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

**SUPPLEMENTAL ANNOUNCEMENT
IN RELATION TO
DISCLOSEABLE TRANSACTION
ACQUISITION OF THE ENTIRE ISSUED ORDINARY SHARES IN
DAWNWOOD EDUCATION GROUP LIMITED
INVOLVING ISSUE OF CONSIDERATION SHARES UNDER
GENERAL MANDATE**

Reference is made to the announcement of SDM Group Holdings Limited (the “**Company**”) dated 7 December 2020 in relation to the Acquisition (the “**Announcement**”). Unless otherwise stated, capitalised terms used herein shall have the same meaning as those defined in the Announcement.

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

Basis of the Consideration

As disclosed in the Announcement, the Consideration was arrived at after arm’s length negotiations between the Parties with reference to the Profit Guarantee given by the Vendor.

Also, as disclosed in the Announcement, without prejudice to any other provision in the Sale and Purchase Agreement, the Vendor irrevocably guaranteed to the Purchaser that the EBITDA for each of the financial year ending 31 December 2021 (the “**EBITDA 1**”) and 31 December 2022 shall not be less than HK\$4,800,000, or the aggregate EBITDA for the two consecutive financial years ending 31 December 2022 (the “**EBITDA 2**”) shall not be less than HK\$9,600,000, and the Post-Completion Accounts shall be final, conclusive and binding on all Parties on and with respect to the EBITDA for the financial years of the Target Company ending 31 December 2021 and 31 December 2022, respectively. The financial information which is used to calculate the EBITDA 1 and EBITDA 2 will be prepared in accordance with the Hong Kong Financial Reporting Standards which is consistent with the accounting standards applied by the Company.

The Company is of the view that the enterprise value to EBITDA ratio (the “**EV/EBITDA Ratio**”) is the main indicator to determine the basis of the Profit Guarantee. References have been made to the EV/EBITDA Ratio of the industry peers of the listed companies in Hong Kong, which is regarded as a suitable indicator to consider the basis of the Consideration because the EV/EBITDA Ratio takes earnings before interest, tax, depreciation and amortisation into the Profit Guarantee for reference for the Company to ascertain the performance of the business of the Target Company. With reference to 29 market comparables (the “**Comparables**”) with the selection criteria of (i) companies listed in Hong Kong; and (ii) engaged in provision of education service in the PRC and/or Hong Kong, the EV/EBITDA Ratio of the Comparables ranged from approximately 3.73 times to 35.05 times as at the date of the Sale and Purchase Agreement, and with an average of approximately 13.85 times. The Company has considered the absence of marketability of the shares of the Target Company as it is not a listed company. It is reasonable to apply a discount on ascertaining the value of the Target Company. Given the EV/EBITDA Ratio of the Target Company, assuming the fulfilment of the Profit Guarantee, is approximately 10 times, which represents a discount of approximately 27.8% to the average of approximately 13.85 times and falls within the range of the Comparables and close to the average, the Directors are of the view that it is fair and reasonable.

To the best of the Directors’ knowledge, information and belief, the Comparables represent a list of full and exhaustive samples based on research and selection criteria on a best-effort basis, and is also a fair and representative sample. The following list shows the 29 Comparables identified.

The table below sets out the trailing 12-month EV/EBITDA Ratios of the Comparables:

No.	Company Name	Stock code	EV/EBITDA Ratio (Note)
1.	Tianli Education International Holdings Limited	1773	35.05
2.	China YuHua Education Corporation Limited	6169	31.97
3.	Scholar Education Group	1769	27.88
4.	China Education Group Holdings Limited	839	25.62
5.	Cathay Media and Education Group Inc.	1981	24.54
6.	China Kepei Education Group Limited	1890	17.26
7.	Edvantage Group Holdings Limited	382	17.19
8.	China Gingko Education Group Company Limited	1851	16.90
9.	China East Education Holdings Limited	667	16.81
10.	Chen Lin Education Group Holdings Limited	1593	14.51
11.	JH Educational Technology INC.	1935	14.12
12.	Leader Education Limited	1449	13.35
13.	Virscend Education Company Limited	1565	12.57
14.	Wisdom Education International Holdings Company Limited	6068	12.33
15.	The Cross-Harbour (Holdings) Limited	32	12.20
16.	China Maple Leaf Educational Systems Limited	1317	11.99
17.	Neusoft Education Technology Co., Limited	9616	10.93
18.	China New Higher Education Group Limited	2001	9.93
19.	Top Education Group Ltd	1752	9.83
20.	Shanghai Gench Education Group Limited	1525	9.64
21.	China Chunlai Education Group Co., Ltd	1969	9.42
22.	China Xinhua Education Group Limited	2779	8.31
23.	Huali University Group Limited	1756	8.14
24.	China 21st Century Education Group Limited	1598	6.25
25.	Minsheng Education Group Company Limited	1569	6.05
26.	Bojun Education Company Limited	1758	5.68
27.	China Chuanglian Education Financial Group Limited	2371	5.05
28.	China Beststudy Education Group	3978	4.52
29.	Dashan Education Holdings Limited	9986	3.73
	Maximum		35.05
	Average		13.85
	Minimum		3.73

Note: Data sourced from Bloomberg database. The equity values of the Comparables are computed based on the market capitalisation of the companies as of 7 December 2020 (the date of the Sale and Purchase Agreement). EV/EBITDA data are based on the trailing 12-month financial data of the Comparables available as of 7 December 2020.

The Target Company has been providing services including curriculum development, curriculum usage, and teacher training, as well as transfer of school startup, operation, branding and management know-how. Pursuant to the service agreement (the “**Service Agreement**”) with its partner, Guangzhou Dawnwood Education & Technology Company Limited, who operates one kindergarten in the PRC (the “**Partner**”).

The Partner is beneficially owned by Shenzhen Langtong Education Technology Co., Ltd.* (深圳朗童教育科技有限公司), which is in turn beneficially owned by Zhong Chaodong* (鍾朝東), Zhang Peng (張鵬) and Cui Lei (崔磊). The Partner was established in December 2015 and mainly engaged in the investment and construction of kindergartens. It has invested in the development of kindergarten in Tianhe District, Guangzhou since 2016, with the objective of providing high-quality early childhood education to the families live within town area in Guangzhou. The average number of students in the kindergarten are as follows: in 2018, 155 students for spring semester (i.e. January to July) and 260 students for fall semester (i.e. September to December); in 2019, 258 students for spring semester and 297 students for fall semester; and in 2020, 222 students for spring semester and 308 students for fall semester. As at date of this announcement, there are over 300 students enrolled in the kindergarten.

Pursuant to the Service Agreement, the Target Company will (i) provide the phonics curriculum to the Partner; (ii) provide assessments for the development in English language for children aged two to six; (iii) provide training for the teachers in the kindergarten; (iv) implement Progressive Education in the kindergarten, such as introduction of Reggio Emilia approach (an educational philosophy and pedagogy focused on preschool and primary education) (the “**Reggio Emilia Approach**”) to the curriculum; (v) develop other new curriculums for the kindergarten; and (vi) provide market information.

The Service Agreement will remain valid unless specified in the Service Agreement or the parties to the Service Agreement agree to terminate in writing. Within the validity of the Service Agreement, subject to any party’s operating period including but not limited to education license (if any) and/or business registration expires, such party should renew its operating period in a timely manner such that the Service Agreement can remain valid and executed. If the renewal of the operating period is not approved or agreed by relevant authority, the Service Agreement will be terminated when the operating period expires.

The service fee under the Service Agreement would be charged upon the Partner’s kindergarten reaching enrollment of 300 students. For usage of developed or existing curriculums, the fee is RMB200 per student per month. The Target Company will develop another two curriculums (the “**New Curriculums**”) for the Partner in academic year 2020/2021. The Target Company will charge development costs of RMB300,000 for each New Curriculum and RMB200 per student per month for usage of the New Curriculums. The development costs of each New Curriculum also include two training sessions, manuals and two assessment reports for two academic terms. For teacher training, if the attendance is less than or equals to 100 teachers, the fee is RMB10,000 per teacher per session. If the attendance is between 100 to 300 teachers, the fee is RMB15,000 per teacher per session. And if the attendance is over 300 teachers, the fee is RMB25,000 per teacher per session.

For the last two financial years ended 31 December 2018 and 31 December 2019, the Target Company had no revenue because the number of students registered in the Partner’s kindergarten was below 300. In 2020, the number of students in the kindergarten operated by the Partner has already exceed 300 and is expected to record a gradual growth in coming future. Therefore, the service fee will be the major source of revenue for the Target Company.

The Partner operated its first kindergarten in the PRC. As at the date of this announcement, the number of students increase steadily. Set out below is a summary of the financial information of the Partner as extracted from its management accounts for the years ended 31 December 2018 and 31 December 2019:

	For the year ended 31 December 2018	For the year ended 31 December 2019
	(Unaudited)	(Unaudited)
	<i>RMB’000</i>	<i>RMB’000</i>
	Approximately	Approximately
Revenue	12,779	19,130
(Loss)/Profit before taxation	(1,992)	3,142
(Loss)/Profit after taxation	(1,992)	3,142
Net liabilities	3,386	129

Although (i) no valuation report has been prepared for the Target Company; (ii) the Target Company has not generated any revenue and profit for the last two financial years; and (iii) the Target Company was at a net liability position as at 31 December 2019, in light of the above, the Board considers that the Consideration is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

As at the date of this announcement, except the Partner, the Target Company has entered into 2 service agreements with 2 education service providers namely Guangzhou Overseas Youth Education Information Consulting Company Limited* (廣州僑青教育信息諮詢有限公司) (“**Guangzhou Overseas**”) and Fu Xiaobao (Shenzhen) Education Technology Company Limited* (福小寶(深圳)教育科技有限公司) (“**Fu Xiaobao**”). Guangzhou Overseas is the organizer of Social Fine Arts Grade Examinations Center of China Academy of Art (中國美術學院社會美術水平考級中心) in Guangzhou, and Fu Xiaobao is a day care centre which is principally engaged in investing and operating early childhood education day care programs for children aged 0 to 3 years old.

Pursuant to the service agreement entered into between Guangzhou Overseas and the Target Company, the Target Company will (i) implement the Progressive Education into the centre, such as introduction of the Reggio Emilia Approach into the curriculum; (ii) assist in fine art training program as well as promotion of such program; and (iii) provide other related services.

Pursuant to the service agreement entered into between Fu Xiaobao and the Target Company, the Target Company will (i) provide curriculum consultancy and training for the teachers of Fu Xiaobao; (ii) provide training for the teachers of Fu Xiaobao in relation to early childhood English learning and diversified teaching methods; (iii) develop and design different new curriculums for early childhood education; and (iv) provide other related services.

Both service agreements will be valid for three years since their execution. Within the validity of each of the service agreements, subject to any party's operating period including but not limited to education license (if any) and/or business registration expires, such party should renew its operating period in a timely manner such that the service agreement can remain valid and executed. If the renewal of the operating period is not approved or agreed by relevant authority, the service agreement will be terminated when the operating period expires.

As at the date of this announcement, the terms in relation to service charges paid by Guangzhou Overseas and Fu Xiaobao to the Target Company are still under negotiation. The basis to determine the service charges shall be similar to the Service Agreement with the Partner. The parties will enter into supplemental agreements in relation to the service charges when those terms are finalised.

Referring to the legal advice from the PRC lawyer of the Company, the Business is not a restricted business in the PRC, and a variable interest entity structure is not required to conduct the Business in the PRC by the Company.

Cancellation of the Consideration Shares

The Share Cancellation involves different parties including but not limited to share registrars, lawyers of relevant jurisdictions and other parties. Therefore, the administrative works correspondence for the Share Cancellation including but not limited to (i) the calculation of number of Escrowed Shares to be reserved for releasing to the Vendor which takes not more than one month; (ii) the transfer of remaining Escrowed Shares that will not be released to the Vendor from the Escrow Agent to the Company which takes about 2 weeks; and (iii) the back-and-forth communications with lawyers and share registrars for about 2 weeks, including the Easter holiday of 2022. It is expected the whole execution process of the Share Cancellation will take about two months. Therefore, the Consideration Shares shall be cancelled after the expiration of two months of the issuance of the Post-Completion Account 2022 by the Auditor is reasonable. The Company will ensure that the Shares under the Share Cancellation are cancelled and destroyed as soon as reasonably practicable following the adequate procedures.

Definition of undefined terms in the Announcement

A summary of the undefined terms in the Announcement is set forth below:

“SDM China”	the current and/or future operations of the Group carried out in the PRC under the name of “SDM” and “Dawnwood”
“Progressive Education”	an education system that allows flexibility in learning procedures, based on activities determined by the needs and capacities of the individual child, the aim of which is to integrate academic with social development

Information on the Vendor

As disclosed in the Announcement, the Vendor, namely DW Education Limited, is a company incorporated in the British Virgin Islands with limited liability. To the best of the knowledge, information and belief of the Directors, the Vendor is ultimately owned by Chan Yee Yan Judy (陳綺茵) as to 40%, Mr. Cui Lei (崔磊) as to 15%, Ms. Tse Monica Hon Yau (謝向柔) as to 30%, and Richmond Bay Limited as to 15%, which in turn ultimately owned by Mr. Zhang Peng (張鵬).

The Vendor, DW Education limited, and its ultimate beneficial owners will not become controller or associate of a controller of the Company as defined under Rule 20.26 of the GEM Listing Rules.

Information on the vendors or their partners of the relevant transactions in relation to the announcements of the Company dated 30 September 2019 and 21 January 2020 respectively

Date of Announcement	Transaction	Vendors or their partners of the relevant transactions
21 January 2020	Major transaction — Acquisition of the entire equity interest in the Global Tots Group	Lau Tse Kit (劉子杰), Choe Peng Meng (曹炳明) and Lau Shih-Venn, Vivienne (劉詩文)
30 September 2019	Discloseable transaction — Acquisition of childcare business in Singapore	Zee Mei Eng (徐美英), Chi Hong Liang (徐鴻亮) and Ng Teong Bee (黃忠美)

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

Hong Kong, 9 February 2021

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

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.

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

** for identification purpose only*