SDM 爵士芭蕾舞學院 Jazz & Ballet Academie

SDM Group Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8363)

(I) SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO MAJOR TRANSACTION DISPOSAL OF 50% ISSUED SHARE CAPITAL IN SDM ACADEMIE LIMITED; AND (II) GRANT OF THE BUSINESS PURCHASE OPTION WHICH CONSTITUTE DISCLOSEABLE TRANSACTION

(I) SUPPLEMENTAL INFORMATION TO THE MAJOR TRANSACTION

References are made to the Announcements of the Company in relation to, among other things, the Disposal. The Board would like to provide certain additional information in relation to the Disposal.

(II) GRANT OF THE BUSINESS PURCHASE OPTION — DISCLOSEABLE TRANSACTION

As disclosed in the Announcements, following the Completion, the Purchaser shall have the right to require, at any time it deems appropriate, that the Company sell to the Target Company one or both of the HK Kindergartens Business, and at any time after 31 July 2021, the HK Speech Centres Business.

Under Rule 19.74(1) of the GEM Listing Rules, as the discretion to exercise the Business Purchase Option belongs to the Purchaser, the Business Purchase Option, will be classified as if it had been fully exercised at the time of grant. As one of the applicable percentage ratios (as defined in the GEM Listing Rules) for the grant of the Business Purchase Option is more than 5% but less than 25%, such grant constitutes a discloseable transaction of the Company and is subject to reporting and announcement requirements under Chapter 19 of the GEM Listing Rules.

The Completion is subject to the fulfillment of the conditions precedent set out in the Sale and Purchase Agreement and therefore the grant of the Business Purchase Option may or may not proceed. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company.

(I) SUPPLEMENTAL INFORMATION IN RELATION TO MAJOR TRANSACTION DISPOSAL OF 50% ISSUED SHARE CAPITAL IN SDM ACADEMIE LIMITED

References are made to the announcements of SDM Group Holdings Limited (the "**Company**") dated 15 December 2020, 7 January 2021, 15 January 2021, 29 January 2021, 5 February 2021 and 11 February 2021 (the "**Announcements**") in relation to, among other things, the Disposal. Unless otherwise stated, capitalised terms used herein shall have the same meaning as those defined in the Announcements.

The Board would like to provide certain additional information in relation to the Disposal.

THE SALE AND PURCHASE AGREEMENT

Basis of Consideration

As disclosed in the Announcements, the Consideration was determined after arm's length negotiations among the Seller, the Purchaser and the Company (the "**Parties**") with reference to the financial performance of the Target Company in the past and the Put Option together with the Audited EBITDA.

The Target Company recorded losses from 2015 to 2018, and recorded profit of approximately HK$2 million in 2019. However, due to the COVID-19 pandemic, the Target Company recorded loss in the first three quarters of 2020. The Audited EBITDA of the Target Company for the Financial Year 2019 was approximately HK$24.4 million, and the enterprise value of the Target Company was approximately HK$198.0 million. In consideration of the enterprise value to earnings before interest, tax, depreciation and amortisation ratio (the "**EV/EBITDA Ratio**") which the Company usually make reference to, the EV/EBITDA Ratio of the Target Company is approximately 8.11 times. With reference to the EV/EBITDA Ratio of 29 comparable companies (the "**Comparables**") which ranged from 3.59 times to 34.98 times with an average of 13.50 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. The EV/EBITDA Ratio of the Target Company of approximately 8.11 times represents a discount of approximately 40% to the Comparables' average of approximately 13.50 times. Given EV/EBITDA Ratio of the Target Company falls within the range of the Comparables and close to the average, the Directors are of the view that it is fair and reasonable.

The Comparables are sourced as at the date of the Sale and Purchase Agreement. The criteria used to select the Comparables are (i) companies listed in Hong Kong; and (ii) principally engaged in the provision of education service in the PRC and/or Hong Kong. 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 a fair and representative sample.

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	34.98
2.	China YuHua Education Corporation Limited	6169	29.64
3.	Scholar Education Group	1769	27.92
4.	China Education Group Holdings Limited	839	24.88
5.	Cathay Media and Education Group Inc.	1981	23.66
6.	China Gingko Education Group Company Limited	1851	11.23
7.	Edvantage Group Holdings Limited	382	16.31
8.	China Kepei Education Group Limited	1890	15.31
9.	China East Education Holdings Limited	667	15.31
10.	JH Educational Technology INC.	1935	15.00
11.	Chen Lin Education Group Holdings Limited	1593	14.39
12.	Leader Education Limited	1449	13.59
13.	Virscend Education Company Limited	1565	12.82
14.	Wisdom Education International Holdings Company Limited	6068	12.30
15.	The Cross-Harbour (Holdings) Limited	32	11.72
16.	China Maple Leaf Educational Systems Limited	1317	11.69
17.	Neusoft Education Technology Co., Limited	9616	10.11
18.	Shanghai Gench Education Group Limited	1525	10.05
19.	China New Higher Education Group Limited	2001	9.62
20.	Top Education Group Ltd	1752	9.43
21.	China Chunlai Education Group Co., Ltd	1969	9.42
22.	Huali University Group Limited	1756	7.81
23.	China Xinhua Education Group Limited	2779	7.47
24.	China 21st Century Education Group Limited	1598	6.27
25.	Minsheng Education Group Company Limited	1569	6.00
26.	Bojun Education Company Limited	1758	5.36
27.	China Chuanglian Education Financial Group Limited	2371	5.05
28.	China Beststudy Education Group	3978	4.48
29.	Dashan Education Holdings Limited	9986	3.59
	Maximum		34.98
	Average		13.50
	Minimum		3.59

Note: Data sourced from Bloomberg database. The equity values of the Comparables are computed based on the market capitalisation of the companies as of 15 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 15 December 2020.

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

Use of proceeds

As disclosed in the Announcements, the net proceeds (after deducting other expenses in relation to the Disposal) arising from the Disposal of approximately HK$22,700,000 will be used for general working capital of the Group, among which (i) approximately HK$9 million for settlement of the outstanding payables; (ii) approximately HK$6.5 million for staff cost; and (iii) approximately HK$7.2 million for legal and professional fee and overhead expenses. The net proceeds for repayment of outstanding payables are expected to be utilised in the next two months and the remaining are expected to be utilised in the coming twelve months.

THE SHAREHOLDERS AGREEMENT

Funding and issues of securities

The Purchaser Additional Funding

As disclosed in the Announcement, in the event that the Purchaser Additional Funding of up to US$2,000,000 is provided by the Purchaser by way of subscription of the new Target Company Shares, the subscription price for each new Target Company Shares shall be US$600 (equivalent to approximately HK$4,650). Based on the aforementioned basis and if this situation occurred, a maximum of 3,333 new Target Company Shares will be issued, representing approximately 25.0% of the issued Target Company Shares as enlarged by the issue of the new Target Company Shares. The Purchaser will then hold approximately 62.5% of the issued Target Company Shares as enlarged by the issue of the new Target Company Shares. Such subscription price was determined after arm's length negotiations among the Parties with reference to the 100% equity value of the Target Company of US$6 million divided by the number of the issued Target Company Shares, being 10,000 Target Company Shares.

The Purchaser still will not obtain control of the Target Company if the above occurred, as the control of the Target Company is based on the board composition of the Target Company according to the Shareholders Agreement, which the Seller is entitled to appoint and remove one of the SDM Directors as the chairman of the Target Company Board.

The Seller Additional Funding

If any amount of the Committed Amount is required by the Target Company, the Seller shall have the right to contribute to the Target Company with the same amount as provided by the Purchaser with the form and terms the same as the Purchaser.

Adjustment of valuation

As disclosed in the Announcements, the Initial Valuation is US$6,000,000 (equivalent to approximately HK$46,500,000). The Initial Valuation was determined after arm's length negotiations among the Parties with reference to the 100% equity value of the Target Company and the Consideration.

Also, as stated in the Announcements, for the Financial Year ending 31 December 2024, if the Adjusted Valuation exceeds the Initial Valuation, the Target Company shall issue new Target Company Shares to the Seller. In addition, the Financial Year ending 31 December 2024, if the Adjusted Valuation is less than the Initial Valuation and the Equity Proportion of the Seller is no less than 50%, at the request of the Purchaser, the Seller shall immediately pay to the Purchaser in cash in US$ an amount equal to 50% of the difference between Initial Valuation and Adjusted Valuation. For the avoidance of doubt, the minimum value of the Adjusted Valuation shall be zero in case of loss making, and therefore, the cap amount for the Seller to pay to the Purchaser shall be US$3 million, which is equal to the Consideration.

Such adjustment mechanism was determined after arm's length negotiations among the Parties. As the management of the Target Company will remain unchanged and the Purchaser will not take part in the operation of Target Company, this adjustment mechanism is for the purpose the management of the Target Company shall use their best endeavours to operate the Target Company before the Disposal. As the management of the Target Company have been working in the Target Company for a long time and they have built a strong relationship with the Target Company, the belongingness of them act as an inherent desire to achieve a target which is favorable to the Target Company and ensure the operation and business development of the Target Company. Therefore, the Directors believe that the management of the Target Company will use their best endeavours to peruse the business development in relation to the adjustment mechanism.

Indeed, the revenue of the Target Company has increased by approximately 20% from 2015 to 2019, and especially in 2019, the revenue has increased by approximately 9% as compared to that of 2018. However, the outbreak of COVID-19 pandemic in 2020 has caused adverse impact to the then business environment of the Target Company.

The financial performance of the Target Company was severely affected since all dance centers were temporarily closed for few months in 2020. The revenue of the Target Company decreased significantly and loss of the Target Company increased a lot as compared to that of 2019.

Although the business environment may remain difficult and challenging amid the COVID-19 pandemic, the Company is optimistic that the business of the Target Company will improve in the coming years after the recovery from the COVID-19 pandemic. As such, the Directors expected that the Adjusted Valuation would exceed the Initial Valuation for the Financial Year ending 31 December 2024. The management of the Target Company will continue to cope with the challenges faced by the Target Company, and will try their best to devote more resources on marketing to strengthen the brand image of the Target Company to expand the student bases.

After considering that the adjustment terms (i) enable the Company to avoid dilution or increase its interests in the Target Company if Adjusted Valuation exceeds the Initial Valuation; (ii) represent an incentive and target for the management of the Target Company to ensure the operation and business development; and (iii) are commercially reasonable, the Board is of the view that such terms are in the interests of the Company and the Shareholders as a whole.

Maintaining Equity Proportion of the Seller

As stated in the Announcements, following the Adjustment, if the Equity Proportion of the Seller is less than 50%, the Seller shall increase the Equity Proportion of the Seller to 50% and pay the Target Company such subscription price (x) in cash, (y) in kind by contributing to the Target Company certain income-generating business owned by the Seller as mutually agreed by the Target Company Shareholders or (z) a combination of (x) and (y).

As at the date of this announcement, there is no target business identified to be contributed to the Target Company. This term in the Shareholders' Agreement represents only an intention and protection for the Company in case of the occurrence of situation, the Company can have a flexibility to increase the equity proportion of the Seller in the Target Company by different ways. If the situation occurs, detail terms shall be negotiated between the Parties and the Company shall comply with the relevant requirements of the GEM Listing Rules.

The contribution to the Target Company in relation to the business owned by the Seller may constitute a disposal of a subsidiary of the Company. If such contribution constitutes a notifiable transaction for the Company under Chapter 19 of the GEM Listing Rules, the Company will make relevant disclosure accordingly.

Control of the Target Company

As disclosed in the Announcements, the Seller is entitled to appoint and remove one of the SDM Directors as the chairman of the Target Company Board. In addition, the chairman of the Target Company Board will have a casting vote in the case of an equality of votes on a resolution. As such, the auditor of the Company is in the opinion that the Company will remain its control on the Target Company upon the Completion and the Company shall continue to consolidate the financial statements of the Target Company.

The consideration of the Put Shares

As disclosed in the Announcements, the Target Company shall issue such number of new Target Company Shares to the Seller at a consideration of US$1 in the event that the Adjusted Valuation exceeds the Initial Valuation. The Seller shall pay to the Purchaser if (i) the Adjusted Valuation is less than the Initial Valuation; and (ii) the Seller agreed with the Purchaser's decision and the Purchaser decided to exercise the Put Option. In light of the above, after arm's length negotiation between the Parties, a compound interest rates of 8% per annum (calculated on a daily basis) was determined with reference to the interest rate of the previous bonds and convertible notes with 10% per annum and 8% per annum issued by the Company.

As at the date of this announcement, the terms in relation to the exercise rights and conditions of the Put Option are still in negotiation. The Company will make further announcement(s) to update the Shareholders and its investors in compliance with the GEM Listing Rules as and when appropriate.

INFORMATION ON THE TARGET COMPANY

The Target Company is a company incorporated in Hong Kong with limited lability and an indirect wholly-owned subsidiary of the Company. It is principally engaged in operation of jazz and ballet academy. A management team of 4 members is led by Ms. Chan Yuen Hong ("**Ms. Chan**"). She is the general manager and dean of SDM Jazz & Ballet, a brand under the Target Company, and is responsible for the management of the Target Company.

Ms. Chan is primarily responsible for overall school operation including strategic planning, development of curriculum, marketing and general business operation of SDM Jazz & Ballet Academie since 2007. Ms. Chan has approximately 15 years of experience in management and marketing. From June 2005 to February 2006, she was the development executive of MV Destination Limited, a company which is principally engaged in providing event management services, responsible for marketing, promotion and event co-ordination. From July 1998 to July 2003, she was the senior marketing manager of Gold Royal International Enterprise Ltd., a company which is principally engaged in providing healthcare and beauty services, responsible for product development and training, brand building and marketing. From October 1996 to June 1998, Ms. Chan was a management trainee of The Marco Polo Hong Kong Hotel, responsible for providing assistance to various departments including human resources, marketing, food and beverage, housekeeping, front office and accounts. Ms. Chan graduated from Hong Kong Polytechnic University in November 1996, Hong Kong, with a bachelor's degree in hotel and catering management. Ms. Chan is currently the chairman of the Hong Kong Children Dance Promotion Association.

INFORMATION ON THE PURCHASER

The Purchaser is a company incorporated in BVI with limited liability and is an investment holding company. The Purchaser is a wholly-owned subsidiary of Sunlink Group Investment Limited ("**Sunlink**"). Mr. Chen Kam Tai ("**Mr. Chen**") is the ultimate beneficial owner of Sunlink and the Purchaser.

Mr. Chen is also the chairman of Sunlink. Sunlink is a company engaged in investment holding with an interest in the education sector. It owns and manages an educational centre - Smart A (薈學坊) in Kowloon City, Hong Kong. Although Mr. Chen personally has no experience on operating dance academy in Hong Kong, Sunlink is a famous peer of educational business in Hong Kong. The Company's chairman, Mr. Chiu Ka Lok, has already known the chief operating officer and the chief financial officer (being the same person) of Sunlink for a period of time.

Sunlink has been actively seeking for investment and co-operation opportunities in the education sector in recent years while the Company has been seeking for external additional funding and suitable business partner for further development of the Group, and therefore, Mr. Chiu Ka Lok and the management of Sunlink have started the negotiation of the Disposal since the second half of 2020.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, it is believed that the Purchaser and Mr. Chen do not have any relationship (financial, business, shareholding or otherwise) with the counterparties of the previous transactions of the Company in relation to education business since 2016.

As at the date of this announcement, the Company has no intention to dispose of the remaining 50% interest in SDM Academie Limited. The Disposal is not conditional on any other previous transactions of the Company in relation to education business.

REASONS FOR AND BENEFITS OF THE DISPOSAL

As disclosed in the Announcement, upon the Completion, with the support of the Purchaser being one of the shareholders of the Target Company, further business development and cooperation may bring the synergy to the Target Company and the Group. The Disposal will further expand the Target Company's network by integrating the Purchaser's network, so as to increase the total number of students of the Target Company. There will be strong synergy between the Purchaser and the Company by sharing their customer bases such to improve profitability.

The Company has considered other alternative fund-raising methods available to the Group, including debt financing such as bank borrowings, and equity financing such as placing or issue of new shares or convertible securities, rights issue or open offer.

In respect of debt financing, after negotiating with several banks, the Directors considered that debt financing may incur interest burden on and increase the gearing of the Group which is not beneficial to the Group, given that the Group was at a net liability position as at 30 June 2020.

In respect of equity financing, the Directors considered the equity financing is less suitable for the current situation since (i) the Company has been able to identify only one potential subscriber and has been negotiating with it in relation to subscription of convertible securities; (ii) there will be further dilution effect on the existing Shareholders if the Company conducts other equity fund raising activity; (iii) no placing agent indicates interest in placing of new Shares and convertible securities during the current unstable business environment; and (iv) fund raising by rights issue and open offer would be more time consuming, and the underwriting or placing commission are always involve additional cost in relation to the trading arrangement.

In light of the above, since the Company has immediate funding needs and the Directors understand that the Purchaser has intention to expand its education business, after careful consideration, the Directors are of the view that the Disposal is the best available method to solve the immediate funding needs of the Company.

BUSINESS PLAN OF THE GROUP

The dance academy business of the Group (the "**Dance Business**") has been the principal business of the Company since listing in 2014. This business has always been a stable source of revenue to the Group. However, the nature of the Dance Business is very unique, which is usually regarded as extracurricular activities for children. As such, the Company hopes to expand its market sharing in other nature in relation to childhood or education. Further synergy may also be brought to the Dance Business through this expansion plan.

Parents in Hong Kong regard the education for children including extracurricular activities are very important. However, the birth rate in Hong Kong in recent year is stable but low. The Company has sought for opportunities in development of education business in markets other than Hong Kong. After research and understanding different market situations in various countries, the Directors believe that Singapore has similar business culture with Hong Kong and great potential in educational market. Also, business opportunities could be identified in Australia and the PRC. The Company then has expanded its business in these countries, aiming to become an Asia-Pacific education organisation through business expansion by acquisitions.

The Company considers that such investment are not only be regarded as business development, but also bring positive impact to the Group in respect of risk management. Along with the outbreak of COVID-19 pandemic in 2020, it further proves that this direction of business development of the Group is a wise decision.

The Dance Business

The outbreak of the COVID-19 pandemic has caused adverse changes in the business environment of such industry. The tightening social-distancing rules have been in place resulting in the suspension of face-to-face classes in the Dance Business. All dance learning centers of the Group were temporarily closed for few months in 2020. Following the Chinese New Year holiday, all of them have been resumed. The class suspension together with the extended course duration affected and caused negative impacts on the Group's operation and financial position. The Group has received third-round government subsidies in February 2021 and is applying for the fourth-round subsidies under Anti-epidemic Fund — Fitness Centre Subsidy Scheme (防疫抗疫基金 — 健身中心資助計劃) to lower the impact brought by the COVID-19 pandemic. Reference is also made to the announcement of the Company dated 7 April 2020. To cope with this situation, contingency measures including but not limited to the launch of online tuition has been initiated by the Group. The Group has launched E-Dance, an online tuition program that allows students to learn and practice at home through the internet. Upon the COVID-19 pandemic is under control and the general environment is improving, the Group may consider to open new branches and complement with the E-Dance. The Group has a plan to relocate certain dance centers to more popular areas with more reasonable rents. The management of the Group keeps looking for appropriate location for further relocation. Also, the Group may consider to consolidate two nearby dance centers into one in order to save costs and increase operating efficiency. E-class will also be promoted to prevent unpredictably impact of the external environment.

In spite of the challenges faced by the Group in 2020, the Directors are still optimistic about the outlook of the dance academy industry in Hong Kong. Upon the Completion, the management of the Target Company will remain unchanged and they will stay vigilant to cope with the challenges faced by the Group. The Group will use its best endeavours to develop the Dance Business according to the abovementioned plans.

Given that the Dance Business has successfully positioned in the local market, the Directors intend to expand the Dance Business into Singapore. With the existence of kindergartens and pre-schools operated by the Group in Singapore, there are already sufficient hard-ware infrastructures and customer marketing channels for the Company to develop the Dance Business in Singapore. The curriculum, operation practice, training materials and personnel as well as the business model of the Dance Business will be introduced to Singapore. The Dance Business will be supported by the kindergartens and pre-schools in Singapore that the dance academy classes will be carried out in the above venues and students can attend their dance academy classes after school hours. Current kindergarten students and other kids in Singapore will be the target customers for the Dance Business in Singapore. The outbreak of the COVID-19 pandemic has impeded the progress of such business plan, upon the relief of the situation, the Company will resume this business progress for the betterment of the Groups' business performance.

Business in Singapore

The Company has always been looking for different opportunities in relation to the education business in order to diversify the income stream of the Group from different educational businesses. Starting from 2018, the Company has acquired different educational businesses which principally engaged in, including but not limited to, the operation of pre-schools, infant and childcare centres in Singapore.

In assessing the potential business opportunities of overseas markets, Singapore is considered to have high demand in education market since education especially the pre-school education is emphasised and valued by local parents. Parents in Singapore are keen to spend more on their children's education. Correspondingly, the business development for education related industry thrives in response to the strong market demand. Aside from the acquisition of several exceptional kindergartens and pre-schools in Singapore to step foot on the overseas education market, the Company has further expanded its early childhood education business by setting up and open a kindergarten which locates in Clementi Wood, Singapore with a total gross floor area of approximately 25,000 square metres. Clementi Wood is deemed to be concentrated with top colleges and schools in Singapore and it is beneficial for the Company to open a kindergarten in an area nearby those prestigious colleges and schools. The admission arrangements for potential students have started in 2020. Although the early childhood education business was inevitably impacted by the outbreak of the COVID-19 pandemic, the kindergarten enrollment figures has exceeded 100 students.

Despite the outbreak of the COVID-19 pandemic, the school hours in Singapore were not affected to a large extent. The students continue having lectures and tutorials at school. As such, the business performance for the education business and the Group's early childhood education business were only suffered little impact on the outbreak of the COVID-19 pandemic. This demonstrates that the decision at which the Directors proactively seeking appropriate opportunities to expand its business scope and to diversify its existing business in other region such as Singapore was proper and wise. Taking into account of the above factors, the Directors consistently believe that the business environment in Singapore provides an excellent business development opportunity for the Group to further establish its position in the education market.

Business in Australia

Other than the business in Singapore, the Company expanded its operations to Australia. In 2019, the Group acquired companies in Australia which is principally engaged in the provision of English courses.

The outbreak of COVID-19 pandemic brought adverse impact to the business in Australia. As most of the customers are overseas students, the total number of students dropped significantly as a result of the boundary lockdown in Australia. This resulted in a significant loss in revenue and affected the financial performance of the business in Australia.

Given that there is downward trend for new infections and the COVID-19 pandemic is under control, it is expected that the disrupted financial performance of the Group's business in Australia will be improved upon the easing of the lock-down restrictions.

To conclude, the Group has been expanding its business across the Asia-Pacific region including but not limited to Singapore, Hong Kong and the PRC, as well as Australia. Since the Dance Business of the Group became mature over the years and in addition to the COVID-19 pandemic, the Directors are of the view that it is an appropriate time for the Disposal, which allows the Group to reallocate its financial resources to other education business in order to expand its business and pursue strategic alliances to broaden its revenue stream.

With the aim to form an Asia-Pacific education organisation, the Group will continuously seek new education business in different regions when opportunities arise. The Company has its own merger and acquisition team to identify and analyse various business development opportunities. The Company will keep monitoring the business performance and prospects of the existing business and will consider to further expand its educational business in different regions when such opportunities arise so as to improve the financial performance of the Group which is in the interests of the Company and the Shareholders as a whole.

Reference is made to the circular of the Company dated 26 March 2020. As mentioned in such circular, the Company had no intention to dispose, downsize and/or terminate the dance academy business according to the then business environment, which was only in the early stage of the outbreak of COVID-19 pandemic. However, the government of Hong Kong has been enforcing the law of restriction in public gathering and tightened up the number of people in a group from time to time. These measures affected the business operation of the Group in relation to the dancing academy. Therefore, the Company has the intention to contemplate the Disposal since the second half of 2020.

As at the date of this announcement, neither the Company nor the Directors have any intention, arrangement, agreement, understanding, negotiation (concluded or otherwise) on any disposal, termination or scaling-down of the Company's existing businesses apart from the Disposal. In light of the ongoing business development and funding needs of the Company in the future, the Company may consider to inject new business to the Group when such opportunities arise, and may alter its shareholding structure and/or Board composition but in any event, Mr. Chiu Ka Lok, the executive Director, chairman of the Company and controlling Shareholder, and his spouse Dr. Chun Chun, the non-executive Director, will remain their shareholding as the controlling Shareholders and their positions in the Board.

(II) GRANT OF THE BUSINESS PURCHASE OPTION — DISCLOSEABLE TRANSACTION

Pursuant to the Sale and Purchase Agreement, following the Completion, the Purchaser shall have the right to require, by delivering a written notice to the Target Company and the Company, at any time it deems appropriate, that the Company sell to the Target Company one or both of the HK Kindergartens Business, and at any time after 31 July 2021, the HK Speech Centres Business (the "**Business Purchase Option**").

Basis of consideration

The considerations of the Business Purchase Option are arrived after arm's length negotiations among the Parties. The eight times of the HK Kindergartens Audited EBITDA and the HK Speech Centres Audited EBITDA are determined with reference to the EV/EBITDA Ratio of the Target Company, which is approximately 8.11 times. The Directors are of the view that the grant of the Business Purchase Option is fair and reasonable and is in the interests of the Company and the Shareholders as a whole.

Information on the HK Kindergartens Business

The HK Kindergartens Business is operated by English Connection Learning Centre Limited ("**ECLC**"), which is a non-wholly owned subsidiary of the Company. ECLC is principally engaged in the provision of nursery, kindergarten and enrichment classes in Hong Kong.

Set out below is a summary of the financial information of ECLC as extracted from the audited financial statements for the year ended 31 March 2019 and for the period from 1 April 2019 to 31 December 2019 prepared in accordance with the Hong Kong Small and Medium-sized Entity Financial Reporting Standard (the "**SME-FRS**") issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**").

	For the year ended 31 March 2019 *(Audited)* *HK$'000* *Approximately*	**For the period from 1 April 2019 to 31 December 2019** *(Audited)* *HK$'000* *Approximately*
Revenue	3,646	1,734
Loss before taxation	5,288	5,336
Loss after taxation	5,288	5,336
Net liabilities	3,266	1,604

Information on the HK Speech Centres Business

The HK Speech Centres Business is operated by Hong Kong Speech & Swallowing Therapy Co. Limited ("**Hong Kong Speech**"), which is a wholly-owned subsidiary of the Company. Hong Kong Speech is principally engaged in the provision of swallowing and speech treatments.

Set out below is a summary of the financial information of Hong Kong Speech as extracted from the audited financial statements for the year ended 31 March 2019 and for the period from 1 April 2019 to 31 December 2019 prepared in accordance with the SME-FRS issued by the HKICPA.

	For the year ended 31 March 2019 *(Audited)* *HK$'000* *Approximately*	**For the period from 1 April 2019 to 31 December 2019** *(Audited)* *HK$'000* *Approximately*
Revenue	7,938	4,838
Profit before taxation	1,775	845
Profit after taxation	1,540	742
Net assets	5,604	6,347

REASONS FOR AND BENEFITS OF THE GRANT OF THE BUSINESS PURCHASE OPTION

The Group is principally engaged in (i) business of jazz and ballet and pop dance academy in Hong Kong; (ii) operation of kindergartens and preschool in Hong Kong and Singapore; (iii) provision of swallowing and speech treatments in Hong Kong; (iv) provision of photographic services for children in Hong Kong; 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.

As disclosed in the section headed "Information on the Purchaser" above, the holding company of the Purchaser, i.e. Sunlink is also a practitioner in the local education business. The management of the Purchaser regarded the operation of the Target Company a successful one and they also showed their appreciation and confidence on the other businesses operated by the management of the Group. The option to purchase other education related business of the Group only represents an intention and the first right for the Purchaser to consider to acquire if the HK Kindergartens Business and the HK Speech Centres Business are to be disposed in the future. As such, it can be more flexible in case the Company has urgent funding needs in the future, given that time for searching for potential buyers can be saved. As at the date of this announcement, the Company does not have intention to dispose the HK Kindergartens Business and the HK Speech Centres Business.

In light of the above, the Directors consider that the grant of the Business Purchase Option is fair and reasonable and on normal commercial terms and is in the interests of the Company and Shareholders as a whole.

GEM LISTING RULE IMPLICATIONS

Under Rule 19.74(1) of the GEM Listing Rules, as the discretion to exercise the Business Purchase Option belongs to the Purchaser, the Business Purchase Option, will be classified as if it had been fully exercised at the time of grant. As one of the applicable percentage ratios (as defined in the GEM Listing Rules) for the grant of the Business Purchase Option is more than 5% but less than 25%, such grant constitutes a discloseable transaction of the Company and is subject to reporting and announcement requirements under Chapter 19 of the GEM Listing Rules.

The Completion is subject to the fulfillment of the conditions precedent set out in the Sale and Purchase Agreement and therefore the grant of the Business Purchase Option may or may not proceed. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company.

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

Hong Kong, 9 March 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.