains a lease component and one or more additional lease or non-lease components, the Target Companies allocate the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

As a practical expedient, leases with similar characteristics are accounted on a portfolio basis when the Target Companies reasonably expect that the effects on the Historical Financial Information would not differ materially from individual leases within the portfolio.

APPENDIX II ACCOUNTANTS' REPORT OF THE TARGET COMPANIES

Right-of-use assets

The Target Companies recognise right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Target Companies; and
- an estimate of costs to be incurred by the Target Companies in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Target Companies present right-of-use assets as a separate line item on the combined statements of financial position.

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of use assets.

Lease liabilities

At the commencement date of a lease, the Target Companies recognise and measure the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Target Companies uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- amounts expected to be paid under residual value guarantees;
- the exercise price of a purchase option reasonably certain to be exercised by the Target Companies; and
- payments of penalties for terminating a lease, if the lease term reflects the Target Companies exercising the option to terminate.

APPENDIX II ACCOUNTANTS' REPORT OF THE TARGET COMPANIES

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Target Companies remeasure lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) when the lease term has changed by discounting the revised lease payments using a revised discount rate at the date of reassessment.

Lease payments received in advance

Lease payment received in advance of rental income recognised are recorded as lease payment received in advance until the rental income recognition criteria is met.

Lease modifications

The Target Companies account for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the standalone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Target Companies remeasure the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

Taxation

For the purposes of measuring deferred tax for leasing transactions in which the Target Companies recognises the right-of-use assets and the related lease liabilities, the Target Companies first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Target Companies applies HKAS 12 "Income Taxes" requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

The Target Companies as a lessee (prior to 1 January 2019)

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Target Companies as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred. In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

APPENDIX II ACCOUNTANTS' REPORT OF THE TARGET COMPANIES

Foreign currencies

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

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

Retirement benefit costs and short-term employee benefits

Post-employment benefits plans

The Target Companies provide post-employment benefits through defined contribution retirement benefit plans (i.e. Central Provident Fund in Singapore). Payments to defined contributions retirement benefits plans are recognised as an expense when employees have rendered services entitling them to the contributions.

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the combined statements of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other periods, and items that are never taxable or deductible. The Target Companies' liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

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

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

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

APPENDIX II ACCOUNTANTS' REPORT OF THE TARGET COMPANIES

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

Current and deferred tax are recognised in profit or loss.

Financial instruments

Financial assets and financial liabilities are recognised when the Target Companies become a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

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

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

Financial assets

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transition in note 2)

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

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

All other financial assets are subsequently measured at FVTPL.

Amortised cost and interest income

Interest income is recognised using effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for the financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer creditimpaired, interest income is recognised by applying the effective interest rate to gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit-impaired.

APPENDIX II ACCOUNTANTS' REPORT OF THE TARGET COMPANIES

Impairment of financial assets (upon application of HKFRS 9 in accordance with note 2)

The Target Companies recognises a loss allowance for expected credit loss (“ECL”) on financial assets which are subject to impairment under HKFRS 9 (including trade receivables, deposits, amounts due from directors and bank balances). The amount of ECL is updated at the end of each reporting period to reflect changes in credit risk since initial recognition.

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

The Target Companies always recognises lifetime ECL for trade receivables without significant financing component. The ECL on these assets are assessed individually.

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

Significant increase in credit risk

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

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

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

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

APPENDIX II ACCOUNTANTS' REPORT OF THE TARGET COMPANIES

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

Definition of default

For internal credit risk management, the Target Companies consider an event of default occurs when information developed internally or obtained from external sources indicate that the debtor is unlikely to pay its creditors, including the Target Companies, in full (without taking into account any collaterals held by the Target Companies).

Irrespective of the above, the Target Companies consider that default have occurred when a financial asset is more than 90 days past due unless the Target Companies have reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Credit-impaired financial assets

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

- significant financial difficulty of the issuer of the borrower;
- a breach of contract, such as a default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

Write-off policy

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

Measurement and recognition of ECL

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

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

APPENDIX II ACCOUNTANTS' REPORT OF THE TARGET COMPANIES

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

- nature of financial instruments (i.e. the Target Companies trade receivables, deposits, amounts due from directors and bank balances);
- past-due status;
- nature, size and industry of debtors; or
- external credit ratings where available.

For financial assets other than trade receivables, the grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

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

The Target Companies recognise an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables where the corresponding adjustment is recognised through a loss allowance account.

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018)

The Target Companies' financial assets are classified as loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade receivables, deposits, amounts due from directors and bank balances) are measured at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets).

Interest income is recognised by applying the effective interest rate.

Impairment of financial assets (before application of HKFRS 9 on 1 January 2018)

Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

APPENDIX II ACCOUNTANTS' REPORT OF THE TARGET COMPANIES

Objective evidence of impairment for a portfolio of receivables could include the Target Companies' past experience of collecting payments, an increase in the number of delayed payments and observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets carried at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Derecognition of financial assets

The Target Companies derecognise a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Target Companies neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Target Companies recognise its retained interest in the asset and an associated liability for amounts it may have to pay. If the Target Companies retain substantially all the risks and rewards of ownership of a transferred financial asset, the Target Companies continue to recognise the financial asset and also recognise a collateralised borrowing for the proceeds received.

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

Financial liabilities and equity

Classification as debt or equity

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

Equity instruments

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

APPENDIX II ACCOUNTANTS' REPORT OF THE TARGET COMPANIES

Financial liabilities at amortised cost

Financial liabilities including other payables and bank borrowings, are subsequently measured at amortised cost using the effective interest method.

Derecognition of financial liabilities

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that may have a significant risk of causing a material adjustment to the carrying amounts of assets within the next financial year.

Impairment of goodwill, property, plant and equipment and intangible assets

Goodwill of SGD697,000 arose from the Acquired Businesses as set out in note 16 during the year ended 31 December 2017 and the carrying amounts of property, plant and equipment and intangible assets from the Acquired Businesses were SGD11,000 and SGD42,000, respectively at 31 December 2017. Determining whether an impairment loss of these assets is required requires an estimate of the recoverable amount of the relevant CGUs to which these assets belong to. The recoverable amount is determined based on a value in use calculation. In determining the value in use, the management of the Target Companies engaged independent qualified valuers to assist in determining the value in use of the relevant CGUs. Significant judgment and assumptions, such as the use of appropriate discount rates and growth rates, were required in the process of impairment testing. Where the actual outcome of growth rates are less than expected, a material impairment loss may arise. Details of the recoverable amount calculation for the CGUs are set out in note 16. No impairment loss recognised for the goodwill and intangible assets.

APPENDIX II ACCOUNTANTS' REPORT OF THE TARGET COMPANIES

5. REVENUE AND SEGMENT INFORMATION

A. Revenue for years ended 31 December 2016, 2017 and 2018, and the nine months ended 30 September 2018 and 2019

(i) Disaggregation of revenue from contracts with customers

	Year ended 31 December			Nine months ended 30 September	
	2016 SGD'000	2017 SGD'000	2018 SGD'000	2018 SGD'000 (unaudited)	2019 SGD'000
Types of service					
Early childhood education service	2,040	2,871	3,546	2,668	2,639
Sales of accessories	55	66	42	35	22
Total	<u>2,095</u>	<u>2,937</u>	<u>3,588</u>	<u>2,703</u>	<u>2,661</u>
Geographical market					
Singapore	<u>2,095</u>	<u>2,937</u>	<u>3,588</u>	<u>2,703</u>	<u>2,661</u>
Timing of revenue recognition					
Over time	2,040	2,871	3,546	2,668	2,639
A point of time	55	66	42	35	22
Total	<u>2,095</u>	<u>2,937</u>	<u>3,588</u>	<u>2,703</u>	<u>2,661</u>

(ii) Performance obligations for contracts with customers

Service fees from early childhood education service are generally paid in advance at the beginning of every month and revenue is recognised over the period of service because the children simultaneously receive and consume the benefits provided by the Target Companies' performance as the Target Companies perform.

Revenue from sales of accessories related to early childhood education service is recognised when the goods are delivered to the customers and control of the goods has transferred.

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

All early childhood education service fees are for periods of one year or less. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

B. Segment information

During the years ended 31 December 2016, 2017 and 2018 and nine months ended 30 September 2018 and 2019, the Target Companies' operation was solely derived from early childhood education service and other related service in Singapore. For the purpose of resources allocation and performance assessment, the chief operating decision maker ("CODM") (i.e. directors of the Target Companies) reviewed the overall results and financial position of the Target Companies as a whole prepared based on same accounting policies set out in note 3. Accordingly, the Target Companies have only one single operating and reportable segment and no further analysis of this single segment is presented.

APPENDIX II ACCOUNTANTS' REPORT OF THE TARGET COMPANIES

Geographical information

No geographical segment information is presented as the Target Companies' revenue are all derived from Singapore and the Target Companies' property, plant and equipment are all located in the Singapore by physical location of assets.

Information about major customers

No individual customer was accounted for over 10% of the Target Companies' total revenue during the Relevant Periods.

Segment assets and liabilities

No analysis of segment assets or liabilities is presented as they are not regularly provided to the CODM of the Target Companies.

6. OTHER INCOME

	Year ended 31 December			Nine months ended 30 September	
	2016 SGD '000	2017 SGD '000	2018 SGD '000	2018 SGD '000 (unaudited)	2019 SGD '000
Other income					
Government grants	268	350	506	388	385
Sundry income	12	—	—	—	—
	<u>280</u>	<u>350</u>	<u>506</u>	<u>388</u>	<u>385</u>

7. FINANCE COSTS

	Year ended 31 December			Nine months ended 30 September	
	2016 SGD '000	2017 SGD '000	2018 SGD '000	2018 SGD '000 (unaudited)	2019 SGD '000
Interest on bank borrowings	10	15	12	9	11
Interest on lease liabilities	—	—	—	—	115
	<u>10</u>	<u>15</u>	<u>12</u>	<u>9</u>	<u>126</u>

APPENDIX II ACCOUNTANTS' REPORT OF THE TARGET COMPANIES

8. INCOME TAX EXPENSE

	Year ended 31 December			Nine months ended 30 September	
	2016	2017	2018	2018	2019
	<i>SGD '000</i>	<i>SGD '000</i>	<i>SGD '000</i>	<i>SGD '000</i>	<i>SGD '000</i>
Singapore corporate income tax ("CIT")					
— Current year	7	6	22	17	28
Deferred tax (<i>note 22</i>)	17	11	(7)	(3)	(9)
	<u>24</u>	<u>17</u>	<u>15</u>	<u>14</u>	<u>19</u>

Singapore CIT is calculated at 17% (2017: not applicable) of the estimated assessable profit eligible for CIT rebate of 20%, capped at SGD10,000 for the Year of Assessment 2018. Singapore incorporated companies can also enjoy 75% tax exemption on the first SGD10,000 of normal chargeable income and a further 50% tax exemption on the next SGD290,000 of normal chargeable income. The Singapore companies which meet the qualifying condition as start-up companies can enjoy 100% tax exemption on the first SGD100,000 of normal chargeable income and a further 50% tax exemption on the next SGD200,000 of normal chargeable income at the relevant year of assessment.

The income tax expenses for the Relevant Periods can be reconciled to the profit before taxation per the combined statements of profit or loss and other comprehensive income as follows:

	Year ended 31 December			Nine months ended 30 September	
	2016	2017	2018	2018	2019
	<i>SGD '000</i>	<i>SGD '000</i>	<i>SGD '000</i>	<i>SGD '000</i>	<i>SGD '000</i>
Profit before taxation	<u>418</u>	<u>25</u>	<u>213</u>	<u>163</u>	<u>115</u>
Tax at the applicable rate of 17%	71	4	36	28	20
Tax effect of expenses not deductible	21	22	8	8	7
Tax effect of income not taxable	(4)	(6)	(2)	(2)	—
Tax effect of tax losses not recognised	—	54	24	22	16
Utilisation of tax losses previously not recognised	(12)	—	—	—	—
Effect of tax exemption and tax relief	<u>(52)</u>	<u>(57)</u>	<u>(51)</u>	<u>(42)</u>	<u>(24)</u>
Income tax expense for the year/period	<u>24</u>	<u>17</u>	<u>15</u>	<u>14</u>	<u>19</u>

APPENDIX II ACCOUNTANTS' REPORT OF THE TARGET COMPANIES

9. PROFIT BEFORE TAX

Profit for the year/period has been arrived at after charging:

	Year ended 31 December			Nine months ended 30 September	
	2016 SGD '000	2017 SGD '000	2018 SGD '000	2018 SGD '000 (unaudited)	2019 SGD '000
Depreciation	86	136	131	99	552
Amortisation	—	21	21	21	—
Auditor's remuneration ¹	—	—	—	—	—
Directors' remuneration	154	188	207	157	149
Other staff costs	931	1,509	1,880	1,413	1,469
Retirement benefits scheme contributions	110	177	218	165	170
Total staff costs (excluding directors' remuneration)	1,041	1,686	2,098	1,578	1,639
Operating lease payment in respect of tenancy agreements of rented premises entered into:					
Minimum lease payment	366	607	696	522	—

¹ The Target Companies had satisfied the audit exemption criteria in accordance with the Singapore Companies Act during the relevant period.

10. DIRECTOR'S, CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

(a) Director's and chief executive's remuneration

For the year ended 31 December 2016

	LTK SGD '000	CPM SGD '000	LSVV SGD '000	Total SGD '000
Directors' fee	—	—	—	—
Salaries and allowances	11	62	60	133
Other benefit and allowances	—	—	—	—
Retirement benefit contributions	1	10	10	21
Total	12	72	70	154

For the year ended 31 December 2017

	LTK SGD '000	CPM SGD '000	LSVV SGD '000	Total SGD '000
Directors' fee	—	—	—	—
Salaries and allowances	7	81	75	163
Other benefit and allowances	—	—	—	—
Retirement benefit contributions	1	12	12	25
Total	8	93	87	188

For the year ended 31 December 2018

	LTK SGD '000	CPM SGD '000	LSVV SGD '000	Total SGD '000
Directors' fee	—	—	—	—
Salaries and allowances	—	95	88	183
Other benefit and allowances	—	—	—	—
Retirement benefit contributions	—	12	12	24
Total	—	107	100	207

APPENDIX II ACCOUNTANTS' REPORT OF THE TARGET COMPANIES

For the nine months ended 30 September 2018 (unaudited)

	LTK SGD'000	CPM SGD'000	LSVV SGD'000	Total SGD'000
Directors' fee	—	—	—	—
Salaries and allowances	—	72	67	139
Other benefit and allowances	—	—	—	—
Retirement benefit contributions	—	9	9	18
Total	<u>—</u>	<u>81</u>	<u>76</u>	<u>157</u>

For the nine months ended 30 September 2019

	LTK SGD'000	CPM SGD'000	LSVV SGD'000	Total SGD'000
Directors' fee	—	—	—	—
Salaries and allowances	—	68	63	131
Other benefit and allowances	—	—	—	—
Retirement benefit contributions	—	9	9	18
Total	<u>—</u>	<u>77</u>	<u>72</u>	<u>149</u>

CPM served as chief executive of the Target Companies. The remuneration disclosed above included those for services rendered by him as chief executive.

(b) Five highest paid employees

The five highest paid individuals included two directors and whose emoluments are included in the above disclosures in (a) during the Relevant Period. The emoluments of the remaining three individual, which are individually less than HK\$1,000,000 were as follows:

	Year ended 31 December			Nine months ended 30 September	
	2016 SGD'000	2017 SGD'000	2018 SGD'000	2018 SGD'000 (unaudited)	2019 SGD'000
Salaries and allowances	149	163	195	149	145
Retirement benefit contributions	24	26	29	22	22
	<u>173</u>	<u>189</u>	<u>224</u>	<u>171</u>	<u>167</u>

There was no arrangement under which a director or the five highest paid employee waived or agreed to waive any remuneration during the Relevant Periods.

During the Relevant Periods, no emoluments had been paid by the Target Companies to the directors or the chief executive of the Target Companies or the five highest paid individuals as inducement to join the Target Companies or as compensation for loss of office.

11. DIVIDENDS

No dividends have been paid or proposed by the Target Companies during the Relevant Periods, nor has any dividend been proposed subsequent to 30 September 2019.

12. EARNINGS PER SHARE

No earnings per share for the Relevant Periods is presented as its inclusion is considered not meaningful for the purpose of preparing Historical Financial Information.

APPENDIX II ACCOUNTANTS' REPORT OF THE TARGET COMPANIES

13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements	Furniture, fixtures and equipment	Total
	<i>SGD'000</i>	<i>SGD'000</i>	<i>SGD'000</i>
COST			
At 1 January 2016	6	206	212
Additions	12	71	83
At 31 December 2016 and 1 January 2017	18	277	295
Additions through acquisition of business (<i>Note 26</i>)	—	11	11
Additions	136	107	243
At 31 December 2017 and 1 January 2018	154	395	549
Additions	26	21	47
At 31 December 2018 and 1 January 2019	180	416	596
Additions	5	12	17
At 30 September 2019	185	428	613
DEPRECIATION			
At 1 January 2016	2	73	75
Provided for the year	5	81	86
At 31 December 2016 and 1 January 2017	7	154	161
Provided for the year	33	103	136
At 31 December 2017 and 1 January 2018	40	257	297
Provided for the year	52	79	131
At 31 December 2018 and 1 January 2019	92	336	428
Provided for the period	41	48	89
At 30 September 2019	133	384	517
CARRYING VALUES			
At 31 December 2016	11	123	134
At 31 December 2017	114	138	252
At 31 December 2018	88	80	168
At 30 September 2019	52	44	96

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

Leasehold improvements	Shorter of 3 years or the remaining lease terms
Furniture, fixtures and equipment	20%–50%

APPENDIX II ACCOUNTANTS' REPORT OF THE TARGET COMPANIES

14. RIGHT-OF-USE ASSETS

	Leased properties SGD '000
As at 1 January 2019	
Carrying amount	2,751
As at 30 September 2019	
Carrying amount	2,288
For the period ended 30 September 2019	
Depreciation	463
	2,288
	522
Total cash outflow for lease	522

For the period ended 30 September 2019, the Target Companies leases education centers for its operations. Lease contracts are entered into for fixed term of three to ten years, but may have extension and termination options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Target Companies apply the definition of a contract and determine the period for which the contract is enforceable.

15. INTANGIBLE ASSETS

	Licenses SGD '000
COST	
At 1 January 2016, 31 December 2016 and 1 January 2017	—
Additions through acquisition of business (<i>Note 26</i>)	42
	42
At 31 December 2017, 1 January 2018, 31 December 2018, 1 January 2019 and 30 September 2019	42
AMORTISATION	
At 1 January 2016, 31 December 2016 and 1 January 2017	—
Provided for the year	21
	21
At 31 December 2017 and 1 January 2018	21
Provided for the year	21
	42
At 31 December 2018, 1 January 2019 and 30 September 2019	42
CARRYING VALUES	
At 31 December 2016	—
	—
At 31 December 2017	21
	21
At 31 December 2018	—
	—
At 30 September 2019	—
	—

The above intangible assets have finite useful lives and are amortised on a straight-line basis over the following periods:

Licenses	12 months
----------	-----------

APPENDIX II ACCOUNTANTS' REPORT OF THE TARGET COMPANIES

16. GOODWILL

	Goodwill <i>SGD '000</i>
COST AND CARRYING VALUES	
At 1 January 2016	—
At 1 January 2016, At 31 December 2016 and 1 January 2017	—
Acquisition of business (<i>Note 26</i>)	697
	<hr/>
At 31 December 2017, 1 January 2018, 31 December 2018, 1 January 2019 and 30 September 2019	697
	<hr/> <hr/>

Impairment tests for goodwill

The goodwill of the Target Companies amounted to SGD697,000 was attributable to the acquisition of license and property, plant and equipment of Oxford Educate Pte. Ltd. (“**Oxford**”) by which acquired Global Tots @ Mountbatten Pte. Ltd. (“**GTMB**”) in July 2016. Oxford is engaged in provision of early childhood education service. After the acquisition, the operation and work force of Oxford have been fully integrated into the Target Companies’ business. As a result, the goodwill is regarded as attributable to the sole operating and reportable segment of the Target Companies.

The Target Companies determine whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units (“**CGU**”) to which the goodwill is allocated. Estimating the value in use requires to make an estimate of the expected future cash flows from the CGUs and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The value-in-use calculations use cash flow projections based on financial budgets approved by management for the purposes of impairment reviews. The forecast period is 5 years.

Key assumptions for the value in use calculation as of 31 December 2017 and 2018, and 30 September 2019 including:

Revenue growth	2%
Pre-tax discount rate	13.53%-13.88%

According to the above assessment, the recoverable amount of the CGU is higher than the carrying amounts of the goodwill and no impairment is required.

APPENDIX II ACCOUNTANTS' REPORT OF THE TARGET COMPANIES

17. TRADE RECEIVABLES, DEPOSITS AND PREPAYMENTS

Trade receivables, deposits and prepayments

	At 31 December			At
	2016	2017	2018	30 September
	SGD'000	SGD'000	SGD'000	2019
				SGD'000
Trade receivables	45	23	26	28
Deposits	142	185	187	143
Prepayments	28	46	44	23
	<u>215</u>	<u>254</u>	<u>257</u>	<u>194</u>
Analysed as				
Current	77	77	79	60
Non-current	138	177	178	134
	<u>215</u>	<u>254</u>	<u>257</u>	<u>194</u>

No credit period is granted to the customers as the fees from early childhood education service is normally received in advance except for those who enrol to different courses continuously, the Target Companies would allow those long-term customers to settle the course fee within a short period of time.

The following is an aging analysis of trade receivables presented based on the invoice date at the end of respective reporting period:

	At 31 December			At
	2016	2017	2018	30 September
	SGD'000	SGD'000	SGD'000	2019
				SGD'000
0 to 30 days	31	18	24	24
31 to 90 days	14	5	2	4
	<u>45</u>	<u>23</u>	<u>26</u>	<u>28</u>

Aging of trade receivables which are past due but not impaired as at 31 December 2016 and 2017 is as follows:

	At 31 December	
	2016	2017
	SGD'000	SGD'000
0 to 30 days	31	18
31 to 90 days	14	5
	<u>45</u>	<u>23</u>

Before application of HKFRS 9 on 1 January 2018, in determining the recoverability of trade receivables, the Target Companies considers any change in the credit quality of the trade receivables from the invoice date up to the reporting period. The trade receivables past due but not provided for as at the end of reporting period were settled subsequently and the directors of the Target Companies believed that no impairment required.

Upon the application of HKFRS 9 on 1 January 2018, the Target Companies applied simplified approach to provide for ECL prescribed by HKFRS 9. To measure the ECL of the trade receivables as at 31 December 2018 and 30 September 2019 are set out in note 30.

APPENDIX II ACCOUNTANTS' REPORT OF THE TARGET COMPANIES

18. BANK BALANCES AND CASH

The bank balances of the Target Companies do not carry interest rate throughout the Relevant Periods and are denominated in SGD.

19. OTHER PAYABLES AND ACCRUED CHARGES

	At 31 December			At 30 September
	2016	2017	2018	2019
	SGD'000	SGD'000	SGD'000	SGD'000
Other payables	239	396	411	455
Accrued charges	92	55	61	65
	<u>331</u>	<u>451</u>	<u>472</u>	<u>520</u>

20. DEFERRED INCOME

Deferred income represents the course fee received in advance pursuant to the contracts with customers.

Deferred income that at the beginning of the year ended 31 December 2018 upon adoption of HKFRS 15 related to carried forward approximately to SGD247,000 was recognised in the year ended 31 December 2018.

21. AMOUNTS DUE FROM DIRECTORS

Amounts due from directors are as follows:

	As at 31 December			As at 30 September
	2016	2017	2018	2019
	SGD'000	SGD'000	SGD'000	SGD'000
Amounts due from directors				
LTK	239	38	166	108
CPM	239	38	166	108
LSVV	239	39	167	110
	<u>717</u>	<u>115</u>	<u>499</u>	<u>326</u>

The amounts are unsecured, non-interest bearing and repayable on demand.

APPENDIX II ACCOUNTANTS' REPORT OF THE TARGET COMPANIES

22. COMBINED SHARE CAPITAL

Combined share capital during the Relevant periods represents the combined share capital of each company of the Target Companies below.

	As at 31 December			As at 30 September
	2016	2017	2018	2019
	<i>SGD '000</i>	<i>SGD '000</i>	<i>SGD '000</i>	<i>SGD '000</i>
Share capital of Global Tots Pte. Ltd.				
Issued and fully paid:				
1,200,000 ordinary shares	1,200	1,200	1,200	1,200
Share capital of Global Tots @ Braddell Pte. Ltd.				
Issued and fully paid:				
60,000 ordinary shares	60	60	60	60
Share capital of Global Tots @ Sembawang Pte. Ltd.				
Issued and fully paid:				
90,000 ordinary shares	90	90	90	90
Share capital of Global Tots @ Mountbatten Pte. Ltd.				
Issued and fully paid:				
90,000 ordinary shares	90	90	90	90

23. DEFERRED TAX LIABILITIES

The following is the deferred tax liabilities recognised and movements thereon during the Relevant Period.

	Accelerated accounting depreciation <i>SGD '000</i>
At 1 January 2016	—
Charged to profit or loss for the year	(17)
At 31 December 2016 and 1 January 2017	(17)
Charged to profit or loss for the year	(11)
At 31 December 2017 and 1 January 2018	(28)
Credited to profit or loss for the year	7
At 31 December 2018 and 1 January 2019	(21)
Credited to profit or loss for the period	9
At 30 September 2019	(12)

APPENDIX II ACCOUNTANTS' REPORT OF THE TARGET COMPANIES

The following is an analysis of the deferred tax balances for financial reporting purposes:

	At 31 December			At
	2016	2017	2018	30 September
	SGD'000	SGD'000	SGD'000	2019
				SGD'000
Deferred tax liabilities	(17)	(28)	(21)	(12)

At 31 December 2016, 2017, 2018 and 30 September 2019, the Target Companies had estimated unused tax losses of SGD2,000, SGD323,000, SGD464,000, SGD557,000 respectively, that are available for offset against future profits. No deferred tax asset has been recognised in respect of these unused tax losses due to the unpredictability of future profit streams. All tax losses may be carried forward indefinitely.

24. BANK BORROWINGS

The following table provides an analysis of the bank borrowings:

	At 31 December			At
	2016	2017	2018	30 September
	SGD'000	SGD'000	SGD'000	2019
				SGD'000
Bank borrowings	275	220	262	203

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

	At 31 December			At
	2016	2017	2018	30 September
	SGD'000	SGD'000	SGD'000	2019
				SGD'000
Within one year	55	58	79	83
Over one year but not exceeding two years	58	62	84	71
Over two years but not exceeding five years	162	100	99	49
Bank borrowings	275	220	262	203

As at 31 December 2016, 2017, 2018 and 30 September 2019, bank borrowings of SGD275,000, SGD220,000, SGD262,000 and SGD203,000 bear approximately 6.25% per annum. The bank borrowings are secured by personal guarantee jointly by LTK, CPM and LSVV.

APPENDIX II ACCOUNTANTS' REPORT OF THE TARGET COMPANIES

25. LEASE LIABILITIES

	At 30 September 2019 <i>SGD '000</i>
Within one year	572
Within a period of more than one year but not more than two years	485
Within a period of more than two year but not more than five years	985
Within a period of over five years	258
	<hr/>
	2,300
	<hr/> <hr/>
Less: Amount due for settlement with 12 months shown under current liabilities	(572)
	<hr/> <hr/>
Amount due for settlment after 12 months shown under non-current liabilities	1,728
	<hr/> <hr/>

26. ACQUISITION OF BUSINESS

For the year ended 31 December 2017

In July 2016, the Target Companies acquired a business, which principally engaged in provision of early childhood education service in Singapore from Oxford. The Target Companies obtained control over the business on the date of completion of acquisition, which has been accounted for using the purchase method. The amount of goodwill as a result of this acquisition was SGD697,000. The acquisition was completed during the year ended 31 December 2017.

Further details of the acquisition, including consideration paid, assets recognised are set out below:

	<i>SGD '000</i>
Consideration for acquisition:	
Cash consideration	750
Fair value of assets acquired recognised at the date of acquisition are as follows:	
Property, plant and equipment	11
Intangible asset	42
	<hr/>
Goodwill	697
Net cash flow arising on acquisition:	
Cash consideration paid for acquisition	750
	<hr/>

The business acquired during the year ended 31 December 2017 did not contribute significantly to the results and cash flow of the Target Companies during that year.

APPENDIX II ACCOUNTANTS' REPORT OF THE TARGET COMPANIES

27. RETIREMENT BENEFITS SCHEME

Pursuant to the CPF Act Chapter 36 of Singapore, the Target Companies are obligated to make Central Provident Fund (“CPF”) contributions for all its employees who are Singapore citizens or permanent residents who are employed in Singapore. For the years ended 31 December 2016, 2017 and 2018 and the nine months ended 30 September 2019, the Target Companies contributed up to 17% of the eligible employees’ salaries to the CPF scheme, with each employee’s qualifying capped at SGD6,000 per month.

The total contributions to the retirement benefits scheme charged to the combined statements of profit or loss and other comprehensive income for the years ended 31 December 2016, 2017, 2018 and for the nine months ended 30 September 2018 and 2019 are SGD130,000, SGD203,000, SGD242,000, SGD183,000 (unaudited) and SGD188,000 respectively.

28. COMMITMENTS

Capital Commitments

As at 31 December 2016, 2017 and 2018 and 30 September 2019, the Target Companies did not have any significant non-cancellable commitment.

Operating Lease Commitments

The Target Companies as lessees

The Target Companies had commitments for future minimum lease payments under non-cancellable operating leases falling due as follows:

	At 31 December		
	2016	2017	2018
	SGD '000	SGD '000	SGD '000
Within one year	326	696	684
In the second to fifth year inclusive	—	1,171	487
	<u>326</u>	<u>1,867</u>	<u>1,171</u>

29. CAPITAL RISK MANAGEMENT

The Target Companies manages its capital to ensure the Target Companies will be able to continue as a going concern while maximising the return to owners through the optimisation of the debt and equity balance. The Target Companies’ overall strategy remains unchanged during the year/period.

The capital structure of the Target Companies consists of borrowings and total equity, comprising issued capital and accumulated losses.

Management of the Target Companies reviews the capital structure regularly taking into account the cost of capital and the risk associated with the capital. The Target Companies may balance its overall capital structure through issuance of new shares and the raising of borrowings.

APPENDIX II ACCOUNTANTS' REPORT OF THE TARGET COMPANIES

30. FINANCIAL INSTRUMENTS

Categories of financial instruments

	At 31 December			At
	2016	2017	2018	30 September
	SGD'000	SGD'000	SGD'000	2019
				SGD'000
Financial assets				
Amortised cost	—	—	—	1,179
Loans and receivables (including cash and cash equivalents)	1,267	574	991	—
	<u>1,267</u>	<u>574</u>	<u>991</u>	<u>—</u>
Financial liabilities				
Amortised cost	485	570	628	2,913
	<u>485</u>	<u>570</u>	<u>628</u>	<u>2,913</u>

Financial risk management objectives and policies

The Target Companies' financial instruments include trade receivables, deposits and prepayments, amounts due from directors, bank balances and cash, trade and other payables, bank borrowings and lease liabilities. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Interest rate risk

The Target Companies' fair value interest rate risk primarily relates to the fixed-rate, bank borrowings and lease liabilities.

The Target Companies does not have interest rate hedging policy to mitigate its exposure associated with interest rate risk. However, the management of the Target Companies monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

APPENDIX II ACCOUNTANTS' REPORT OF THE TARGET COMPANIES

Credit risk and impairment assessment

The Target Companies credit risk is primarily attributable to trade receivables, deposits and prepayments amounts due from directors and bank balances.

The Target Companies' maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the combined statements of financial position. In view of the business nature, management of the Target Companies considered that the credit risks of trade receivables are insignificant as there no history of delay or default in settlement by the customers.

The credit risk of bank balances is limited because the counterparties are placed in financial institutions with good credit standing.

Impairment assessment on financial assets and other items subject to ECL model.

Trade receivables

In order to minimise the credit risk, the directors of the Target Companies has delegated a team responsible for determination of credit limits and credit approvals. Before accepting any new customer, the Target Companies uses an internal credit policy to assess the potential customer's credit quality and defines credit limits by customer. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts.

The Target Companies had policy regarding impairment losses on trade receivables during the years ended 31 December 2016 and 2017 which is based on the evaluation of collectability and ageing analysis of trade receivables and on management's judgement including the current creditworthiness and the past collection history of each customer. Upon the application of HKFRS 9 on 1 January 2018, the Target Companies applies simplified approach to provide for ECL prescribed by HKFRS 9. To measure the ECL of trade receivables, trade receivables have been assessed individually by provision matrix.

Deposits

The Target Companies analysed the credit risk related to deposits. The Target Companies has assessed that the ECL for deposits are not material under the 12-month ECL method. Thus, no loss allowance provision was recognised during the Relevant Periods.

Other than the credit risks mentioned above, the Target Companies do not have any other significant concentration of credit risk.

Amounts due from directors

The Target Companies had significant concentration of credit risk on amounts due from directors as at 31 December 2016, 2017 and 2018 and 30 September 2019. The management the Target Companies considers the counterparty with good credit worthiness based on past repayment history and subsequent settlement. In the opinion of the management of the Target Companies, the risk of default by the counterparty is not significant and the Target assessed that the ECL on the balance is insignificant on 31 December 2018 and 30 September 2019 thus no impairment loss allowance was recognised.

APPENDIX II ACCOUNTANTS' REPORT OF THE TARGET COMPANIES

Liquidity risk

In the management of the liquidity risk, the directors of the Target Companies had given careful consideration to the future liquidity of the Target Companies in light of the fact that, as at 30 September 2019, the Target Companies' net current liabilities of SGD542,000. The directors of the Target Companies had considered the estimated cash flows of the Target Companies for the next twelve months from the end of the reporting period, which enable the Target Companies to meet in full its financial obligation as and they fall due for the foreseeable future. Accordingly, the directors of the Target Companies consider that the Target Companies has sufficient working capital to finance its operations and the Historical Financial Information has been prepared on a going concern basis. The directors of the Target Companies monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Target Companies' operations and mitigate the effects of unexpected fluctuations in cash flows.

The following tables detail the Target Companies' remaining contractual maturity for its financial liabilities based on the agreed repayment terms. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Target Companies can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of each reporting period.

	Weighted average interest rate SGD'000	Within 1 year or on demand SGD'000	1 to 2 years SGD'000	3 to 5 years SGD'000	Over 5 years SGD'000	Total undiscounted cash flows SGD'000	Carrying amount SGD'000
At 31 December 2016							
Other payables and accrued charges	N/A	210	—	—	—	210	210
Bank borrowings	6.25%	70	70	175	—	315	275
		<u>280</u>	<u>70</u>	<u>175</u>	<u>—</u>	<u>525</u>	<u>485</u>
At 31 December 2017							
Other payables and accrued charges	N/A	350	—	—	—	350	350
Bank borrowings	6.25%	70	70	105	—	245	220
		<u>420</u>	<u>70</u>	<u>105</u>	<u>—</u>	<u>595</u>	<u>570</u>
At 31 December 2018							
Other payables and accrued charges	N/A	366	—	—	—	366	366
Bank borrowings	6.25%	93	93	106	—	292	262
		<u>459</u>	<u>93</u>	<u>106</u>	<u>—</u>	<u>658</u>	<u>628</u>
At 30 September 2019							
Other payables and accrued charges	N/A	410	—	—	—	410	410
Bank borrowings	6.25%	93	76	53	—	222	203
Lease liabilities	6.25%	696	576	1,101	280	2,653	2,300
		<u>1,199</u>	<u>652</u>	<u>1,154</u>	<u>280</u>	<u>3,285</u>	<u>2,913</u>

APPENDIX II ACCOUNTANTS' REPORT OF THE TARGET COMPANIES

31. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Target Companies' liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Target Companies' combined statements of cash flows as cash flows from financing activities.

	Bank Borrowings <i>SGD'000</i>	Lease liabilities <i>SGD'000</i>	Share capital <i>SGD'000</i>	Total <i>SGD'000</i>
At 1 January 2016	—	—	1,260	1,260
Financing cash flow	275	—	—	275
Proceeds from issue of new shares	—	—	180	180
At 31 December 2016 and 1 January 2017	275	—	1,440	1,715
Financing cash flow	(55)	—	—	(55)
At 31 December 2017 and 1 January 2018	220	—	1,440	1,660
Financing cash flow	42	—	—	42
At 31 December 2018 and 1 January 2019	262	—	1,440	1,702
Recognised on adoption of HKFRS 16 (<i>Note 2.3</i>)	—	2,707	—	2,707
Finance cost	—	115	—	115
Repayment of lease liabilities	—	(522)	—	(522)
Financing cash flow	(59)	—	—	(59)
At 30 September 2019	203	2,300	1,440	3,943

Note:

The financing cash flows represented the bank borrowings raised and repayment of bank borrowings.

32. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in this report, the Target Companies did not have other related party transactions during the Relevant Periods:

During the Relevant Period, LTK, CPM and LSVV provided personal guarantee to secure the repayment obligations under the bank borrowings granted to Target Companies as disclosed in Note 24. As represented by the directors of the Target Companies, the remaining balance of the bank borrowing of SGD203,000 at 30 September 2019 will be fully repaid, and the personal guarantees are expected to be released by the end of February 2020.

APPENDIX II ACCOUNTANTS' REPORT OF THE TARGET COMPANIES

CPM's wife, Ms. Ong Lee Lee, Pearl, Administrative and Finance Director of The Target Companies, had received salaries and other benefits from the Target Companies during the Relevant Period as follows:

	Year ended 31 December			Nine months ended 30 September	
	2016	2017	2018	2018	2019
	<i>SGD '000</i>	<i>SGD '000</i>	<i>SGD '000</i>	<i>SGD '000</i> (unaudited)	<i>SGD '000</i>
Salaries and allowances	61	75	88	67	63
Retirement benefits contributions	10	12	12	9	9
	71	87	100	76	72
	71	87	100	76	72

Compensation of key management personnel

The remuneration of directors and other members of key management of the Target Companies during the Relevant Periods were as follows:

	Year ended 31 December			Nine months ended 30 September	
	2016	2017	2018	2018	2019
	<i>SGD '000</i>	<i>SGD '000</i>	<i>SGD '000</i>	<i>SGD '000</i> (unaudited)	<i>SGD '000</i>
Short-term benefits	193	239	271	206	194
Retirement benefits contributions	31	37	37	28	28
	224	276	308	234	222
	224	276	308	234	222

33. EVENTS AFTER THE REPORTING PERIOD

Save as disclosed elsewhere in this report, there are no other significant events undertaken by the Target Companies after 30 September 2019.

34. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Target Companies has been prepared in respect of any period subsequent to 30 September 2019.

**(A) UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED
GROUP****(I) Basis of preparation**

The unaudited pro forma statement of assets and liabilities (the “**Unaudited Pro Forma Financial Information**”) of the Enlarged Group has been prepared to illustrate the effect of the acquisition of 100% of the issued share capital of Global Tots Pte. Ltd., Global Tots @ Braddell Pte. Ltd., Global Tots @ Sembawang Pte. Ltd and Global Tots @ Mountbatten Pte. Ltd., (herein after collectively referred as the “**Target Companies**”) (the “**Acquisition**”), assuming the Acquisition had been completed as at 30 June 2019 (“**Completion**”).

The Unaudited Pro Forma Financial Information is prepared based on the condensed consolidated statement of financial position of the Group as at 30 June 2019 as extracted from the interim report of the Company for the period ended 30 June 2019, the audited combined statements of financial position of the Target Companies as at 30 September 2019 as extracted from the Accountants’ Report set out in Appendix II, of this Circular after making certain pro forma adjustments resulting from the Acquisition.

The Unaudited Pro Forma Financial Information has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the financial position of the Enlarged Group had the Acquisition been completed as at 30 June 2019 or at any future date. The Unaudited Pro Forma Financial Information should be read in conjunction with other financial information included elsewhere in this Circular.

(II) Unaudited Pro Forma Consolidated Statement of Assets and Liabilities of the Enlarged Group

	The Group as at 30 June 2019 <i>HK\$ '000</i> <i>(Note 1)</i>	The Target Companies as at 30 September 2019 <i>HK\$ '000</i> <i>(Note 2)</i>	Pro-forma adjustments		Unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group <i>HK\$ '000</i>
			<i>HK\$ '000</i> <i>(Note 3)</i>	<i>HK\$ '000</i> <i>(Note 4)</i>	
Non-current assets					
Property, plant and equipment	6,214	554			6,768
Goodwill	53,465	4,026	31,926		89,417
Intangible assets	13,528	—			13,528
Interests in joint ventures	2,545	—			2,545
Deposits for Acquisition of subsidiaries/ businesses	24,691	—			24,691
Other receivables, deposits and prepayments	8,908	774			9,682
Deferred tax assets	331	—			331
Right-of-use assets	66,267	13,215			79,482
	<u>175,949</u>	<u>18,569</u>			<u>226,444</u>
Current assets					
Inventories	2,204	—			2,204
Trade and other receivables, deposits and prepayments	31,820	347			32,167
Amounts due from related parties	13,623	—			13,623
Amounts due from director	—	1,883	(1,883)		—
Amounts due from non-controlling shareholders of subsidiaries	1,416	—			1,416
Financial assets at fair value	32,369	—			32,369
Tax recoverable	21	—			21
Bank balances and cash	186,184	3,939	(28,164)		161,959
	<u>267,637</u>	<u>6,169</u>			<u>243,759</u>

APPENDIX III
**UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE ENLARGED GROUP**

	Pro-forma adjustments				Unaudited pro forma consolidates statement of assets and liabilities of the Enlarged Group HK\$'000
	The Group as at 30 June 2019 HK\$'000 (Note 1)	The Target Companies as at 30 September 2019 HK\$'000 (Note 2)	HK\$'000 (Note 3)	HK\$'000 (Note 4)	
Current liabilities					
Trade and other payables, accrued charges	14,653	3,004		1,056	18,713
Deferred income	42,304	1,675			43,979
Amounts due to related parties	1,785	—			1,785
Provisions	100	—			100
Tax payable	37	145			182
Consideration payable	15,635	—			15,635
Bank and other borrowings	2,186	1,173			3,359
Lease liabilities	29,987	3,304			33,291
	<u>106,687</u>	<u>9,301</u>			<u>117,044</u>
Net current assets/ (liabilities)	<u>160,950</u>	<u>(3,132)</u>			<u>126,715</u>
Total assets less current liabilities	<u><u>336,899</u></u>	<u><u>15,437</u></u>			<u><u>353,159</u></u>
Non-current liabilities					
Provisions	2,199	—			2,199
Obligation arising from put options written to non-controlling shareholders of a subsidiary	9,145	—			9,145
Deferred tax liabilities	2,229	69			2,298
Corporate bonds	264,947				264,947
Consideration payable	31,565	—	7,266		38,831
Lease liabilities	38,344	9,981			48,325
Bank and other borrowings	207	—			207
	<u>348,636</u>	<u>10,050</u>			<u>365,952</u>
Net (liabilities)/assets	<u><u>(11,737)</u></u>	<u><u>5,387</u></u>			<u><u>(12,793)</u></u>

Notes:

1. The balances are extracted from the condensed consolidated statement of financial position of the Group as at 30 June 2019 as set out in the Company's published interim report for the period ended 30 June 2019.
2. The balances are extracted from the combined statements of financial position of the Target Companies as at 30 September 2019 as set out in the accountants' report of the Target Companies which have been prepared under Hong Kong Financial Reporting Standards and using accounting policies materially consistent with those of the Group and is included in Appendix II to this Circular.
3. On 21 January 2020, SDM International Investments Pte. Ltd., an indirect wholly-owned subsidiary of the Company entered into a sales and purchase agreement with the shareholders of the Target Companies (the "**Vendor**"), in relation to the acquisition of the entire share capital of the Target Companies. Pursuant to the sales and purchase agreement, the total consideration of the Acquisition shall be comprised of:

	<i>Notes</i>	<i>SGD'000</i>	Equivalent to approximately to <i>HK\$'000</i>
— Base consideration		4,000	23,104
— Bonus consideration	<i>a</i>	1,258	7,266
— Rental deposits of the Target Companies	<i>b</i>	134	774
— Insurance prepayments and security deposits of the Target Companies	<i>c</i>	32	185
— Bank accounts of the Target Companies	<i>d</i>	682	3,939
— Unpaid students fees of the Target Companies	<i>e</i>	28	162
Total consideration		<u>6,134</u>	<u>35,430</u>

Notes:

- a. Bonus Consideration shall be made on a pro-rata basis based on a multiple of 5.2 times the Collective Consideration EBITDA Earnings as defined in the sales and purchase agreement for the period from 1 January 2020 to 31 December 2020 less the Base Consideration, which shall not exceed the amount of SGD3,800,000. For the purpose of preparation of the Unaudited Pro Forma Financial Information of the Enlarged Group, the Bonus Consideration is measured at fair value as at 30 June 2019 based on cash flow forecast of the Target Companies.
- b. The rental deposits represented that amounts paid out by the Vendors with respect to the leases as set out in the sales and purchase agreement. For the purpose of preparation of the Unaudited Pro Forma Financial Information of the Enlarged Group, the rental deposits are assumed to be the same as amount extracted from the accountants' report of the Target Companies as set out in Appendix II to this Circular as at 30 September 2019.
- c. Insurance prepayments and security deposits represented the prepayment of all insurance policies purchased in favour of the Target Companies and security deposit. For the purpose of preparation of the Unaudited Pro Forma Financial Information of the Enlarged Group, the insurance prepayments and security deposits are assumed to be the same as amount extracted from the accountants' report of the Target Companies as set out in Appendix II to this Circular as at 30 September 2019.

- d. Pursuant to the sales and purchase agreement, the total value of the bank balances as at Completion Date of the Target Companies will be considered as part of the consideration of the Acquisition. For the purpose of preparation of the Unaudited Pro Forma Financial Information of the Enlarged Group, the bank balances are assumed to be the same as amount extracted from the accountants' report of the Target Companies as set out in Appendix II to this Circular as at 30 September 2019.
- e. Pursuant to the sales and purchase agreement, all the unpaid students' fees as at Completion Date of the Target Companies will be refunded to the Vendors and considered as part of the consideration of the Acquisition. For the purpose of preparation of the Unaudited Pro Forma Financial Information of the Enlarged Group, the unpaid students fees are assumed to be the same as trade receivables which are extracted from the accountants' report of the Target Companies as set out in Appendix II to this Circular as at 30 September 2019.

The adjustments represent the recognition of goodwill arising from the Acquisition Upon Completion, the identifiable assets and liabilities of the Target Companies were accounted for in the consolidated statement of assets and liabilities of the Enlarged Group at fair value under the acquisition method in accordance with Hong Kong Financial Reporting Standard 3 "Business Combination" (**HKFRS 3**). The excess amount of the consideration over the Group's share of the fair value of the net identifiable assets of the Target Companies is recognised as goodwill. The goodwill arising from the Acquisition of the continuing business of Target Companies is calculated as follows:

	<i>Note</i>	<i>HK\$ '000</i>
Total consideration		35,430
Less:		
Net asset value of the Target Companies as at 30 September 2019		(5,387)
Add:		
Waiver of amounts due from directors	<i>f</i>	<u>1,883</u>
Goodwill		<u><u>31,926</u></u>

Note:

- f. Pursuant to the sales and purchase agreement, all directors' loan outstanding at the date of the Sale and Purchase Agreement would be written off in the Target Companies' books. For the purpose of preparation of the Unaudited Pro Forma Financial Information of the Enlarge Group, the amounts due from directors are assumed to be the same as amount extracted from the accountants' report of the Target Companies as set out in Appendix II to this Circular as at 30 September 2019.

Since the fair values of the identifiable assets and liabilities of the Target Companies at the date of Completion may substantially differ from the fair values used in the preparation of this Unaudited Pro Forma Financial Information of the Enlarged Group, the final amounts of the identified net assets and goodwill may be different from the amounts presented above. The directors of the Company have assessed whether there is any impairment on the goodwill arising from the Acquisition as at 30 June 2019 in accordance with Hong Kong Accounting Standards 36 Impairment of Assets (“**HKAS 36**”) and concluded that there is no impairment in respect of the goodwill. The recoverable amount of the cash generating unit comprising these pro forma goodwill is determined based on the value in use calculation. The calculation uses cash flow forecast based on the most recent financial budget of the cash generating unit for the next five years approved by the management of the Target Companies. Key assumptions of the value in use calculations of the cash generating unit relate to the estimation of cash inflows and outflows which include pre-tax discount rate of 14.55%, the revenue growth rate during the five-year period of 16.1% for the year 1 of budget years due to increase of number of students and school fees, and 2.0% for the remaining four-year period, which is based on the management of the Target Companies’ estimation on inflation in Singapore.

The growth rate of 16.1% is mainly contributed by the combination of increment in student number and school fees.

After closing down of the Admiralty Branch, almost all students will be transferred to Global Tots @ Sembawang Pte. Ltd. (the “**Sembawang Branch**”), being one of the Target Companies. It resulted in an increment from 41 to 72 students (approximately 76%) in January 2020 and expect to reach 84 students in the last quarter of 2020 in the Sembawang Branch when comparing to December 2019.

Also, apart from the Sembawang Branch, each other Target Company has increased their average school fees in January 2020 compared with December 2019, which varies from 9% to 12%. After the transfer of students from the Admiralty Branch to the Sembawang Branch in January 2020, the directors of the Target Companies expect the increment of school fee of the Sembawang Branch (with an estimation of 10%) will kick off in the second quarter of 2020.

As such, there will be an estimated growth rate of 16.1% for the year 1 even the revenue of the Target Companies for the latest nine months ended 30 September 2019 was in a decreasing trend comparing to that of September 2018.

Other key assumptions for the value in use calculations relating to the estimation of cash inflows/outflows which include rental payment with average growth rate from nil to 1.8% upon the renewal of existing tenancy agreements during the five-year period.

2.0% to 3.1% annual growth rate is assumed for operating expenses which is based on the management of the Target Companies’ estimation on staff costs and inflation in Singapore from year 1 to year 5, while there is a decrease of 3.6% of operating expenses in year 1 for cost control. Such estimation is based on the cash generating unit’s past performance and the management’s expectations for the market development. The directors of the Company confirmed that they will apply consistent accounting policies, principal assumptions and valuation methods as assess impairment of goodwill in subsequent reporting periods in accordance with the requirement of HKAS 36.

Budgeted revenue, operating expenses and rental payment in the next five years are set out below:

	Year 1	Year 2	Year 3	Year 4	Year 5
	<i>SGD'000</i>	<i>SGD'00</i>	<i>SGD'000</i>	<i>SGD'000</i>	<i>SGD'000</i>
Revenue	4,119	4,201	4,285	4,371	4,458
Operating expenses	2,897	2,987	3,047	3,108	3,170
Rental payment	668	680	689	699	699

Based on the above key assumptions, the reporting accountant agrees with the directors of the Company that there is no impairment in respect of the goodwill arising from the Acquisition as at 30 June 2019.

4. The adjustment represents the estimated professional fee and transaction costs of approximately HK\$1,056,000 increased by the Enlarged Group in connection with the Acquisition, which are assumed to be payable upon the completion of the Acquisition.
5. For the purpose of preparation of the Unaudited Pro Forma Financial Information, the consolidated statement of assets and liabilities is presented in Hong Kong dollar (“**HK\$**”) and all values are rounded to the nearest thousand (HK\$'000) except when otherwise indicated. Items of the consolidated statement of assets and liabilities are translated into SGD at the exchange rate ruling at 30 June 2019 of HK\$1 to SGD5.776.
6. No adjustment has been made to the Unaudited Pro Forma Financial Information to reflect any trading results or other transactions of the Group and the Target Companies entered into subsequent to 30 June 2019.

**(B) INDEPENDENT REPORTING ACCOUNTANT’S ASSURANCE REPORT ON THE
COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION**

The following is the text of a report in respect of the unaudited pro forma financial information of the Target Companies, prepared for the sole purpose of inclusion in this circular, received from the reporting accountant, D & PARTNERS CPA Limited.

**Independent Reporting Accountants’ Assurance Report on the Compilation of Unaudited
Pro Forma Financial Information****To: The Directors of SDM Group Holdings Limited**

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of SDM Group Holding Limited (the “**Company**”) and its subsidiaries (hereinafter collectively referred to as the “**Group**”) by the directors of the Company (the “**Directors**”) for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma consolidated statement of assets and liabilities as at 30 June 2019 and related notes as set out on pages III-1 to III-7 of the circular issued by the Company dated 26 March 2020 (the “**Circular**”). The applicable criteria on the basis of which the Directors have compiled the unaudited pro forma financial information are described on page III-8 to III-10 of the Circular.

The unaudited pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed major acquisitions of the entire equity interest in the Target Companies on the Group’s financial position as at 30 September 2019 as if the transaction had taken place at 30 June 2019, respectively. As part of this process, information about the Group’s financial position has been extracted by the Directors from the Group’s unaudited condensed consolidated financial statements for the six months ended 30 June 2019, on which no audit or review report has been published.

Directors’ Responsibilities for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 7.31 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “**GEM Listing Rules**”) and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” (“**AG 7**”) issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”).

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the “Code of Ethics for Professional Accountants” issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 “Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements” issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountant’s Responsibilities

Our responsibility is to express an opinion, as required by paragraph 7.31 (7) of the GEM Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 “Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus” issued by the HKICPA. This standard requires that the reporting accountant plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the unaudited pro forma financial information in accordance with paragraph 7.31 of the GEM Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the unaudited pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the unaudited pro forma financial information.

The purpose of unaudited pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 30 June 2019 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the Group, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

- (a) the unaudited pro forma financial information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 7.31(1) of the GEM Listing Rules.

D & PARTNERS CPA Limited

Certified Public Accountants

Hong Kong, 26 March 2020

Yeung Chun Yue David

Practising certificate number P05595

Set out below is the management discussion and analysis of the operation results and business review of the Target Companies for each of the three years ended 31 December 2016, 2017 and 2018 and the nine months ended 30 September 2018 and 2019.

MANAGEMENT DISCUSSION AND ANALYSIS OF THE TARGET COMPANIES**Business review*****Revenue***

The revenue of the Target Companies principally consists of fees for early childhood education services and sales of accessories in relation to childhood education. For the three years ended 31 December 2016, 2017 and 2018, the revenue of the Target Companies was approximately S\$2.10 million, S\$2.94 million and S\$3.59 million respectively. The revenue has increased by approximately 40.19% from 2016 to 2017 and approximately 22.17% from 2017 to 2018 as the Target Companies expanded its early childhood education services and increased related service fees.

For the nine months ended 30 September 2018 and 2019, the revenue of the Target Companies was approximately S\$2.70 million and S\$2.66 million respectively. The revenue of these two periods have slightly decreased by 1.55% as there was a decrease in number of students due to construction work next to one of the education centres.

Other income

Other income of the Target Companies primarily consists of government grants and sundry income. For the three years ended 31 December 2016, 2017 and 2018, other income of the Target Companies was S\$280,000, S\$350,000 and S\$506,000 respectively. Other income of the Target Companies has increased by 25% from 2016 to 2017 and approximately 44.57% from 2017 to 2018. The substantial increase was due to the increase in government grants by Singapore government in line with the Target Companies' expansion.

For the nine months ended 30 September 2018 and 2019, other income of the Target Companies was S\$388,000, and S\$385,000 respectively.

Advertising and promotion expenses

The advertising and promotion expenses of the Target Companies mainly comprised of marketing expenses. For the three years ended 31 December 2016, 2017 and 2018, the advertising and promotion expenses of the Target Companies was S\$19,000, S\$52,000 and S\$39,000 respectively. It has a significant increase of approximately 173.68% from 2016 to 2017 due to increase in promotion of the Target Companies, and decrease by 25% from 2017 to 2018. The reason behind was due to reduction of budget on advertising and promotion expenses in 2018 as the Target Companies' brand had already been established in the previous year.

For the nine months ended 30 September 2018 and 2019, the advertising and promotion expenses of the Target Companies was S\$32,000 and S\$20,000.

Rental expenses

Rental expenses represented the rental expenses for the education centres of the Target Companies. For the three years ended 31 December 2016, 2017 and 2018, the rental expenses of the Target Companies was S\$366,000, S\$607,000 and S\$696,000 respectively. There was approximately 90.16% increase from 2016 to 2018 because the Target Companies expand its business by renting more education centres.

For the nine months ended 30 September 2018 and 2019, the rental expenses of the Target Companies was S\$522,000 and nil respectively. The decrease was due to adding back of the depreciation on right of use assets resulted from the adoption of HKFRS 16 since 1 January 2019, which was not reflected for the nine months ended 30 September 2018.

Staff costs

Staff costs of the Target Companies represent salaries, bonus and allowances to the teachers and other operating staff of the Target Companies. For the three years ended 31 December 2016, 2017 and 2018, the staff costs of the Target Companies was approximately S\$1.20 million, S\$1.87 million and S\$2.31 million respectively. The staff costs increased throughout the relevant period by 92.89% as a result of increase number of employees in line with the expansion of the Target Companies.

For the nine months ended 30 September 2018 and 2019, the staff costs of the Target Companies was approximately S\$1.74 million and S\$1.79 million respectively.

Other expenses

Other expenses mainly consist of food supplies, enrichment classes, utilities and other miscellaneous items. For the three years ended 31 December 2016, 2017 and 2018, the other expenses of the Target Companies was S\$281,000, S\$557,000 and S\$677,000 respectively. The increase of approximately 140.93% over the period was in line with the expansion of the Target Companies.

For the nine months ended 30 September 2018 and 2019, the other expenses of the Target Companies was S\$510,000, and S\$445,000. There was a decrease of approximately 12.75% due to cutdown of food supplies in line with slight decrease in number of students in relevant period.

Profit after tax

As a result of the factors above, the profit after tax was S\$394,000, S\$8,000 and S\$198,000 for the three years ended 31 December 2016, 2017 and 2018 respectively. The profit after tax has substantial decrease from 2016 to 2017 of approximately 97.97% because 2 of the centres commenced operations during 2017. Expenses were used in business expansion.

For the nine months ended 30 September 2018 and 2019, the profit after tax was S\$149,000 and S\$96,000, which was decreased by approximately 35.57% mainly due to the effect on implementation of HKFRS16.

For the nine months ended 30 September 2019 as compared to the previous corresponding period, as disclosed above, revenue and other income of the Target Companies decreased due to decrease in number of students. Staff cost increased as there was an increase number of staff. Advertising and promotion expenses and other expenses decreased because of the reduction of budget on relevant expenses.

Under HKFRS16, rental expenses for the nine months ended 30 September 2019 would be nil, and it led to a significant increment in depreciation for S\$463,000 and finance costs for S\$115,000. This amount is compared to the rental expense of S\$522,000 for the nine months ended 30 September 2018. Thus the net increase in expense of S\$56,000 for the nine months ended 30 September 2019 was caused by the change in accounting standard instead of the result in operations.

Liquidity, financial resources, capital structure and major balance sheet items***Trade receivables, deposits and prepayments***

Trade receivables, deposits and prepayments of the Target Companies represent tuition fee receivables, deposits and prepayments from students. As at 31 December 2016, 2017 and 2018 as well as 30 September 2019, the trade receivables, deposits and prepayments of the Target Companies were S\$77,000, S\$77,000, S\$79,000 and S\$60,000 respectively. It was relatively stable from 2016 to 2018 but decreased by approximately 24.05% as at 30 September 2019 compared to 31 December 2018. The decrease was because of decrease in number of students as construction work next to one of the centres commenced during the period.

Bank balances and cash

As at 31 December 2016, 2017 and 2018 as well as 30 September 2019, the bank balances and cash of the Target Companies were S\$363,000, S\$251,000, S\$279,000 and S\$682,000 respectively.

Other payables and accrued charges

Other payables and accrued charges mainly represented student refundable deposits and other tax payable. As at 31 December 2016, 2017 and 2018 as well as 30 September 2019, other payables and accrued charges of the Target Companies were S\$331,000, S\$451,000, S\$472,000 and S\$520,000 respectively. There was an increase of approximately 57.10% throughout the period in line with the expansion of business.

Deferred income

Deferred income represents course fee received in advance pursuant to the contracts with customers. The Target Companies receive service fees and tuition fees from students in advance prior to commencement of each early childhood education course/programme. Course fees are recognised proportionately over the relevant periods of the applicable course/programme.

As at 31 December 2016, 2017 and 2018 as well as 30 September 2019, deferred income were S\$167,000, S\$247,000, S\$291,000 and S\$290,000 respectively. The amount has increased by 73.65% as at 30 September 2019 compared to 31 December 2016 as more students enrolled the early childhood education course/programme of the Target Companies throughout their expansion. There were no material fluctuations on deferred income as at 31 December 2018 and 30 September 2019.

Bank Borrowings

As at 31 December 2016, 2017 and 2018 as well as 30 September 2019, the bank borrowings of the Target Companies were S\$275,000, S\$220,000, S\$262,000 and S\$203,000 respectively. The bank borrowings bear approximately 6.25% per annum. The bank borrowings are secured by personal guarantee jointly by Mr. Lau, Mr. Choe and Ms. Lau. The amount has slightly decreased as the Target Companies have repaid certain amount of the bank borrowings.

Capital commitment

As at 31 December 2016, 2017 and 2018 as well as 30 September 2019, the Target Companies did not have any capital commitment.

Significant investments held

The Target Companies did not hold any significant investment for the three years ended 31 December 2016, 2017 and 2018 and for the nine months ended 30 September 2018 and 2019.

Material acquisitions and disposals

Save as disclosed in the accountants' report of the Target Companies in Appendix II to this circular, the Target Companies did not have any material acquisitions or disposals of subsidiaries, associates or joint ventures for the three years ended 31 December 2016, 2017 and 2018 and for the nine months ended 30 September 2018 and 2019.

Employees and remuneration policies

The staff costs of the Target Companies were approximately S\$1.20 million, S\$1.87 million and S\$2.31 million for the three years ended 31 December 2016, 2017 and 2018. For the nine months ended 30 September 2018 and 2019, the staff costs were approximately S\$1.74 million and S\$1.79 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 staffs with outstanding performance to attract and retain eligible employees to contribute to the Target Companies.

Charge on assets

As at 31 December 2016, 2017 and 2018 as well as 30 September 2018, 2019, the Target Companies did not pledge any of its assets.

Exposure to fluctuations in exchange rates and related hedges

All of the revenue, expenses, assets and liabilities of the Target Companies are denominated in S\$ which is the functional currency of the Target Companies. The Target Companies also use S\$ as its reporting currency. The Directors believe that the operations of the Target Companies are not currently subject to any significant direct foreign exchange risk and the Target Companies did not use any financial instruments to hedge its exposure to such risk. The management of the Target Companies monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Contingent liabilities

As at 31 December 2016, 2017 and 2018 as well as 30 September 2019, the Target Companies did not have any material contingent liabilities.

The following is the text of a valuation report, prepared for the purpose of incorporation in this document received from Valtech Valuation Advisory Limited, an independent valuer, in connection with its valuation as at 30 September 2019 of the Subject of the Valuation.



26 March 2020

Board of Directors
SDM Group Holdings Limited
Room 202B, 2/F
Liven House
61-63 King Yip Street
Kwun Tong, Hong Kong

Dear Sir/Madam,

**Valuation of 100% Equity Interest in Global Tots Pte. Ltd.,
Global Tots @ Mountbatten Pte. Ltd., Global Tots @ Braddell Pte. Ltd. and
Global Tots @ Sembawang Pte. Ltd.**

In accordance with the instructions from SDM Group Holdings Limited (the “**Company**”), we have been engaged by the Company to assist to determine the Market Value of the following subject of valuation as at 30 September 2019 (the “**Valuation Date**”).

- 100% Equity Interest in Global Tots Pte. Ltd., Global Tots @ Mountbatten Pte. Ltd., Global Tots @ Braddell Pte. Ltd. and Global Tots @ Sembawang Pte. Ltd. (the “**Target Companies**” or “**Subject of Valuation**”).

Our analyses are substantially based on the information provided to us by the existing management of the Company (the “**Management**”). It is our understanding that our analyses, and the subsequent appraised estimation of Market Value (as defined in the section of Standard and Basis of Value), will be used by the Management solely for their purpose of transaction reference. Our analyses are conducted for the above stated purpose. As such, this report should not be used by the Company for any other purpose other than those that are expressly stated herein without our expressed prior written consent.

Our work is subject to section LIMITING CONDITIONS as described till the end of this report. The basis of value follows the definition of Market Value as stipulated in the International Valuation Standards 2017, premised on the Subject of Valuation being a “Highest and Best Use” basis.

The approaches and methodologies used in our work do not comprise an examination to ascertain whether the Target Companies' presented financial information are constructed in accordance with generally accepted accounting principles. The objective of the aforesaid examination is of course to determine whether existing current financial statements or other financial information, historical or prospective, which are provided to us by the Management, are being expressed as a fair presentation of the Target Companies' financial condition. As such, we express no opinion and accept no responsibility on the accuracy and/or completeness of the historical and projected financial information of the Target Companies, and of the marketing materials or other data provided to us by the Management.

Our conclusions on Market Value do not constitute nor shall they be construed to be an investment advice or an offer to invest. Prior to making any decisions on any investments, a prospective investor should independently consult with their own investment, accounting, legal and tax advisers to critically evaluate the risks, consequences, and suitability of such investment.

SCOPE AND PURPOSE OF ENGAGEMENT

We are engaged by the Management to assist to determine the Market Value of the Subject of Valuation as at the Valuation Date. It is our understanding that our analysis will be used by the Management's transaction reference in relations to the potential acquisition of the Subject of Valuation only.

STANDARD AND BASIS OF VALUE

This valuation is prepared on the basis of Market Value. In accordance with the International Valuation Standards (2017 Edition) published by International Valuation Standards Council, Market Value is the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties has each acted knowledgeably, prudently and without compulsion.

PREMISE OF VALUE

Premise of value relates to the concept of valuing a subject, i.e., a business, in a manner which would generate the greatest return to the owner, taking account what is physically tangible, financially feasible, and legally permissible. Premise of value includes the following scenarios:

- **Highest and Best Use:** is the use that would produce the highest and best use for an asset, and it must be financially feasible, legally allowed and result in the highest value;
- **Current Use/Existing Use:** is the current way an asset, liability, or group of assets and/or liabilities is used, maybe yet not necessarily the highest and best use;
- **Orderly Liquidation:** describes the value of a group of assets that could be realized in a liquidation sale, given a reasonable period of time to find a purchaser/(s), with the seller being compelled to sell on an as-is, where-is basis; and

- **Forced Sale:** is in circumstances where a seller is under compulsion to sell and that, as a consequence, a proper marketing period is not possible and buyers may not be able to undertake adequate due diligence.

After having reviewed all background and financial information and taken into consideration all relevant facts, valuation of the Subject of Valuation should be prepared on a “Highest and Best Use” basis.

LEVEL OF VALUE

Current valuation theories suggest that there are at least three basic “levels” of value applicable to a business or business interest. The three most common levels of value are as follows:

- **Controlling Interest:** Value of the controlling interest, always evaluate an enterprise as a whole;
- **Non-controlling Interest:** Value of the non-controlling interest of a business;
- **As if Freely Tradable Interest:** Value of a business that or business interest enjoys the benefit of market liquidity; and
- **Non-marketable Interest:** Value of a business that or business interest lacking market liquidity.

After having reviewed all background and financial information and take into consideration all relevant and objective facts, we reasonably believe Subject of Valuation should be valued and reported in this valuation as a non-marketable controlling interest.

SOURCES OF INFORMATION

Our analysis and conclusion of opinion on value are based on continued discussions with the Management, and have obtained pertinent key documents and records provided by the Management, and conducted certain procedures including but not limited to:

- Relevant government permits, licenses and approvals in relation to the operation of the childcare centres in Singapore;
- Contracts signed with the major suppliers and vendors (e.g. meal suppliers, curriculum providers, preschool management system provider and insurance contracts etc.) for the necessary services to operate the childcare centres;
- Trademark registration documents for the brand name “Global Tots”;
- Financial projection and budget of the Target Companies by centres;

- Consolidated Financial Statement of the Target Companies for the nine months ended 30 September 2019; and
- Consolidated Financial Statement of the Target Companies for the years ended 31 Dec 2015, 2016, 2017 and 2018.

We have also relied upon publicly available information from sources in capital markets, including industry reports, news and various databases of publicly traded companies.

SITE INSPECTION

In late November 2019, our personnel conducted an interview with the management of the Target Companies in Singapore. During the interview, our personnel inquired the management in relation to the details of the operation of the business, current and future operational plans and the general revenue and cost structure (e.g. tuition fee structure and teaching staff salary) of the Target Companies. Apart from the interview, our personnel also conducted site inspection of the three out of the four education institution that currently operated by the Target Companies. The three education institutions are located in Braddell, Mountbatten and Holland respectively.

ECONOMIC OVERVIEW

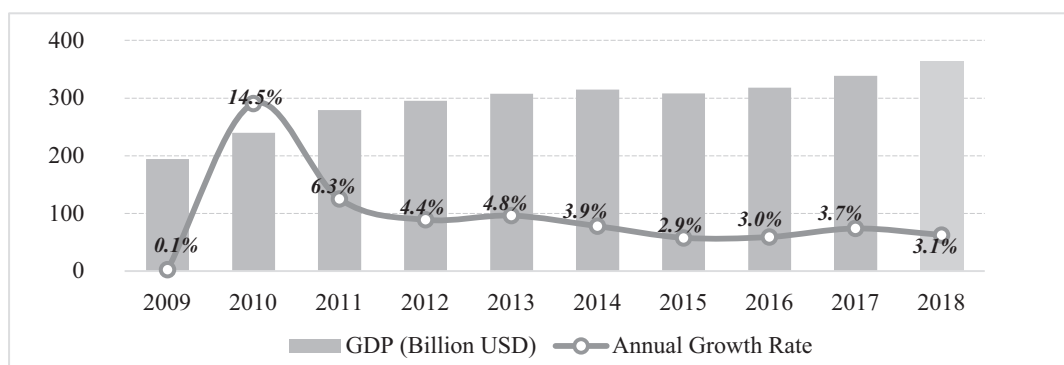
In this section, we will review and analyse the current economic conditions of Singapore where the profit of the Target Companies are mainly derived from, and how the valuation may be impacted.

Singapore has a highly developed and successful free-market economy. It enjoys an open and corruption-free environment, stable prices, and a per capita GDP higher than that of most developed countries. The economy depends heavily on exports, particularly of electronics, petroleum products, chemicals, medical and optical devices, pharmaceuticals, and on Singapore's vibrant transportation, business, and financial services sectors. State-owned enterprises play a substantial role in Singapore's economy. Sovereign wealth fund holds majority stakes in several of the nation's largest companies. The Singaporean economy has also benefited from the inward flow of Foreign Direct Investment ("FDI") from global investors and institutions due to its highly attractive investment climate and a stable political environment. Singapore has attracted major investments in advanced manufacturing, pharmaceuticals, and medical technology production and will continue efforts to strengthen its position as Southeast Asia's leading financial and technology hub.

Gross Domestic Production ("GDP")

The Singapore economy contracted 0.1% in 2009 as a result of the global financial crisis, but has continued to grow since 2010. Growth from 2012-2017 was slower, mainly due to slowing structural growth and soft global demand for exports. Growth recovered to 3.6% in 2017 with a strengthening global economy.

According to World Economic Outlook Database published by International Monetary Fund ("IMF") in October 2019, the growth rate of GDP was recorded at 3.1% in 2018 and expected to moderate to 0.55% and 0.99% in 2019 and 2020 respectively. The projected slowdown in 2019 and 2020 is a side effect of the US-China trade tensions and slowing growth of the several of Singapore's key final demand markets, as well as the subdued performance of the manufacturing sector and trade-related services sectors such as wholesale in view of the ongoing downswing in the global electronics cycle.

GDP Growth in Singapore from 2009 to 2018

Source: IMF World Economic Outlook Database, October 2019

Forecasts of GDP Growth of Singapore from 2019 to 2024

	2019F	2020F	2021F	2022F	2023F	2024F
GDP (Billion USD)	362.8	369.6	383.8	401.2	420.0	440.8
Annual Growth of GDP (%)	0.55	0.99	1.57	2.22	2.35	2.50

Source: IMF World Economic Outlook Database, October 2019

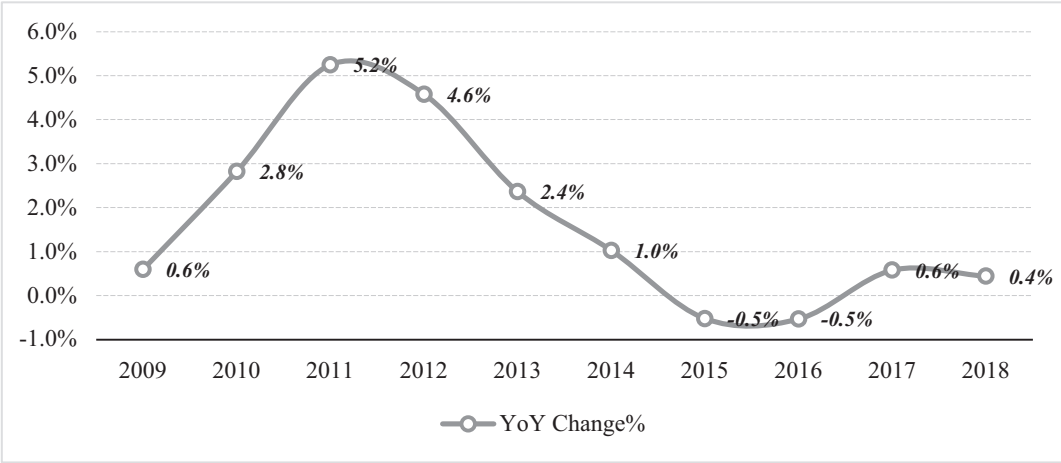
Over the near term, the finance & insurance and information & communications services sectors should continue to expand, underpinned by domestic demand in the region and ongoing digitalization-related investments. Within the domestic-oriented sectors, the outlook for the retail industry has dimmed but growth in education, health & social services is expected to stay resilient. The construction sector should also recover further in the year ahead, given the strong pipeline of public infrastructure projects. On the whole, Singapore's GDP growth is projected to come in at around the mid-point of the 0–1% forecast range in 2019 and improve modestly in 2020.

Inflation & Monetary Policy

The CPI inflation moderated to 0.4% in October from 0.5% in the prior month, but annual average inflation was stable at September's 0.5%. The Monetary Authority of Singapore's ("MAS") core inflation measure, which excludes accommodation and private road transport costs, edged lower to 0.6% in October from 0.7% in September, marking the lowest reading in 43 months. In the near term, external sources of inflation are likely to be benign, amid weak demand conditions, and generally well-supplied food and oil commodity markets. However, oil prices could be volatile in the near term, reflecting geopolitical risks. On the domestic front, labour market conditions are softening as firms become more cautious about hiring. This would lower wage growth in 2019 and 2020 compared to last year. At the same time, non-labour costs such as retail rents should stay subdued.

For 2019, the MAS expects CPI inflation to average between 0.5% and 1.5%, and core inflation to average between 1.0% and 2.0%.

Inflation Evolution of Singapore from 2009 to 2018



Source: IMF World Economic Outlook Database, October 2019

Inflation Forecasts of Singapore from 2019 to 2024

	2019F	2020F	2021F	2022F	2023F	2024F
Inflation YoY Change %	0.67	0.99	1.27	1.37	1.44	1.47

Source: IMF World Economic Outlook Database, October 2019

The MAS uses the country’s exchange rate as its main monetary policy tool, which is different from most central banks, which use interest rates to manage policy. It manages the Singapore dollar against an undisclosed basket of currencies of its major trading partners and competitors, intervening when needed to keep the exchange rate within an unspecified policy band. It adjusts the pace of appreciation or depreciation of the local dollar by changing the slope, width and centre of that band. In April 2018, MAS tightened monetary policy, allowing the Singapore dollar to appreciate by 0.8% in nominal effective terms and by 2.3% against the US dollar in nominal terms.

Singapore Dollar Versus US Dollar, 2008 — 2019

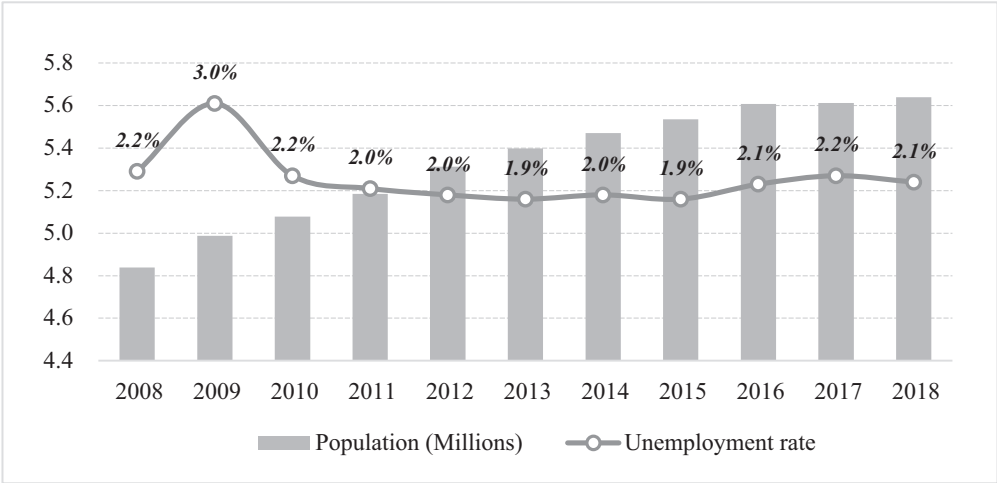


Source: Bloomberg

Population & Unemployment

The population of Singapore has grown steadily from 4.8 million in 2008 to 5.6 million in 2018 with a CAGR of 2%, while the unemployment rate has remained steadily around 2% after reaching the peak of 3% recorded in 2009. Singapore traditionally has one of the lowest unemployment rates among developed countries, and foreign workers are crucial to the country’s economy, which make up 80% of the construction industry and up to 50% of the service industry. According to the latest figures released by the Ministry of Manpower (“**MOM**”) in its Labour Market Report in October, the overall unemployment rate rose slightly in 2019 Q3 ending September from 2.2% to 2.3%, however, the total employment, excluding foreign domestic workers, rose by 22,400 from July to September. This is more than three times the growth of 6,200 in the previous quarter, which is largely due to more people finding work in the service sector.

Population and unemployment rate in Singapore from 2008 to 2018



Source: IMF World Economic Outlook Database, October 2019

Forecasts of Population and Unemployment Rate in Singapore, 2019 — 2024

	2019F	2020F	2021F	2022F	2023F	2024F
Population (Millions)	5.67	5.70	5.73	5.76	5.80	5.83
Unemployment rate	2.2	2.2	2.1	2.0	2.0	2.0

Source: IMF World Economic Outlook Database, October 2019

Economy Policies

In 2017, the Committee on the Future Economy (“CFE”) outline seven strategies for Singapore to stay ahead in a challenging global climate. These strategies aim to help the country stay open and connected, ensure its people acquire skills for future jobs, and help companies scale up through innovation and transformation.

- deepen and diversify Singapore’s international connections;
- acquire and utilise deep skills;
- strengthen enterprise capabilities to innovate and scale up;
- build strong digital capabilities;

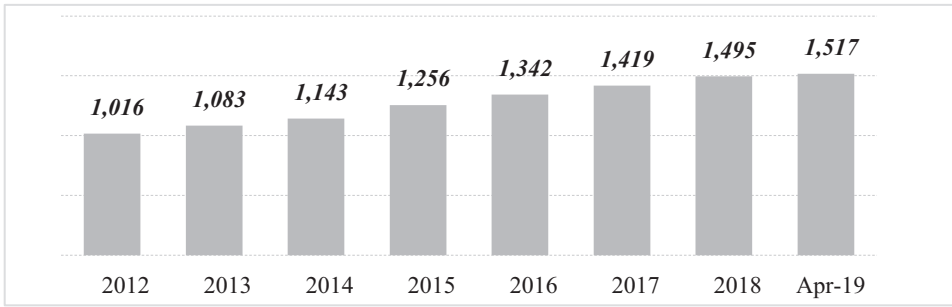
- develop a vibrant and connected city of opportunity;
- develop and implement Industry Transformation Maps (first outlined in Budget 2016); and
- partner each other to enable growth and innovation.

INDUSTRY OVERVIEW

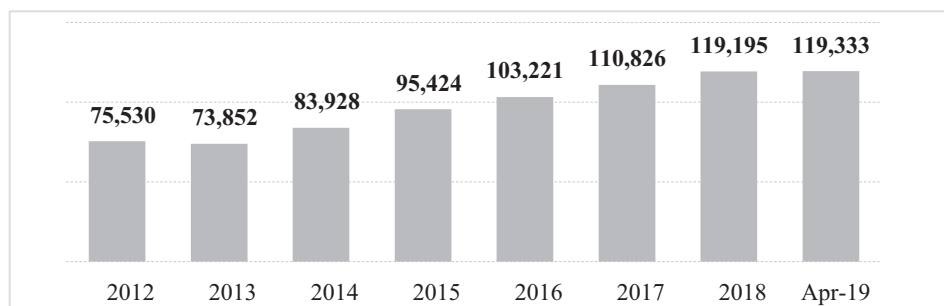
Singapore’s early childhood care and education (“**ECCE**”) sector is comprised of childcare centers and kindergartens. Kindergartens provide pre-school developmental programs for children aged about 2 years to children below 7 years of age, while childcare centers provide childcare services and pre-school developmental programs for children aged from 18 months to children below 7 years old. The government plays a large role in governance, regulation, and financing, while the private sector is the dominant service provider. For-profit operators, including some mega-sites and several chains of centers, operate about half of childcare and kindergarten provision. While childcare provision is mostly for-profit, more than half of Singapore’s kindergarten provision is not-for-profit, including those run by religious establishments.

The industry has seen significant growth over the past few years and is expected to continue to grow in line with rising demand for early childhood services. According to the latest data released by Early Childhood Development Agency (“**ECDA**”), between 2012 and 2018, the number of childcare centers increased from about 1,000 to about 1,500 throughout Singapore. By geography, Sengkang has 90 Child Care Centers, the highest among all the areas, followed by Jurong West and Woodlands with 82 Child Care Centers. An estimated 21% of children under age 2, 79% of children ages 2-4, and 90% of children ages 5-6 attend center-based provision. Almost all children attend at least one year of childcare or kindergarten before beginning primary school at age 7.

Number of Childcare Centers in Singapore



Source: ECDA

Number of Enrolments in Childcare Centers in Singapore

Source: Skoolopedia

There are 3 types of childcare centers in Singapore: Premium, Anchor Operators and Partner Operators.

Premium

Premium operators are private-run childcare centers.

Anchor Operators

Anchor operators are private-run childcare centers. This makes them similar to premium childcare centers. The main difference is that anchor operators receive funding support from government to keep its monthly fees at a cap of SG\$720, SG\$1,275 and SG\$160 for full-day childcare, full-day infant care and kindergarten respectively. They are funded by the Anchor Operator Scheme (“AOP”).

Partner Operators

Partner operators function in the same manner as anchor operators. For partner operators, they receive funding under the Partner Operator Scheme (“POP”). Partner Operators monthly cap is of SG\$800 and SG\$1,400 for full-day child care and infant care program respectively, SG\$600 and SG\$1,000 for half-day child care and infant care program respectively for Singapore Citizen children. They receive funding support from Year 2016 — 2020.

Preschool Fees in Singapore (in SG\$)

Year	2012	2013	2014	2015	2016	2017	2018	Apr-19
Average full-day fees	850	923	953	999	1,014	1,032	1,045 (Estimates)	1,050 (Estimates)
Median full-day fees	750	830	850	900	856	856	900 (Estimates)	900 (Estimates)

Source: Skoolopedia

Industry Policies

After doubling investment in the early childhood sector since 2012, the Singapore Government recently announced that annual public spending is projected to double again from about US\$622 million to US\$1.24 billion over the next five years. Recent policy developments in Singapore have focused on strengthening the coherence of the early childhood care and education system, expanding access, and improving quality:

In 2013, the Early Childhood Development Agency (“**ECDA**”) was established as an autonomous, regulatory agency jointly overseen by the Ministry of Education (“**MoE**”) and Ministry of Social and Family Development (“**MSF**”). Formerly, kindergartens and childcare centers fell under the auspices of the MoE and MSF respectively. The development of a single agency responsible for ECCE was a major step toward unifying the field and overcoming fragmentation of services, including greater harmonization of government regulations and common workforce development efforts.

In 2017, the Government announced plans to increase the capacity of childcare centers by more than 30%, adding 40,000 new full-time places, including doubling the number of infant places to more than 8,000 by 2020. The government targets financial support to improve affordability, especially for economically disadvantaged families. For example, as part of the Anchor Operator Scheme, Singapore provides funding directly to eligible non-profit providers. In turn, these providers offer income-related, fee subsidies to about 45,000 lower- and middle-income families. The number of families benefitting from subsidized places in childcare centers and kindergartens more than doubled from 2012 to 2017.

In 2017, the Early Childhood Development Centers Act harmonized regulations for childcare centers and kindergartens by requiring all programs to be licensed. About half kindergartens and childcare centers are certified under the Singapore Pre-school Accreditation Framework (“**SPARK**”), which involves participation in a quality rating exercise by external assessors. This voluntary accreditation encourages providers to exceed minimum requirements to receive a certificate and provides parents with a measure of preschool quality.

COMPANY OVERVIEW**SDM Group Holdings Limited**

The Company was incorporated in the Cayman Islands with limited liability and the issued Shares of which are listed on the Main Board of the Stock Exchange (stock code: 8363) on 14 October 2014. The Company principally engaged in the operation of dance academies. The Company operates jazz and ballet and pop dance academies in Hong Kong and China. It mainly operates under the brand of SDM Jazz and Ballet Academie. Its revenue includes course fee income and income from the sales of dance uniforms, shoes and accessories. The Company’s courses include elementary courses, Cool Kids pop dance courses for children, the Commonwealth Society of Teachers of Dancing jazz courses and Royal Academy of Dance ballet courses, among others.

Target Companies

The Target Companies are companies incorporated in Singapore with limited liabilities and are principally engaged in the operation of childcare centre in Singapore. Currently, the Target Companies operate four childcare centres in Singapore. The four childcare centres are located in Braddell, Sembawang, Mountbatten and Holland. The Target Companies positioned themselves as the mid-to-high quality childcare service providers in Singapore. In particular, Mountbatten and Holland are premium residential areas in Singapore so the targeted customers of are wealthy families which are willing to pay for premium childcare services.

VALUATION METHODOLOGY OVERVIEW

The valuation of any asset can be broadly classified into one of the three approaches, namely the cost approach, the income approach and the market approach. In any valuation analysis, all three approaches must be considered, and the approach or approaches deemed most relevant will then be selected for use in the analysis of that asset.

Cost Approach

The cost approach provides an indication of value using the economic principle that a buyer will pay no more for an asset than the cost to obtain a business, business ownership interest, security, or intangible asset of equal utility, whether by purchase or by construction, unless undue time, inconvenience, risk or other factors are involved. The approach provides an indication of value by calculating the current replacement or reproduction cost of an asset and making deductions for physical deterioration and all other relevant forms of obsolescence.

Income Approach

This is a general way of determining the economic value of a business, business ownership interest, security, or intangible asset by using one or more methods that convert anticipated benefits into a present value amount.

In the income approach, an economic benefit stream of the asset under analysis is selected, usually based on historical and/or forecasted cash flow. The focus is to determine a benefit stream that is reasonably reflective of the asset's most likely future benefit stream. This selected benefit stream is then discounted to present value with an appropriate risk-adjusted discount rate. Discount rate factors often include general market rates of return at the Valuation Date, business risks associated with the industry in which the company operates, and other risks specific to the asset being valued.

Market Approach

The market approach provides an indication of value by comparing a business, business ownership interest, security, or intangible asset with identical or comparable (that is similar) subjects for which price information is available.

Value is established based on the principle of comparison. This simply means that if one thing is similar to another and could be used for the other, then they must be similar. Furthermore, the price of two alike and similar items should be approximates to one another.

There are 2 principal methods under the market approach, namely Guideline Merger and Acquisition (“GMA”) Method and Guideline Publicly Traded Company (“GPTC”) Method. Under GMA Method, value is derived from the acquisition prices at which business is similar to that of the Subject of Valuation is exchanged (i.e. guideline transactions). Under GPTC Method, value is derived from trading price multiples of a selected set of comparable companies. Application of the market approach is subject to the following requirements:

- Existence of historical (and recent) comparable transactions/companies;
- Availability of public information on comparable transactions/companies; and
- Arm’s length transactions between the independent uncontrolled parties.

Selected Valuation Approach

Methodology	Application	Reason
Cost Approach	Rejected	Participants would not be able to recreate an asset with substantially the same utility as the Subject of Valuation, without regulatory or legal restrictions, and the asset could be recreated quickly enough that a participant would not be willing to pay a significant premium for the ability to use the Subject of Valuation immediately.
Income Approach	Rejected	There is significant uncertainty regarding the amount and timing of future income to the Target Companies.
Market Approach	Accepted	The market approach referred to the public information of the market participants, which involve fewer assumptions on the input in the valuation and reflecting the market expectation and view on the industry.

We have performed necessary research to apply the GMA Method. Since available public information in relation to acquisitions is limited involves specific buyers who pay a premium/discount under their unique circumstances, it is difficult to make adjustment to reflect the unique circumstances of the Subject of Valuation. As a result, GMA Method is not applied to for conclusion of value.

Methodology	Application	Reason
--------------------	--------------------	---------------

		On the other hand, there are sufficient numbers of comparable public companies available in markets which facilitate a meaningful comparison and provide inputs for determining the valuation multiple. GPTC Method under the market approach is applied and considered as appropriate and reliable.
--	--	--

GENERAL ASSUMPTIONS

A number of general assumptions are established to sufficiently support our conclusion of valuation. The general assumptions adopted in this valuation are:

- There are no changes, the aggregate of which when viewed together, may be construed to be a material adverse change in the existing political, legal, commercial and banking regulations, fiscal policies, foreign trade and economic conditions in countries/regions where the Target Companies currently operates in;
- There are no deviations, the aggregate of which when viewed together, may be construed to be a material adverse change in industry demand and/or market conditions;
- There are no changes, the aggregate of which when viewed together, may be construed to be a material adverse change in the fluctuation of interest rates or currency exchange rates in any country which would be deemed to have a negative impact or the ability to hinder the existing and/or potentially future operations of the Target Companies;
- There are no changes, the aggregate of which when viewed together, may be construed to be a material adverse change in the current laws of taxation in those countries in which the Target Companies operate in or the Target Companies may potentially operate in;
- All relevant legal approvals, business certificates, trade and import permits, bank credit approval have been procured, in place and in good standing prior to commencement of operations by the Target Companies under the normal course of business;
- The Target Companies will be able to retain existing and competent management, key personnel, and technical staff to support all facets of the ongoing business and future operations; and
- Trademarks, patents, technology, copyrights and other valuable technical and management knowhow will not be infringed in countries/regions where the Target Companies are or will be carrying on business.

APPLICATION OF MARKET APPROACH**Guideline Publicly Traded Company Method (“GPTC Method”)**

We have accepted the GPTC Method as the primary method given a pool of relevant and sufficient comparable companies (“**Guideline Public Companies**”) with similar business model being identified. The premise behind the GPTC Method is that prices of publicly traded stocks in the same or a similar industry provide objective evidence as to values at which investors are willing to buy and sell interest of companies in that industry.

Under the GPTC Method, the market value is derived from trading multiples of Guideline Public Companies. In applying the GPTC Method, we have computed the trading multiples on various benefit streams for each of the Guideline Public Companies. An appropriate valuation multiple is then determined and adjusted for the unique aspects of the company being valued if any. This valuation multiple is then applied to the company being valued to arrive at an estimate of value for the appropriate ownership interest.

Selection of the Guideline Public Companies

The application of the GPTC Method depends on the selection of the Guideline Public Companies that shared sufficient similarities to underlying business of the Target Companies so as to provide meaningful comparisons. We exercised due care in the selection of the Guideline Public Companies by using multiple screening criteria in deciding whether or not the business model of a particular Guideline Public Company is relevant.

The Target Companies are principally engaged in provision of childcare education services in Singapore. In selecting the Guideline Public Companies, we started with a description of the potential companies, in terms of lines of business, location of business and financial information. In order to comprise a representative set of Guideline Public Companies to derive the valuation result, we performed our comparable search based on the below selection process in the selection of the Guideline Public Companies:

1. Search comparable companies which engaged in childcare education service in Singapore.
2. Given the comparable pool is not considered sufficient, we expanded the pool to childcare education service provider in Asia.
3. Given the comparable pool is not considered sufficient, we further expanded the pool to consider “Education” sector of listed companies in Hong Kong.
4. Shortlisted companies are rejected if a reasonable EBITDA cannot be obtained (i.e. companies record negative EBITDA are rejected).

We exercised due care on searching comparable companies and a pool of related companies is identified that are operating in similar business as the Target Companies. It is noted that MindChamps PreSchool Limited is the only comparable company which is principally engaged in provision of childcare education service and its principal place of business is Singapore. We consider it is insufficient to draw the valuation conclusion by a single comparable and expand our search to include comparable companies that engaged in childcare education business in Asia (including Australia). 5 comparable companies are identified. 4 of the 5 comparable companies are operating in Australia or China rather than Singapore. In forming the valuation opinion, we consider that it is necessary to consider a larger sample size instead of drawing conclusion based on 5 comparables with 3 located in Australia and 1 located in China. Furthermore, given the acquirer is a Hong Kong listed company and Hong Kong's equity market is a liquid and mature market, it is also relevant to make reference to comparable companies listed on HKEx. All the Hong Kong listed companies in the comparable pool are under the Industry - Consumer Discretionary, Sector - Support Services and Sub-sector "Education" under the Industry Classification (HSIC) provided by Hang Sang Indexes Company Limited disclosed on HKEx's website. The comparable pool forms a boarder base for further valuation analysis. 19 comparable companies are identified. Among the identified comparable companies, the latest available trailing 12 months EBITDA of Hong Kong Education (International) Investments Limited and Goldway Education Group Limited are negative and rejected.

After going through the aforesaid procedures, we consider the list of Guideline Public Companies is exhaustive based on our research and selection criteria on a best-effort basis. The comparable pool has represented a complete comparable pool sufficient to form a fair and reasonable valuation opinion. The following list shows the Guideline Public Companies that we have identified in connection with this valuation.

Selected Guideline Public Companies

Guideline Public Companies

- 1 **G8 Education Limited (GEM AU)**
The company provides community-focused childcare for families to foster their child's development.
- 2 **Think Childcare Limited (TNKDA AU)**
The company operates owns, manages, and operates long day childcare facilities. The Company offers child development and education services in Australia.
- 3 **Mayfield Childcare Limited (MFD AU)**
The company provides education and childcare services in Australia.
- 4 **Mindchamps Preschool (MCHAMPS SP)**
The company operates preschool centers in Singapore.

- 5 **Hope Education Group Co, Ltd. (1765 HK)**
The company offers educational services. The company provides educational training, knowledge point sharing, activities arrangement, and other services.
- 6 **Virscend Education Company Limited (1565 HK)**
The company is a K-12 private education company. The Company provides foreign exchange programs, mandates English to be taught, and provides different schools with different focuses.
- 7 **Tianli Education International Holdings Limited (1773 HK)**
The company provides tutoring services for primary school students and pre-kindergarten children.
- 8 **Bojun Education Company Limited (1758 HK)**
The company offers preschool, kindergartens, and other related services.
- 9 **China Maple Leaf Educational Systems Limited (1317 HK)**
The company operates high schools, middle schools and elementary schools across various Chinese cities.
- 10 **China New Higher Education Group Limited (2001 HK)**
The company provides educational services. The company offers degree program in applied sciences.
- 11 **Minsheng Education Group Company Limited (1569 HK)**
The company offers educational services. The company provides higher and vocational education services in China.
- 12 **China 21st Century Education Group Limited (1598 HK)**
The company offers early childhood education, primary and secondary education, higher education, vocational education, and other services.
- 13 **Scholar Education Group (1769 HK)**
The company operates as a school. The company offers various types of academic courses such as language, arts, science, sports, music, technology, and other related subjects.
- 14 **China Xinhua Education Group Limited (2779 HK)**
The company provides undergraduate and vocational educational programs.
- 15 **China Beststudy Education Group (3978 HK)**
The company offers after-school education services, school subject-related courses, and other related services.

16 Kingsley Edugroup Limited (8105 HK)

The company provides educational services. The company focuses on tertiary, language, and skill educational programs.

17 RYB Education, Inc. (RYB US)

The company operates kindergarten and pre-schools. The company provides training in a variety of subjects and languages, teacher recruitment, guidance, innovative learning, development of children, rating systems, parents consulting, and other services.

Source: Bloomberg

Determination of the Valuation Multiple

Valuation multiples, which are measures of relative value, are computed by dividing the market capitalisations or enterprise value (“EV”) of the Guideline Public Companies by some identified value-driving economic variable(s) observed or calculated from their latest published fundamental data, being typically their financial data (such as revenue, EBITDA, net earnings, net asset) or other industry-specific value drivers as at the Valuation Date.

The Target Companies are under normal operation and profitable. Considering that the operations of the selected Guideline Public Companies are located at different countries which under different tax jurisdictions, and the financing structures are not similar as the Target Companies, EBITDA excludes the impact of tax and financing cost on profitability can directly reflect the operating performance of a company. As such EV/EBITDA considers as an appropriate valuation multiple in this valuation.

Computation of the Valuation

After identifying the Guideline Public Companies and determining the valuation multiple, the next step is to compute the EV/EBITDA multiple on a reliable and consistent approach across all Guideline Public Companies. The process of computing the valuation multiple in this valuation consists of the following 2 procedures:

- Determination of the EV for each Guideline Public Companies as at the Valuation Date. The EV for each Guideline Public Companies is referred to Bloomberg as at the Valuation Date.
- Determination of the measure of operating results, i.e. latest available trailing 12 months EBITDA as at the Valuation Date, which represent the denominators of the multiple.

Implied EV/EBITDA multiple for the Guideline Public Companies

	Name	Ticker	Enterprise Value as at the Valuation Date (SGD in Million)	EBITDA as at the Valuation Date (SGD in Million)	EV/EBITDA Multiple (rounded)
1	G8 Education Limited	GEM AU	2,114.84	197.87	10.69x
2	Think Childcare Limited	TNKDA AU	205.51	17.81	11.54x
3	Mayfield Childcare Limited	MFD AU	63.92	7.75	8.25x
4	MindChamps PreSchool Limited	MCHAMPS SP	125.57	8.88	14.15x
5	Hope Education Group Co, Ltd.	1765 HK	1,275.52	105.01	12.15x
6	Virscend Education Company Limited	1565 HK	1,464.20	122.90	11.91x
7	Tianli Education International Holdings Limited	1773 HK	1,006.41	51.06	19.71x
8	Bojun Education Company Limited	1758 HK	52.20	16.47	3.17x
9	China Maple Leaf Educational Systems Limited	1317 HK	828.71	147.27	5.63x
10	China New Higher Education Group Limited	2001 HK	1,154.61	104.53	11.05x
11	Minsheng Education Group Company Limited	1569 HK	919.62	101.64	9.05x
12	China 21st Century Education Group Limited	1598 HK	115.25	22.69	5.08x
13	Scholar Education Group	1769 HK	764.45	22.77	33.57x
14	China Xinhua Education Group Limited	2779 HK	480.66	62.19	7.73x
15	China Beststudy Education Group	3978 HK	294.90	52.66	5.60x
16	Kingsley Edugroup Limited	8105 HK	66.36	2.29	28.98x
17	RYB Education, Inc.	RYB US	289.96	10.40	27.89x
				Mean (rounded):	13.30x
				Median (rounded):	11.05x
				Selected multiple (rounded):	11.05x

Among the 17 comparable companies, MindChamps PreSchool Limited is the only comparable company which its principal place of business is Singapore. EV/EBITDA of MindChamps PreSchool Limited is 14.15x, which is higher than the median of the 17 comparable companies.

When focusing on the comparable companies that engaged in childcare education business in Asia (including Australia), there are 5 comparable companies. The median of the EV/EBITDA is 11.54x which is close to the selected multiple.

We have further analysed the performance of the comparable companies in Hong Kong capital market. Among 17 comparable companies, 12 comparable companies are listed in Hong Kong. EV/EBITDA of these 12 comparable companies is 10.05x, which is close to the selected multiple.

The median of total 17 comparable companies' multiple being 11.05x is close to the EV/EBITDA of MindChamps PreSchool Limited (i.e. 14.15x), the comparable companies engaged in childcare education business in Asia (i.e. 11.54x) and the comparable companies in Hong Kong capital market (i.e. 10.05x). We considered that the median (i.e. 11.05x) as the adopted EV/EBITDA multiple for our valuation analysis is fair and reasonable.

CONTROL PREMIUM

Control Premium is generally regarded as the amount in excess of the current traded market price that a buyer is willing to pay to acquire the control of a publicly traded company. A buyer is willing to pay a premium for control when obtaining the controlling advantages, they would not receive if only a minority interest is purchased, such as autonomy over investment and distribution policies, operational and merger strategies, etc. As such, estimating the value of the control premium is necessary when valuing a block of shares where controlling or significant voting rights are attached.

In this valuation, valuation multiple is computed with reference to the EV/EBITDA of the Guideline Public Companies. Enterprise Value of the Guideline Public Companies can only reflect the valuation on a sum-of-minority-shares basis. Furthermore, this transaction involved equity interest of the Subject of Valuation on a controlling basis. It is thus reasonable to apply a control premium to reflect these control advantages over the observed minority prices of the Guideline Public Companies.

With reference to the Mergerstat Review 2019 published by FactSet Mergerstat, LLC., we considered a control premium of 5% is fair and reasonable for this valuation.

DISCOUNT FOR LACK OF MARKETABILITY

The concept of marketability deals with the liquidity of an ownership interest, that is, how quickly and easily it can be converted to cash if the owner chooses to sell. The lack of marketability discount (“**DLOM**”) reflects the fact that there is no ready market for shares in a closely held corporation. Ownership interests in closely held companies are typically not readily marketable compared to similar interests in public companies. Therefore, a share of stock in a privately held company is usually worth less than an otherwise comparable share in a publicly held company.

DLOM is a downward adjustment to the market value of a private investment to reflect its reduced level of marketability, regardless of whether the investment involve a controlling or minority stake in the private company. In selecting the appropriate DLOM, we considered the length of time to market, effort to locate potential counterparties, effort on price discovery, and other direct and indirect costs to be spent or incurred by any prospective owner of the subject investment to transfer an interest and the level of trading activity in the marketplace of the subject investment.

The direct transfer costs, as reflected in their form of legal fees, accounting fees and intermediary fees are typical frictional costs to any trading activities and stake transactions, and hence would command an additional layer of value discount to investments linked with significant direct transfer costs.

The indirect transfer costs, as reflected in their form of inherited marketplace characteristics and activities (bid-ask spreads, transaction volume, typical market depth) and characteristics of the potential participants (heterogeneity in value perceptions, size of stake transferred, perceived pricing risks), are further risks to any owners and thus would typically command an additional layer of value discount.

DLOM is usually observed to have the larger impact on transfer of non-marketable minority stakes in a private company than transfer of non-marketable controlling stakes in a private company. Minorities typically suffer from deeper DLOM given their “unattractiveness” to potential investors, since the minorities usually have fewer active options (only receiving dividends or sale to another investor) to receive liquidity, whereas controlling stakes have more active options (pursuing more advantaged operation and distribution policies, go public or sale to strategic buyout investors, etc).

In this valuation, EV/EBITDA multiple of the Guideline Public Companies are computed. Guideline Public Companies are listed companies, while the Subject of Valuation is a non-marketable controlling interest. As such, DLOM is considered as a downward adjustment on the value of the Subject of Valuation, which is a privately owned equity, when comparing with listed companies.

DLOM is determined based on Pluris DLOM Database, a database studying DLOM from actual transactions in restricted stock private placements, and 2019 FactSet Mergerstat Review published by Business Valuation Resources, LLC (a worldwide provider of financial information and analytical data for investment professionals). We considered a DLOM of 36% is fair and reasonable for this valuation.

SUMMARY OF VALUATION RESULT

As the final step of our valuation, we consolidated our above findings and discussions into the following summary of valuation result:

Valuation Summary for the Subject of Valuation

		30 September 2019 SGD
Market Approach — GPTC Method		
Selected Valuation Multiple (rounded)	EV/EBITDA	11.05x
Financial Result of the Target Companies:		
Trailing 12 months ended EBITDA as at 30 September 2019		<u>877,919</u>
Implied Value of 100% Equity Interest in the Target Companies, before Adjustment		9,701,005
Add: Excess Cash and Bank (<i>Note 1</i>)		681,529
Less: Total Borrowings (<i>Note 1</i>)		(203,095)
Less: Lease Liabilities (<i>Note 1</i>)		<u>(2,300,086)</u>
		7,879,353
Add: Control Premium	5%	<u>393,968</u>
		8,273,321
Less: DLOM	-36%	<u>(2,978,395)</u>
Implied Market Value of 100% Equity Interest in the Target Companies		5,294,925
Implied Market Value of 100% Equity Interest in the Target Companies (rounded)		<u><u>5,295,000</u></u>

* Products and sums of the figures may not equal to the total of the figures due to rounding

Note 1: Excess cash and bank, total borrowings and lease liabilities are referring to the audited figures of the Target Companies as at 30 September 2019.

SENSITIVITY ANALYSIS

A sensitivity analysis on the Market Value of the Subject of Valuation is performed, holding all other variable fixed and varying the valuation multiple (i.e. EV/EBITDA) as of the Valuation Date.

Sensitivity Analysis on Market Value

EV/EBITDA Multiple	Market Value (SGD)
9.05 (-2)	4,115,000
10.05 (-1)	4,705,000
11.05 (0)	5,295,000
12.05 (+1)	5,885,000
13.05 (+2)	6,475,000

STATEMENT OF LIMITING CONDITIONS

This business valuation relies upon the following contingent and limiting conditions:

- We assume no responsibility for the legal matters including, but not limited to, legal or title concerns. Title to all subject business assets is assumed good and marketable.
- The business interest and subject business assets have been appraised free and clear of any liens or encumbrances unless stated otherwise. No hidden or apparent conditions regarding the subject business assets or their ownership are assumed to exist.
- All information provided by the client and others is thought to be accurate. However, we offer no assurance as to its accuracy.
- Unless stated otherwise in this report, we have assumed compliance with the applicable local laws and regulations.
- Absent a statement to the contrary, we have assumed that no hazardous conditions or materials exist which could affect the subject business or its assets. However, we are not qualified to establish the absence of such conditions or materials, nor do we assume the responsibility for discovering the same.
- The report may not fully disclose all the information sources, discussions and business valuation methodologies used to reach the conclusion of value. Supporting information concerning this report is on file with the business appraiser.
- The valuation analysis and conclusion of value presented in the report are for the purpose of this engagement only and are not to be used for any other reason, any other context or by any other person except the client to whom the report is addressed.

- The opinion of value expressed in this report does not obligate us to give testimony, or attend court proceedings with regard to the subject business assets, properties or business interests, unless such arrangements have been made previously.
- Possession of this report does not imply a permission to publish the same or any part thereof. No part of this report is to be communicated to the public by means of advertising, news releases, sales and promotions or any other media without a prior written consent and approval by us.
- This report is valid only for the date specified herein.

CONCLUSION OF VALUE

In conclusion, based on the analyses as fully described in this valuation report and the valuation methodologies which we have employed, we are of the opinion that the 100% Equity Interest in Global Tots Pte. Ltd., Global Tots @ Mountbatten Pte. Ltd., Global Tots @ Braddell Pte. Ltd. and Global Tots @ Sembawang Pte. Ltd. as at 30 September 2019 is as follows:

Subject of Valuation	Valuation Result
100% Equity Interest in Global Tots Pte. Ltd., Global Tots @ Mountbatten Pte. Ltd., Global Tots @ Braddell Pte. Ltd. and Global Tots @ Sembawang Pte. Ltd.	SGD5,295,000

The opinion of value is based on generally accepted valuation procedures and practices that rely extensively on the use of numerous assumptions and consideration of many uncertainties, not all of which can be easily quantified or ascertained.

We hereby certify that we have neither present nor any prospective interests in the subject under valuation. Moreover, we have neither personal interests nor any bias with respect to the any of the parties involved.

This valuation report is issued subject to our general service conditions.

Yours faithfully,
For and on behalf of
VALTECH VALUATION ADVISORY LIMITED

INVOLVED STAFF BIOGRAPHY

Max Tsang, *CPA, CFA, FRM, MRICS, MStat*

Mr. Tsang has been working in the professional valuation field since 2011. Before joining the valuation field, he worked in banking and finance sector from 2008 to 2010. Mr. Tsang has been leading a team of business valuation for private and listed companies for the purposes of financial reporting, initial public offerings, mergers and acquisitions, financing, tax and litigation support. The scope of services includes business valuation and intangible asset valuation.

He has performed valuation and provided fairness opinion for listed companies in the United States, Australia and Germany. He has participated in many representative projects, such as valuation of global luxury brands, oil and gas extraction in the United States and Canada, BOT infrastructural project, solar and wind power plants, banks, logistic hub in Singapore, toll road in the United Kingdom, container port in Brazil and premium food manufacturer in Spain.

He has provided valuation advisory services for private equity funds in Hong Kong and the PRC regarding market value assessment of the general partner's stakes and investment portfolios for valuation control and financial reporting purposes (including compliance with IFRS 9). The investment portfolios included renowned internet and technology companies as well as infrastructural projects in China.

He has also served as the expert witness for litigation. He is also experienced in valuation of overseas project for State-owned Assets Supervision and Administration Commission of the State Council (SASAC) filing in the PRC. The valuation reports prepared by Mr. Tsang and his team have been regularly referenced by Hong Kong listed companies in their circulars, including companies in agriculture, retail, mining, internet, automobile, education, financial services, multimedia, internet, real estate, entertainment, electronic equipment and infrastructural sectors.

Marvin Wong, *CPA*

Mr. Wong has over ten years of experience in the professional service industry, including auditing, internal control advisory, financial due diligence, and with a focus on business valuation services.

Mr. Wong is experienced in performing business valuation for State-owned enterprises, private and public companies. He provides valuation services mainly to support the purpose of financial reporting, mergers and acquisitions, tax filing and fund raising. He has performed valuation of projects for State-owned Assets Supervision and Administration Commission of the State Council (SASAC) filing in the PRC, listed companies' circular filing in Hong Kong and Singapore.

He has earned valuation experience in industries including but not limited to food and beverage, education, financial service, hotel, toll road, mining, ship building, pharmacy, agriculture, trading, e-platform, marketing, person-to-person microlending, waste management, intelligent parking, etc. He is also experienced in intangible asset valuation including customer relationship, trademark, franchise agreement, mining right, patent, distribution network and concession right.

Matthew Leung, *CPA, CFA, FRM*

Mr. Leung has over seven years' experience in valuation of business, intangibles assets and financial instruments. He is experienced in providing valuation and business consulting services for public and private companies for financial reporting, tax, litigation support, merger and acquisitions purposes. He is also experienced in intangible asset valuation including customer relationship, trademark, franchise agreement, mining right and technological patent.

His industry exposure covers consumer and industrial products, real estate, technology and media, alternative energy, financial services, utility and infrastructure, forestry, gaming and mining sectors. The clients of his engagements cover both private and listed companies located in China and Hong Kong.

Rebecca Zhang, *MSc*

Ms. Zhang graduated from Imperial College London with MSc Investment and Wealth Management. She worked as a professional IT consultant in finance industry before joining the statutory valuation field. She is experienced in providing valuation consulting service for state-owned enterprises, public and private companies for the purposes of financial reporting, mergers and acquisitions and others. Her industry exposure covers but not limit to banking, finance, real estate, technology, sports and entertainment, etc.

GENERAL SERVICE CONDITIONS

The service(s) we provide will conform to the professional appraisal standard. The proposed service fee is not contingent in any way upon our conclusions of value or result. All the data provided to us are assumed to be accurate without independent verification. As an independent contractor, we have and will reserve the right to use subcontractors. Furthermore, we have the right to retain all files, working papers or documents developed by us during the engagement for as long as we wish, which will also be our property.

The report we prepare is prohibited for any other use but only for the specific purpose stated herein. No reliance may be made by any third party on the report or part thereof without our prior written consent. The report along with this General Services Conditions could be shown to the third parties who need to review the information contained herein.

No one should rely on our report as a substitute for their own due diligence. No reference to our name or our report, in whole or in part, in any document you prepare and/or distribute to third parties may be made without our written consent. You agree to indemnify and hold us harmless against and from any and all losses, claims, actions, damages, expenses, or liabilities, including all fees of lawyers, including ours and the parties successfully suing us, to which we may become subject in connection with this engagement except in respect of our own negligence. Your obligation for indemnification and reimbursement shall extend to any of our management and employees, including any director, officer, employee, subcontractor, affiliate or agent. In the event we are subject to any liability in connection with this engagement, regardless the nature of the claim, such liability will be limited to the amount of fees we received for this engagement.

We will maintain the confidentiality of all conversations, documents provided to us, and the contents of our reports, subject to legal or administrative process or proceedings. Meanwhile, we reserve the right to include your company/firm name in our client list.

The conditions stated in this section can only be modified by written documents executed by both parties.

1. RESPONSIBILITY STATEMENT

This circular, 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 circular 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 circular misleading.

2. SHARE CAPITAL AND SHARE OPTIONS

(a) Share capital

As at the Latest Practicable Date, the authorised and issued share capital of the Company were as follows:

<i>Authorised:</i>		<i>HK\$</i>
<u>8,000,000,000</u>	Share of HK\$0.1 each	<u>800,000,000</u>
<i>Issued and fully paid or credited as fully paid:</i>		
<u>354,100,000</u>	Share of HK\$0.1 each	<u>35,410,000</u>

(b) Share options

As at the Latest Practicable Date, the Company had 44,090,000 outstanding share options under the share option scheme adopted by the Company on 26 September 2014 (the “**Share Option Scheme**”) carrying rights for the holders thereof to subscribe for an aggregate of 44,090,000 new Shares, details of which are set out below:

Date of grant	Grantees	Vesting date	Exercise period	Exercise price (HK\$)	Number of underlying Shares
4 October 2019	Directors, substantial Shareholders and their associates and employees of the Company and its subsidiaries	—	4 October 2019 - 3 October 2022 (both days inclusive)	HK\$1.10	24,787,000
11 October 2019	Consultants of the Company	—	11 October 2019 - 10 October 2020 (both days inclusive)	HK\$1.00	10,623,000
11 February 2020	Employees of the subsidiaries of the Company	1 January 2023	11 February 2020 - 10 February 2023 (both days inclusive)	HK\$1.20	3,280,000
	Consultants and business partner of the Company	11 February 2021	11 February 2021 - 10 February 2022 (both days inclusive)	HK\$1.20	3,100,000
25 February 2020	Consultants and employee of the subsidiaries of the Company	1 January 2023	1 January 2023 - 24 February 2023 (both days inclusive)	HK\$1.44	2,300,000

Save as the above, there are no outstanding convertible securities, options or warrants in issue which confer any right to subscribe for, convertible or exchangeable into Shares as at the Latest Practicable Date.

SDM Asia Limited, a wholly-owned subsidiary of the Company, issued a convertible note with the principal amount of US\$25,000,000 (the “**Convertible Note I**”) to an independent third party on 13 February 2019. Unless previously converted or redeemed in accordance with the terms and conditions of the Convertible Note, the Convertible Note I will mature on 31 March 2023. The Convertible Note shall be converted into preference shares of SDM Asia Limited subject to the terms and conditions of the Convertible Note I. Please refer to the announcements of the Company dated 27 December 2018 and 13 February 2019 for details of the Convertible Note I.

SDM Australian Education Limited, a wholly-owned subsidiary of the Company, issued a convertible note with the principle amount of US\$5,000,000 (the “**Convertible Note II**”) to an independent third party on 17 January 2020. Unless previously redeemed, converted or repaid and cancelled in accordance with the terms and conditions of the Convertible Note II, the Convertible Note II will mature on the date falling on the last day of the 48th month from the issue date of the Convertible Note II. The Convertible Note II shall be converted into ordinary shares of SDM Australian Education Limited subject to the terms and conditions of the Convertible Note II. Please refer to the announcement of the Company dated 17 January 2020 for details of the Convertible Note II.

On 18 September 2017, the Company entered into a sale and purchase agreement with Mr. Chiu Ka Lok (“**Mr. Chiu**”) and Dr. Chun Chun (“**Dr. Chun**”), pursuant to which Mr. Chiu and Dr. Chun have conditionally agreed to sell and the Company has conditionally agreed to purchase the entire issued share capital of Global Win (BVI) Limited at the consideration of HK\$32,000,000. The consideration shall be satisfied by way of issue of a maximum of 80,000,000 consideration shares at the issue price of HK\$0.4 per consideration share (the “**Consideration Shares**”) by the Company at completion. All the conditions precedent under the sale and purchase agreement have been fulfilled and the completion took place on 31 July 2018. Please refer to the announcements of the Company dated 18 September 2017, 16 October 2017, 23 November 2017, 29 December 2017, 13 February 2018, 3 April 2018, 14 May 2018, 11 June 2018, 19 June 2018, 23 July 2018 and 31 July 2018 and the circular of the Company dated 6 July 2018 for details of the Consideration Shares.

Save for the share options under the Share Option Scheme, the Convertible Note I, the Convertible Note II and the Consideration Shares, none of the members of the Group has granted any options, warrants or other rights to call for the issue or agreed to issue any share or loan capital or any instrument convertible into or exchangeable for shares of such capital, and none of the members of the Group is a party to or otherwise bound by any agreement for the purchase or repurchase of shares of any member of the Group.

3. DISCLOSURE OF INTERESTS

(a) Directors and chief executive of the Company

As at the Latest Practicable Date, 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 to 5.67 of the GEM Listing Rules were as follows:

Long positions in the Shares and underlying Shares of the Company

Name of Director	Nature of interest/ holding capacity	Number of ordinary Shares held	Number of underlying Shares held	Approximate percentage of interests in the Company’s issued share capital
Mr. Chiu	Interest of a controlled corporation, beneficial owner and family interest	198,750,000 (Note 1)	7,082,000 (Note 3)	58.13% (Note 5)
Dr. Chun	Beneficial owner and family interest	198,750,000 (Note 2)	7,082,000 (Note 3)	58.13% (Note 5)
Mr. Chun Chi Ngon Richard	Beneficial owner and family interest	—	7,082,000 (Note 4)	2.00% (Note 5)
Ms. Yeung Siu Foon	Beneficial owner and family interest	—	7,082,000 (Note 4)	2.00% (Note 5)

Notes:

- (1) Wealthy Together Limited (“**Wealthy Together**”) is wholly and beneficially owned by Mr. Chiu, an executive Director and the chairman of the Company. Mr. Chiu is deemed to be interested in 198,750,000 Shares held by Wealthy Together by virtue of his 100% shareholding interest in Wealthy Together.
- (2) Dr. Chun, a non-executive Director, is the spouse of Mr. Chiu and is therefore deemed to be interested in all the Shares held/owned by Mr. Chiu (by himself or through Wealthy Together) by virtue of the SFO.
- (3) Mr. Chiu and Dr. Chun are both beneficially deemed to be interested in 3,541,000 Shares each which may be issued to them upon the exercise of the share options granted to them on 4 October 2019 under the Share Option Scheme. Also, as Mr. Chiu and Dr. Chun 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.
- (4) Mr. Chun Chi Ngon Richard and Ms. Yeung Siu Foon are both beneficially deemed to be interested in 3,541,000 Shares each which may be issued to them upon the exercise of the share options granted to them on 4 October 2019 under the Share Option Scheme. Also, as Mr. Chun Chi Ngon Richard and Ms. Yeung Siu Foon are the spouse of each other, they are both deemed to be interested in all the underlying Shares held/owned by each other by virtue of the SFO.
- (5) As at the Latest Practicable Date, the total issued share capital of the Company was HK\$35,410,000 divided into 354,100,000 Shares of HK\$0.1 each.

Save as disclosed above, as at the Latest Practicable Date, 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 to 5.67 of the GEM Listing Rules.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors was a director or employee of a company which had an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

(b) Interests of substantial Shareholders

So far as is known to the Directors, as at the Latest Practicable Date, 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 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

Name of substantial Shareholder	Nature of interest/ holding capacity	Number of ordinary Shares held	Approximate percentage of interests in the Company's issued share capital (Note 2)
Wealthy Together	Beneficial owner	198,750,000 (Note 1)	56.13%
Hui Pui Cheung	Beneficial owner	47,734,000	13.48%
Chen Jiaxin	Interest of a controlled corporation	28,000,000	7.91%
Tycoon Mind Limited	Beneficial owner	28,000,000	7.91%

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 the Latest Practicable Date, the total issued share capital of the Company was HK\$35,410,000 divided into 354,100,000 Shares of HK\$0.1 each.

Save as disclosed above, as at the Latest Practicable Date, 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 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.

4. DIRECTORS' INTEREST IN ASSETS/CONTRACTS AND OTHER INTERESTS

As at the Latest Practicable Date:

- (i) none of the Directors had any interest, direct or indirect, in any assets which have been, since 31 December 2018 (being the date to which the latest published audited consolidated financial statements of the Group were made up), acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group; and
- (ii) none of the Directors was materially interested in any contract or arrangement entered into with any member of the Group subsisting as at the Latest Practicable Date which was significant in relation to the business of the Group.

5. DIRECTORS' SERVICE CONTRACTS

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

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

6. COMPETING INTERESTS

As at the Latest Practicable Date, 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 that compete or may compete with the business of the Group and any other conflicts of interests which any such person has or may have with the Group.

7. LITIGATION

During 2017, a subsidiary of the Group was sued for failure to deliver vacant possession of a premise, where the Company used to lease it for its dancing school, to the landlord which claimed against the Company for damages.

As at 31 December 2017, the Company has a rental deposit of approximately HK\$400,000 with the landlord. Based on legal opinion, the directors of the Company consider that the rental deposit is sufficient to cover the aforesaid damages but may not be fully recovered and, therefore, a provision of HK\$400,000 was made.

As at the Latest Practicable Date, save as disclosed above, no member of the Group was engaged in any litigation or arbitration of material importance and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened against any member of the Group.

8. MATERIAL CONTRACTS

Save as disclosed below, no other contract (not being contracts in the ordinary course of business) had been entered into by any member of the Group within two years immediately preceding the date of this circular and up to the Latest Practicable Date which are or may be material:

- (a) the sale and purchase agreement dated 29 June 2018 entered into between SDM International Investments Pte. Ltd., an indirectly wholly-owned subsidiary of the Company, and Ms. Ho Mu Kwei and Mr. Tan Yew Poh in relation to the acquisition of the entire issued share capital of Columbia Academy Pte. Ltd. and Columbia Junior Academy Pte. Ltd. at a consideration of approximately S\$2,288,000 (details of which are disclosed in the announcement of the Company dated 29 June 2018);
- (b) the investment agreements dated 31 July 2018 entered into between Prism International Pre-School Limited (“**Prism**”) and Kung Rene Irene and RedOak Partners Inc. (the “**Prism Second Investors**”) in relation to the allotment and issue by Prism to the Prism Second Investors of new shares representing 15% of the then enlarged share capital of Prism at a total investment amount of HK\$4,500,000 (details of which are disclosed in the announcements of the Company dated 1 August 2018 and 8 August 2018);
- (c) the sale and purchase agreement dated 3 October 2018 entered into between SDM Talent Pte. Ltd., an indirectly wholly-owned subsidiary of the Company, and Ms. Gloria Tay Chui Lin and Ms. Eileen Ng Mui Yiah in relation to the acquisition of the entire issued share capital of Tinkerland Private Limited at a consideration of S\$2,100,000 (details of which are disclosed in the announcement of the Company dated 3 October 2018);
- (d) the sale and purchase agreements dated 1 November 2018 entered into between Kidzcare Schoolhouse Pte. Ltd., an indirectly wholly-owned subsidiary of the Company, and Happy Family Child Care Centre Pte. Ltd. and Happy Family Preschool Pte. Ltd. (both as vendors) and Madam Low Teng Lian as guarantor of the former agreement and Madam Low Teng Lian and Mr. Gwee Yew Seng as guarantors of the latter agreement in relation to the acquisition of the assets associated with the operation and management of the businesses carried on by the vendor at an aggregate consideration of approximately S\$1,250,000 (details of which are disclosed in the announcement of the Company dated 1 November 2018);

- (e) the sale and purchase agreement dated 12 November 2018 entered into between SDM Singapore Education Limited, an indirectly-wholly owned subsidiary of the Company, Ms. Charmaine Teo Shuet Lynn and Mr. Koh Hui Hua in relation to the acquisition of the entire issued share capital of the Lighthouse Keepers Pte. Ltd., Between Two Trees Pte. Ltd. and Between Two Trees Preschool at a consideration of approximately S\$1,350,000 (details of which are disclosed in the announcement of the Company dated 12 November 2018);
- (f) the subscription agreement dated 24 December 2018 entered into between the Company, SDM Asia Limited, a wholly-owned subsidiary of the Company, and Barium Real Limited in relation to the subscription of the convertible note in the principal amount of US\$25,000,000 issued by SDM Asia Limited as amended by an amendment deed dated 12 February 2019 (details of which are disclosed in the announcements of the Company dated 27 December 2018 and 12 February 2019);
- (g) the term sheet dated 11 January 2019 entered into between SDM International Investments Pte Limited, an indirect wholly-owned subsidiary of the Company, and the individual sole shareholder of a limited liability company incorporated in Singapore in relation to the acquisition of 51% of the equity interests in a limited liability company incorporated in Singapore at a consideration of S\$3,038,597 (details of which are disclosed in the announcement of the Company dated 5 July 2019);
- (h) the sale and purchase agreements dated 14 January 2019 and the deed of variation dated 29 March 2019 entered into between Australian Apex Education Pty Ltd, a wholly-owned subsidiary of the Company as a purchaser, MEGT (Australia) Ltd as a vendor and the Company, as a guarantor of the sale and purchase agreements in relation to the acquisition of entire issued share capital of Ability Education and Childrens Services at an aggregate consideration of AUD7,600,000 (details of which are disclosed in the announcements of the Company dated 14 January 2019, 29 January 2019, 29 March 2019, 21 May 2019, 30 August 2019, 23 September 2019 and the circular of the Company dated 3 September 2019);
- (i) the term sheet dated 26 March 2019 entered into between SDM Group Limited and the shareholders of Child Psychological Development Association Limited in relation to the acquisition of 51% of the issued share capital in Child Psychological Development Association Limited at a maximum consideration of HK\$10,200,000 (details of which are disclosed in the announcement of the Company dated 27 May 2019);
- (j) the memorandum of understanding dated 3 April 2019 (as supplemented by the supplemental memorandum of understanding dated 17 July 2019) entered into between SDM SF Global Limited, an indirect wholly-owned subsidiary of the Company, Ms. Sharon Goh Kin Siang, Ms. Tan Phek Huan, Ms. Dong Jin and Ms. Florence Yeo Kui Hong in relation to the acquisition of 60% of the issued share capital of Sunflower Childcare Group Pte. Ltd at a proposed consideration of S\$7,500,000 (details of which are disclosed in the announcement of the Company dated 3 April 2019 and 17 July 2019);

- (k) the memorandum of understanding dated 19 June 2019 entered into between SDM Singapore Education Limited and the shareholders of two exempt private companies which are limited by shares incorporated in Singapore in relation to the acquisition of the assets of the two exempt private companies which are limited by shares incorporated in Singapore and its affiliated companies and businesses at a consideration of S\$1,300,000 (details of which are disclosed in the announcement of the Company dated 28 June 2019);
- (l) the MOU;
- (m) the memorandum of understanding dated 31 August 2019 entered into between SDM International Investments Pte. Ltd., an indirect wholly-owned subsidiary of the Company and the shareholders of five private companies which are limited by shares incorporated in Singapore in relation to the acquisition of all the ordinary shares of the five private companies which are incorporated in Singapore at a maximum consideration of S\$8,000,000 (details of which are disclosed in the announcement of the Company dated 31 August 2019);
- (n) the term sheet dated 23 September 2019 entered into between SDM International Investments Pte Limited, an indirect wholly-owned subsidiary of the Company, and the sole shareholder of a sole-proprietor company registered in Singapore in relation to the acquisition of the childcare business carried out by the sole-proprietor company registered in Singapore at a consideration of S\$800,000 (details of which are disclosed in the announcement of the Company dated 25 September 2019);
- (o) the sale and purchase agreement dated 30 September 2019 entered into between SDM International Investments Pte. Ltd., Moriah Schoolhouse LLP, Moriah Schoolhouse @ FV LLP, Zee Mei Eng, and Chi Hong Liang and Ng Teong Bee in relation to the acquisition of the assets associated with the operation and management of the business carried on by Moriah Schoolhouse LLP and Moriah Schoolhouse @ FV LLP at cash consideration of S\$1,300,000 (details of which are disclosed in the announcement of the Company dated 30 September 2019);
- (p) the placing agreement dated 2 January 2020 entered into between the Company and Innovax Securities Limited pursuant to which Innovax Securities Limited agreed to act as a placing agent to subscribe the bonds with an aggregate principal amount of up to HK\$50,000,000 (details of which are disclosed in the announcement of the Company dated 2 January 2020);
- (q) the subscription agreement dated 17 January 2020 entered into between SDM Australian Education Limited, a wholly-owned subsidiary of the Company, Golden Pursue Limited and the Company in relation to the subscription of the convertible note in the principal amount of US\$5,000,000 issued by SDM Australian Education Limited (details of which are disclosed in the announcement of the Company dated 17 January 2020); and
- (r) the Sale and Purchase Agreement (as supplemented by the supplemental agreement to the Sale and Purchase Agreement dated 13 March 2020).

9. EXPERTS AND CONSENTS

The following are the names and qualification of the experts who have given its opinions or advice which is included in this circular:

Name	Qualification
Valtech Valuation Advisory Limited	Independent valuer
D & Partners CPA Limited	Certified Public Accountants

As at the Latest Practicable Date, each of Valtech Valuation Advisory Limited and D & Partners CPA Limited has given and has not withdrawn its consent to the issue of this circular with the inclusion of its letter, and reference to its name in the form and context in which they appear.

As at the Latest Practicable Date, each of Valtech Valuation Advisory Limited and D & Partners CPA Limited did not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

Each of Valtech Valuation Advisory Limited and D & Partners CPA Limited did not have any direct or indirect interests in any assets which have since 31 December 2018 (being the date to which the latest published audited consolidated financial statements of the Group were made up) been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

10. GENERAL

- (a) The registered office of the Company is at Clifton House, 75 Fort Street, PO Box 1350, Grand Cayman, KY1-1108, Cayman Islands.
- (b) The head office and principal place of business of the Company in Hong Kong is situated at Room 202B, 2/F, Liven House, 61-63 King Yip Street, Kwun Tong, Kowloon, Hong Kong.
- (c) The company secretary of the Company is Mr. Au Wai Keung, who is a fellow member of Hong Kong Institute of Certified Public Accountants and an associate member of The Institute of Chartered Accountants in England and Wales.
- (d) The compliance officer of the Company is Mr. Chiu Ka Lok, who is also an executive Director and the chairman of the Board.

- (e) The Company established an audit committee pursuant to a resolution of our Directors passed on 24 March 2014 in compliance with Rule 5.28 of the GEM Listing Rules. Written terms of reference in compliance with paragraph C3.3 of the CG Code as set out in Appendix 15 to the GEM Listing Rules has been adopted. The primary duties of the audit committee are mainly to make recommendations to the Board on the appointment and removal of external auditor; review the financial statements and material advice in respect of financial reporting; and oversee internal control procedures of our Company. At present, the audit committee of our Company consists of three members who are Mr. Lau Sik Yuen, Mr. Yuen Man Chun Royce and Mr. Chak Chi Shing. Mr. Lau Sik Yuen is the chairperson of the audit committee.

Mr. Lau Sik Yuen (“**Mr. Lau**”), aged 52, was appointed as our independent nonexecutive Director on 26 September 2014. Mr. Lau has over 21 years of experience in auditing and financial accounting. Mr. Lau currently is the company secretary and chief financial officer of Xinyi Glass Holdings Limited, a company listed on the Main Board of the Stock Exchange (Stock code: 00868), responsible for their financial, management and cost accounting, taxation, treasury and investor relations strategy and operation. Currently, Mr. Lau also serves as an independent nonexecutive director of China Qinfa Group Ltd. (Stock code: 00866), Dragon Crown Group Holdings Limited (Stock code: 00935) and CTEH INC. (Stock code: 01620), all of which are companies listed on the Main Board of the Stock Exchange. Mr. Lau had worked with PricewaterhouseCoopers over five years, responsible for auditing. Mr. Lau was the financial controller of a subsidiary of NWS Holdings Limited for over three years, a company listed on the Stock Exchange (Stock code: 00659). Mr. Lau graduated from Oregon State University, United States, with Bachelor of Science in business administration. Mr. Lau is a fellow member of the Hong Kong Institute of Certified Public Accountants and a member of the American Institute of Certified Public Accountants.

Dr. Yuen Man Chun Royce (“**Dr. Yuen**”), aged 54, was appointed as our independent non-executive Director on 26 September 2014. Dr. Yuen is also the chairman of the nomination committee of the Company and the member of the audit committee and remuneration committee of the Company. Dr. Yuen has over 25 years of experiences in brand-building and marketing management. Dr. Yuen has been the chief executive officer of New Brand New Limited, a company principally engaged in marketing and brand consulting, since August 2013. Dr. Yuen was the chairman of Ogilvy & Mather Advertising, a company principally engaged in offering integrated marketing communications solutions, from April 2003 to January 2010, he was responsible for the management of the operation and profit and loss of Ogilvy’s Group. From January 2010 to June 2011, Dr. Yuen was an executive director of Fantastic Natural Cosmetics Limited (FANCL), a company principally engaged in the sale of skincare and health supplements, he was responsible for leading its global strategic planning and brand development. Dr. Yuen is also the chairman of The Association of Accredited Advertising Agencies of Hong Kong, from December 2005 to December 2009, an association that deals with issues concerning the future of the advertising industry

and the business of member agencies. Dr. Yuen obtained an Honour Diploma in Communications from Hong Kong Baptist University, Hong Kong, in December 1987, a master's degree in Marketing from Macquarie University, Australia, in September 1996 and a doctorate's degree in business administration from Hong Kong Polytechnic University, Hong Kong, in November 2000. Dr. Yuen is a visiting associate professor of The University of Hong Kong and a professor of The Hong Kong Polytechnic University. Dr. Yuen is council member of the Hong Kong Trade Development Council and the Hong Kong Academy for Performing Arts, and an advisory board member for many not-for-profit and government bodies, including the Hong Kong Museum of History.

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

- (f) The Company's principal share registrar and transfer office in Cayman Islands is Appleby Trust (Cayman) Ltd. at Clifton House, 75 Fort Street, P.O. Box 1350, Grand Cayman, KY1-1108, Cayman Islands.
- (g) The Hong Kong branch share registrar and transfer office of the Company is Union Registrars Limited at Suites 3301-4, 33/F, Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong.
- (h) In the event of inconsistency, the English text of this circular shall prevail over the Chinese text.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the principal place of business of the Company in Hong Kong at Room 202B, 2/F, Liven House, 61-63 King Yip Street, Kwun Tong, Kowloon, Hong Kong during normal business hours on any business day from the date of this circular up to and including the date of the EGM.

- (i) the memorandum and articles of association of the Company;
- (ii) the annual reports of the Company for the financial years ended 31 December 2016, 2017 and 2018 and the interim report of the Company for the six months ended 30 June 2019;
- (iii) the accountants' reports on the Target Companies, the text of which is set out in Appendix II to this circular;
- (iv) the accountants' report on the unaudited pro forma financial information of the Enlarged Group, the text of which is set out in Appendix III to this circular;
- (v) the valuation report on the Target Companies, the text of which is set out in Appendix V to this circular;
- (vi) the material contracts referred to in the paragraph headed "Material Contracts" in this appendix;
- (vii) the written consent referred to in the section headed "Experts and Consents" in this appendix;
- (viii) the circular of the Company dated 3 September 2019; and
- (ix) this circular.

NOTICE OF EGM



SDM Group Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8363)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that the extraordinary general meeting (the “**EGM**”) of SDM Group Holdings Limited (the “**Company**”) will be held on Friday, 17 April 2020 at 2:30 p.m. at No. 6 Cambridge Road, Kowloon Tong, Kowloon, Hong Kong or any adjournment thereof for the purpose of considering and, if thought fit, passing with or without amendments, the following resolution of the Company as an ordinary resolution. Unless otherwise defined, capitalised terms used in this notice shall have the same meanings as those defined in the circular of the Company dated 26 March 2020 (the “**Circular**”).

ORDINARY RESOLUTION

“**THAT**

- (a) the sale and purchase agreement dated 21 January 2020 (the “**Sale and Purchase Agreement**”) entered into between SDM International Investments Pte. Ltd., an indirect wholly-owned subsidiary of the Company, as the purchaser (the “**Purchaser**”), and Lau Tse Kit, Choe Peng Meng and Lau Shih-Venn, Vivienne as the vendors (the “**Vendors**”) in respect of the acquisition of the entire equity interest of Global Tots Pte. Ltd., Global Tots @ Mountbatten Pte. Ltd., Global Tots @ Braddell Pte. Ltd., and Global Tots @ Sembawang Pte. Ltd. at a maximum consideration of S\$7,800,000 and the transactions contemplated thereunder, be and is hereby approved, confirmed and ratified; and
- (b) any one of the Directors be and is hereby authorised to sign and execute such documents, including under seal where applicable, and do all such acts and things as he/she considers necessary, desirable or expedient in connection with the implementation of or giving effect to the Sale and Purchase Agreement and the transactions contemplated thereunder.”

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

Hong Kong, 26 March 2020

NOTICE OF EGM

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

*Head office and principal place of
business in Hong Kong:*
Room 202B, 2/F
Liven House
61-63 King Yip Street
Kwun Tong
Kowloon
Hong Kong

Notes:

1. Any member of the Company entitled to attend and vote at the EGM shall be entitled to appoint another person as his/her proxy to attend and vote instead of him/her. A member who is the holder of two or more shares may appoint more than one proxy to represent him/her and vote on his/her behalf at the EGM. A proxy need not be a member of the Company.
2. A form of proxy for use at the EGM is enclosed herewith.
3. The instrument appointing a proxy shall be in writing under the hand of the appointer or of his attorney duly authorised in writing or, if the appointer is a corporation, either under its seal or under the hand of an officer, attorney or other person authorised to sign the same.
4. To be valid, the instrument appointing a proxy and (if required by the Board) the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, shall be delivered to the Company's branch share registrar and transfer office in Hong Kong, Union Registrars Limited at Suites 3301-04, 33/F, Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong not less than 48 hours before the time appointed for holding of the EGM or any adjournment thereof.
5. Where there are joint holders of any shares, any one of such joint holders may vote at the EGM, either in person or by proxy, in respect of such share as if he/she were solely entitled thereto, but if more than one of such joint holders be present at the EGM, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.
6. Completion and delivery of an instrument appointing a proxy shall not preclude a member from attending and voting in person at the EGM if the member so wish and in such event, the instrument appointing a proxy should be deemed to be revoked.
7. The Register of Members of the Company will be closed from Tuesday, 14 April 2020 to Friday, 17 April 2020 (both days inclusive) for the purpose of determining the right to attend and vote at the EGM, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the forthcoming EGM, all share transfer documents accompanied by the corresponding share certificates must be lodged with the Company's branch share registrar in Hong Kong, Union Registrars Limited, at Suites 3301- 04, 33/F, Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong, for registration not later than 4:00 p.m. on Thursday, 9 April 2020.
8. If Typhoon Signal No. 8 or above, or a "black" rainstorm warning is in effect any time after 9:00 a.m. on the date of the EGM, the meeting will be postponed. The Company will publish an announcement on the website of the Company at www.sdm.hk and on the website of the Stock Exchange at www.hkexnews.hk to notify Shareholders of the date, time and venue of the rescheduled meeting.

As at the date of this notice, 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.