



SDM Education Group
Holdings Limited

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 8363)

2023
INTERIM
REPORT

CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

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*This report, for which the directors (the "**Directors**") of SDM EDUCATION GROUP HOLDINGS LIMITED (the "**Company**") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited (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 report 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 report misleading.*

FINANCIAL HIGHLIGHTS

For the six months ended 30 June 2023 (the “**Reporting Period**”), unaudited operating results of the Group were as follows:

- revenue of the Group for the Reporting Period was approximately HK\$89.0 million (2022: approximately HK\$69.2 million);
- loss for the period attributable to the shareholders of the Company for the six months ended 30 June 2023 was approximately HK\$2.3 million as compared to a loss of approximately HK\$15.5 million for the corresponding period last year; and
- basic loss per share for the Reporting Period was approximately 0.38 HK cents (2022: basic loss per share of approximately 3.40 HK cents).

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The board of Directors (the “Board”) of the Company (together with its subsidiaries, the “Group”) is pleased to present the unaudited condensed consolidated results of the Group for the six months ended 30 June 2023, together with the unaudited comparative figures for the corresponding period in 2022, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	For the three months ended 30 June		For the six months ended 30 June	
		2023	2022	2023	2022
		(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Revenue	4	44,065	48,713	89,045	69,214
Other income		10,856	12,696	24,211	22,201
Other gains and losses		(3)	—	79	—
Changes in inventories of finished goods		128	(67)	147	87
Finished goods purchased		(2,320)	(1,831)	(5,241)	(3,038)
Advertising and promotion expenses		(1,424)	(945)	(2,797)	(1,622)
Depreciation and amortisation		(12,424)	(17,135)	(25,613)	(28,612)
Staff and teaching consultants services costs		(27,430)	(31,449)	(56,651)	(51,404)
Other expenses		(9,876)	(8,868)	(20,524)	(15,601)
Share option expenses		—	(220)	—	(220)
Finance costs	5	(1,131)	(1,494)	(2,496)	(4,582)
Share of results of an associate		18	(53)	111	(102)
Share of results of joint ventures		64	43	(271)	(394)
Profit/(loss) before taxation		523	(610)	—	(14,073)
Income tax expense	6	(1,127)	(230)	(910)	(33)
Loss for the period		(604)	(840)	(910)	(14,106)

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

	Notes	For the three months ended 30 June		For the six months ended 30 June	
		2023 (Unaudited) HK\$'000	2022 (Unaudited) HK\$'000	2023 (Unaudited) HK\$'000	2022 (Unaudited) HK\$'000
Other comprehensive income					
Items that may be reclassified to profit or loss					
Change in fair value on financial assets at fair value through other comprehensive income, net of tax		—	—	—	—
Exchange differences arising on translation of foreign operations		1,914	7,316	(1,399)	6,378
Other comprehensive income for the period, net of tax		1,914	7,316	(1,399)	6,378
Total comprehensive income/(loss) for the period		1,310	6,476	(2,309)	(7,728)
Profit/(loss) for the period attributable to:					
Owners of the Company		(1,448)	(2,409)	(2,268)	(15,541)
Non-controlling interests		844	1,569	1,358	1,435
		(604)	(840)	(910)	(14,106)
Total comprehensive income/(loss) for the period attributable to:					
Owners of the Company		466	6,266	(3,667)	(7,804)
Non-controlling interests		844	210	1,358	76
		1,310	6,476	(2,309)	(7,728)
Loss per share:		HK cents	HK cents	HK cents	HK cents
Basic and diluted	7	(0.21)	(0.53)	(0.38)	(3.40)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	30 June 2023 (Unaudited) HK\$'000	31 December 2022 (Audited) HK\$'000
Non-current assets			
Property, plant and equipment	9	11,782	13,693
Right-of-use assets		69,060	68,378
Goodwill	10	84,448	84,743
Intangible assets	10	59,851	62,958
Interests in joint ventures		151	156
Loans to joint ventures		440	440
Interest in an associate		1,483	1,381
Deposits for acquisition of subsidiaries/ businesses	11	17,674	17,765
Other receivables, deposits and prepayments	12	14,544	14,511
Deferred tax assets		30	30
		259,463	264,055
Current assets			
Inventories		2,039	1,892
Trade and other receivables, deposits and prepayments	12	70,013	61,894
Amounts due from related parties		9,623	9,679
Amounts due from non-controlling shareholders of subsidiaries		652	664
Cash and cash equivalents		33,767	25,699
Tax recoverable		597	316
		116,691	100,144
Current liabilities			
Trade and other payables	13	70,518	63,645
Deferred income		37,068	33,052
Amounts due to related parties		14,690	28,010
Amounts due to non-controlling shareholders of subsidiaries		266	258
Convertible notes	15	276,514	277,934
Bank and other borrowings	14	39,888	41,649
Lease liabilities		65,801	63,491
Tax payable		2,071	1,515
Provisions		4,279	4,350
		511,095	513,904
Net current liabilities		(394,404)	(413,760)
Total assets less current liabilities		(134,941)	(149,705)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

	Notes	30 June 2023 (Unaudited) HK\$'000	31 December 2022 (Audited) HK\$'000
Non-current liabilities			
Provisions		7,145	7,235
Deferred tax liabilities		4,002	4,397
Bank and other borrowings	14	4,739	4,763
Lease liabilities		65,926	71,224
		81,812	87,619
NET LIABILITIES		(216,753)	(237,324)
EQUITY			
Share capital		68,640	45,760
Reserves		(294,449)	(290,782)
Equity attributable to owners of the Company		(225,809)	(245,022)
Non-controlling interests		9,056	7,698
TOTAL EQUITY		(216,753)	(237,324)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the Company							Total	Non-controlling interests	Total
	Issued share capital	Share premium	Exchange reserve	Fair value reserve	Share options reserve	Other reserve	Accumulated losses			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000			
At 1 January 2022 (audited)	45,760	158,522	(204)	31,566	14,842	(13,669)	(463,631)	(226,814)	8,624	(218,190)
Loss for the period	—	—	—	—	—	—	(15,541)	(15,541)	1,435	(14,106)
Exchange differences arising on translation to presentation currency	—	—	7,737	—	—	—	—	7,737	(1,359)	6,378
Total comprehensive loss for the period	—	—	7,737	—	—	—	(15,541)	(7,804)	76	(7,728)
Grant of share options	—	—	—	—	220	—	—	220	—	220
Lapse of share options	—	—	—	—	(1,487)	—	1,487	—	—	—
At 30 June 2022 (unaudited)	45,760	158,522	7,533	31,566	13,575	(13,669)	(477,685)	(234,398)	8,700	(225,698)
At 1 January 2023 (audited)	45,760	158,522	7,091	42,703	6,191	(13,669)	(491,620)	(245,022)	7,698	(237,324)
Loss for the period	—	—	—	—	—	—	(2,268)	(2,268)	1,358	(910)
Exchange differences arising on translation to presentation currency	—	—	(1,399)	—	—	—	—	(1,399)	—	(1,399)
Total comprehensive loss for the period	—	—	(1,399)	—	—	—	(2,268)	(3,667)	1,358	(2,309)
Issue of new shares (Note)	22,880	—	—	—	—	—	22,880	—	—	22,880
Lapse of share options	—	—	—	—	(1,875)	—	1,875	—	—	—
At 30 June 2023 (unaudited)	68,640	158,522	5,692	42,703	4,316	(13,669)	(492,013)	(225,809)	9,056	(216,753)

Note: On 13 March 2023, 228,800,000 shares of the Company were allotted and issued pursuant to the right issue on the basis of one right share for every two existing shares held on the record date (as detailed in the prospectus of the Company dated 17 February 2023 and the announcement of the Company dated 10 March 2023). The issued share capital of the Company increased to HK\$68,640,000 divided into 684,400,000 shares since then.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	For the six months ended 30 June	
	2023 (Unaudited) HK\$'000	2022 (Unaudited) HK\$'000
Net cash generated from operating activities	28,208	17,638
Net cash used in investing activities	(428)	(1,208)
Net cash used in financing activities	(15,968)	(12,324)
Net increase in cash and cash equivalents	11,812	4,106
Cash and cash equivalents at 1 January	25,699	29,508
Effect of foreign exchange rate changes	(3,744)	(9,458)
Cash and cash equivalents at 30 June, represented by bank balances and cash	33,767	24,156
REPRESENTED BY: Bank balances and cash	33,767	24,156

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

1. GENERAL INFORMATION

The Company was incorporated and registered as an exempted company with limited liability in the Cayman Islands under the Cayman Companies Law on 12 February 2014 and its shares are listed on GEM of the Stock Exchange on 14 October 2014. Its parent is Wealthy Together Limited ("**Wealthy Together**") (incorporated in British Virgin Islands). Its ultimate controlling party is Mr. Chiu Ka Lok ("**Mr. Chiu**"), who is also the Chairman and executive Director of the Company. The addresses of the Company's registered office and principal place of business are Windward 3, Regatta Office Park, P.O. Box 1350, Grand Cayman, KY1-1108, Cayman Islands and Room 202B, 2/F., Liven House, 61-63 King Yip Street, Kwun Tong, Kowloon, Hong Kong respectively.

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

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

2. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements for the six months ended 30 June 2023 has been prepared in accordance with the Hong Kong Accounting Standards ("**HKAS**") 34 "Interim financial reporting" issued by the Hong Kong Institute of Certificate Public Accountants ("**HKICPA**") and the applicable disclosure requirements of the GEM Listing Rules. The unaudited condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2022, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSS**").

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

3. ADOPTION OF NEW AND REVISED HKFRSs

In the current period, the Group has adopted all the new and revised HKFRSs issued by the HKICPA that are relevant to its operations and effective for its accounting period beginning on 1 January 2023. HKFRSs comprise HKFRS and HKAS and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's financial statements and amounts reported for the current period and prior years.

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

4. REVENUE AND SEGMENT INFORMATION

Revenue represents the fair value of amounts received and receivable for goods sold and services provided by the Group to outside customers, less discount during relevant periods. The Group's operation is derived from jazz and ballet and pop dance academy in Hong Kong and early childhood education in Hong Kong and Singapore during the six months ended 30 June 2023.

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

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

Early childhood education business — operation of kindergartens and pre-schools in Hong Kong and Singapore.

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

4. REVENUE AND SEGMENT INFORMATION (CONTINUED)

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

	For the six months ended 30 June	
	2023 (Unaudited) HK\$'000	2022 (Unaudited) HK\$'000
Dance academy business	32,560	17,000
Early childhood education business	51,160	48,096
Others		
— provision of swallowing and speech treatments	2,957	2,479
— provision of photographic services for children	2,368	1,639
	89,045	69,214

4. REVENUE AND SEGMENT INFORMATION (CONTINUED)

Segment Revenues and Results

The following is an analysis of the Group's revenue and results by operating and reportable segment.

For the six months ended 30 June 2023

	Dance academy business HK\$'000	Early childhood education business HK\$'000	Adult education and training business HK\$'000	Others HK\$'000	Consolidated HK\$'000
Revenue	32,560	51,160	—	5,325	89,045
Segment (loss)/profit	(3,625)	13,903	—	441	10,719
Other income, other gains and losses					1,612
Central corporate expenses					(12,171)
Share of results of an associate					111
Share of results of joint ventures					(271)
Loss before taxation					—

All of the segment revenue reported above is from external customers.

The accounting policies of the operating and reportable segments are the same as the Group's accounting policies. Segment profit or loss represents the profit earned/losses incurred by each segment without allocation of certain other gains and losses and other income, central corporate expenses and share of results of an associate and joint ventures.

The CODM makes decisions according to operating results of each segment. No analysis of segment asset and segment liability is presented as the CODM does not regularly review such information for the purposes of resources allocation and performance assessment. Therefore, only segment revenue and segment results are presented.

4. REVENUE AND SEGMENT INFORMATION (CONTINUED)

Other segment information

For the six months ended 30 June 2023

	Dance academy HK\$'000	Early childhood education business HK\$'000	Others HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
Amounts credited (charged) included in the measure of segment results					
Interest income	12	149	1	—	162
Government grants and subsidies	688	3,043	—	—	3,731
Amortisation of intangible assets	1,170	1,416	254	—	2,840
Depreciation of property, plant and equipment	1,191	1,440	36	14	2,681
Depreciation of right-of-use assets	9,649	9,598	—	845	20,092
Interest on lease liabilities	708	980	—	48	1,736
Share of results of associates	—	—	—	(111)	(111)
Share of results of joint ventures	—	—	—	271	271

4. REVENUE AND SEGMENT INFORMATION (CONTINUED)

Geographical Information

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

Information about the Group's revenue from external customers is presented based on the location of the operations. Information about the Group's non-current assets is presented based on the geographical location of the assets.

	Revenue from external customers for the six months ended 30 June		Non-current assets (other than financial instruments and deferred tax assets) as at	
	2023	2022	2023	2022
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	44,720	23,850	59,350	68,818
Singapore	44,325	45,364	185,104	193,610
	89,045	69,214	244,454	262,428

Note: Non-current assets excluded financial instruments and deferred tax assets.

Information about major customer

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

5. FINANCE COSTS

	For the three months ended 30 June		For the six months ended 30 June	
	2023 (Unaudited) HK\$'000	2022 (Unaudited) HK\$'000	2023 (Unaudited) HK\$'000	2022 (Unaudited) HK\$'000
Interest on borrowings	285	992	760	1,595
Interest on lease liabilities	846	2,096	1,736	2,987
	1,131	3,088	2,496	4,582

6. INCOME TAX EXPENSE

	For the three months ended 30 June		For the six months ended 30 June	
	2023 (Unaudited) HK\$'000	2022 (Unaudited) HK\$'000	2023 (Unaudited) HK\$'000	2022 (Unaudited) HK\$'000
Current tax				
— Hong Kong Profits Tax	—	—	—	(122)
— Singapore Corporate Income Tax ("CIT")	(1,293)	—	(1,293)	(15)
Deferred tax	166	(230)	383	104
	(1,127)	(230)	(910)	(33)

The provision for Hong Kong Profits Tax for 2023 is calculated at 16.5% (2022: 16.5%) of the estimated assessable profits for the year, except for one subsidiary of the Group which is a qualifying corporation under the two-tiered profits tax rates regime. Under the two-tiered profits tax rates regime, the first HK\$2,000,000 of profits of qualifying entities are taxed at 8.25%, and the profits above HK\$2,000,000 are taxed at 16.5%. The provision for Hong Kong Profits Tax for this subsidiary was calculated at the same basis in 2022.

6. INCOME TAX EXPENSE (CONTINUED)

Singapore CIT is calculated at 17% (2022: 17%) of the estimated assessable profit eligible for CIT rebate of 20% capped at S\$10,000. Singapore incorporated companies can also enjoy 75% tax exemption on the first S\$10,000 of normal chargeable income and a further 50% tax exemption on the next S\$290,000 of normal chargeable income. The Singapore companies which meet the qualifying condition as start-up companies can enjoy 100% tax exemption on the first S\$100,000 of normal chargeable income and a further 50% tax exemption on the next S\$200,000 of normal chargeable income at the relevant years of assessment.

7. (LOSS)/EARNINGS PER SHARE

The calculation of basic loss per share attributable to owners of the Company is based on the loss for the three months ended 30 June 2023 and six months ended 30 June 2023 attributable to owners of the Company of approximately HK\$1,448,000 and HK\$2,268,000 respectively (2022: the loss for the three months ended 30 June 2022 and six months ended 30 June 2022 attributable to owners of the Company of approximately HK\$2,409,000 and HK\$15,541,000 respectively) and the weighted average number of ordinary shares of 686,400,000 and 596,649,724 (2022: weighted average number of ordinary shares for the three months ended 30 June 2022 and six months ended 30 June 2022 of 457,600,000 and 457,600,000 respectively) in issue during the three months ended 30 June 2023 and the six months ended 30 June 2023 respectively.

Diluted (loss)/earnings per share

No diluted earnings per share had been presented for the three months ended 30 June 2022 and 2023 and six months ended 30 June 2022 and 2023 since there were no potential ordinary shares in issue during the periods.

8. DIVIDENDS

No dividend was paid or proposed during the six months ended 30 June 2023, nor has any dividend been proposed since the end of the reporting period (for the six months ended 30 June 2022: Nil).

9. PROPERTY, PLANT AND EQUIPMENT

During the period under review, the Group acquired property, plant and equipment of approximately HK\$764,000 (2022: HK\$1,223,000).

10. GOODWILL AND INTANGIBLE ASSETS

The Group tests for impairment of goodwill and Intangible assets annually and in the financial year in which the acquisition takes place, or more frequently if there are indications that they might be impaired. No impairment of goodwill and Intangible assets was recognised during the six months ended 30 June 2023 (2022: Nil).

There were no acquisitions of businesses during the six months ended 30 June 2023.

11. DEPOSITS FOR ACQUISITION OF SUBSIDIARIES/BUSINESS

In the prior years, the Group entered into a number of non-legal binding term sheets/memorandum of understandings and sale and purchase agreements with different vendors, to acquire either entire or partial interests in a number of entities/businesses with principal activities in education sector in Singapore and Thailand. Pursuant to the respective term sheets/memorandum and sale and purchase agreements, the Group paid earnest monies/deposits which will be utilised to settle part of the purchase consideration in the future.

12. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	30 June 2023 (Unaudited) HK\$'000	31 December 2022 (Audited) HK\$'000
Trade receivables from third parties (Note i)	3,936	3,951
Rental deposits	13,006	14,219
Loan receivables (Note ii)	11,704	12,016
Franchising fee income receivable	14,788	11,615
Management fee income receivables	14,988	12,133
Other deposits, receivables and prepayments	26,135	22,471
Total trade and other receivables, deposits and prepayments	84,557	76,405
Analysed as		
Current	70,013	61,894
Non-current	14,544	14,511
	84,557	76,405

The directors of the Group consider that the fair values of trade and other receivables which are expected to be recovered within one year are not materially different from their carrying amounts.

12. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS (CONTINUED)

Notes:

- (i) Trade receivables from third parties mainly represent tuition fees receivables from students and receivables from financial institutions in relation to the payments settled by credit cards by customers of which the settlement period is normally one to two months from transaction date.
- (ii) The loan receivables included loan to the holding company of an associate and loan to a third party.

The loan to holding company of an associate represented advances of S\$1,935,000 (equivalent to approximately HK\$11,223,000) (31 December 2022: S\$1,935,000 (equivalent to approximately HK\$11,283,000)) to the shareholders of an associate, which are unsecured, interest bearing at 2.81% to 4.19% and repayable in June 2022 to December 2023. For the advance of S\$566,000 (equivalent to approximately HK\$3,283,000) (31 December 2022: S\$566,000 (equivalent to approximately HK\$3,300,000)), the borrower has option to transfer ownership interest in its investees to the Group in lieu and in full discharge of the repayment obligation at maturity date.

13. TRADE AND OTHER PAYABLES

	30 June 2023 (Unaudited) HK\$'000	31 December 2022 (Audited) HK\$'000
Trade payable	147	90
Accrued staff costs	2,942	3,047
Accrued audit fee	1,300	1,600
Advance receipts from customers for examination and competition	6,552	4,994
Customer deposits	9,623	10,125
Other payables and accrued charges	49,954	43,789
	70,518	63,645

The Group was granted by its suppliers credit periods ranging from 30–60 days. Based on the invoice dates, the ageing analysis of the trade payables is ranged from 0 to 120 days.

All amounts are short term and hence the carrying values of the Group's trade payables and accrued expenses are considered to be a reasonable approximation of fair value.

Included in the Group's other payables and accrued charges as at 30 June 2023 were amounts of HK\$7,974,000 (31 December 2022: HK\$8,127,000), which represented agency commission payable.

14. BANK AND OTHER BORROWINGS

The following table provides an analysis of the bank and other borrowings:

	30 June 2023 HK\$'000	31 December 2022 HK\$'000
Bank borrowings (Note a)	34,756	35,147
Other borrowings (Note b)	9,871	11,265
	44,627	46,412

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

	30 June 2023 HK\$'000	31 December 2022 HK\$'000
Within one year	34,756	35,147

Notes:

(a) Bank borrowings

As at 30 June 2023 and 31 December 2022, the interest rate of the Group's bank loans was 1%–2.5% per annum below HKD prime rate. The bank loans are guaranteed by the executive directors of the Company.

(b) Other borrowings

As at 30 June 2023, a loan of S\$817,000 (equivalent to approximately HK\$4,739,000) (31 December 2022: S\$817,000 (equivalent to approximately HK\$4,763,000)) included in the non-current portion bears interest at 7.25% to 8% per annum and repayable in 2025 to 2026.

15. CONVERTIBLE NOTES

On 24 December 2018 and 12 February 2019, the Company, SDM Asia Limited (the “**Issuer**”), a wholly-owned subsidiary of the Company, and an independent investor (the “**Investor**”) entered into a subscription agreement (the “**CN Subscription Agreement**”) and an amendment deed to the Singapore CN Subscription Agreement (the “**Singapore Amendment Deed**”) respectively. Pursuant to the Singapore CN Subscription Agreement and the Singapore Amendment Deed, the Issuer conditionally agreed to issue and the Investor conditionally agreed to subscribe for the Singapore Convertible Note in the principal amount of US\$25,000,000 (equivalent to approximately HK\$195,400,000). The Singapore Convertible Note bears coupon interest at the rate of 8% per annum, payable upon redemption by the noteholder on the maturity date in 31 March 2023. The Singapore Convertible Note shall be converted into new preference shares of the Issuer upon the occurrence of certain events as detailed in the Singapore CN Subscription Agreement and the Singapore Amendment Deed.

All the conditions precedent to the Singapore CN Subscription Agreement (as amended and supplemented by the Singapore Amendment Deed) had been fulfilled and the completion took place on 12 February 2019. Accordingly, the Singapore Convertible Note in the principal amount of US\$25,000,000 (equivalent to approximately HK\$195,400,000) has been issued by the Issuer to the Investor. Details of which are set out in the Company’s announcements dated 27 December 2018 and 12 February 2019.

The Singapore Convertible Note is guaranteed by the Company and secured by the entire equity interest in SDM Asia Limited held by the Group.

As at 30 June 2023, the Convertible Note measured at fair value through profit or loss amounted to HK\$274,600,000 (31 December 2022: HK\$276,020,000) were recorded as current liabilities.

On 17 January 2020, the Company and SDM Australian Education Limited (“**SAEL**”), a wholly-owned subsidiary of the Company, entered into a subscription agreement (the “**Australia CN Subscription Agreement**”) with Golden Pursue Limited, an independent third party.

Pursuant to the Australia CN Subscription Agreement, SAEL conditionally agreed to issue and Golden Pursue Limited has conditionally agreed to subscribe for a Australia Convertible Note in the principal amount of US\$5,000,000 (equivalent to approximately HK\$39,000,000) (the “**Australia Convertible Note**”). The Australia Convertible Note bear coupon interest at the rate of 8% per annum. Unless previously redeemed, converted or repaid and cancelled in accordance with the terms and conditions of the Australia CN Subscription Agreement, the Australia Convertible Note has a term of 48 months.

15. CONVERTIBLE NOTES (CONTINUED)

On 5 January 2021, the Australia Convertible Note has been fully redeemed and the Group was discharged and released from all obligations and responsibilities under such convertible note. On the same day, the Company entered into a new subscription agreement with the same investor to issue convertible note in principal amount of up to US\$6,350,000 (equivalent to approximately HK\$49,530,000). The Australia Convertible Note bears coupon interest at the rate of 8% per annum. Unless previously redeemed, converted or repaid and cancelled in accordance with the terms and conditions of Australia CN Subscription Agreement, the Australia Convertible Note will be matured on 30 April 2024.

As at 31 December 2022 and 30 June 2023, only US\$5,850,000 (equivalent to approximately HK\$45,846,000) of the Australia Convertible Note has been issued.

As at 30 June 2023, the New Convertible Note measured at fair value through profit or loss amounted to HK\$1,914,000 (31 December 2022: HK\$1,914,000) were recorded as current liabilities.

16. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in these consolidated financial statements, the Group also had the following related party transactions during both years:

	For the six months ended 30 June	
	2023 HK\$'000	2022 HK\$'000
Rental income from related companies (Note):		
— Rainbow Creative Arts Limited	180	624
— Dunn's Education Limited	—	77
	180	701

Note: Rainbow Creative Arts Limited is wholly-owned by Mr. Chiu Ka Lok, one of the executive Directors and a controlling shareholder of the Group. Dunn's Education Limited is owned as to 33.33% by Mr. Chiu Ka Lok.

16. RELATED PARTY TRANSACTIONS (CONTINUED)

The above transactions constitute continuing connected transactions as defined in chapter 20 in accordance with the GEM Listing Rules. However, these transactions are exempt from the disclosure requirements as they are below the de minimis threshold.

As at 31 December 2022, bank borrowings of HK\$95,000 were guaranteed by Dr. Chun Chun and pledged by a property owned by Dr. Chun Chun. Dr. Chun Chun did not charge the Group for the guarantee provided and pledge of her property. In addition, the repayment of Group's corporate bonds were guaranteed by Wealthy Together.

Other than the transactions disclosed above, no other transaction, arrangement or contract of significance to which the Company was a party and in which a director of the Company or a connected entity of the director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the period or at any time during the period.

Compensation of key management personnel

The remuneration of directors and other members of key management of the Group during the six months ended 30 June 2022 and 2023 were as follows:

	For the six months ended 30 June	
	2023 HK\$'000	2022 HK\$'000
Short-term benefits	1,631	1,515
Post-employment benefits	17	17
	1,648	1,532

MANAGEMENT DISCUSSION AND ANALYSIS

Introduction

The Group is one of the largest dance institutions for children in Hong Kong and operates under the brand of “SDM Jazz & Ballet Academie” (SDM爵士芭蕾舞學院) which has established goodwill and gained brand recognition in Hong Kong. The shares of the Company were successfully listed on GEM of the Stock Exchange on 14 October 2014 (the “Listing”). In the recent years, the Company has expedited its expansion into education markets in Singapore and Australia.

During the six months ended 30 June 2023 (the “Reporting Period”), the Group had 23 wholly-owned dance centres, one kindergarten in Hong Kong and 13 pre-schools in Singapore. Besides offering wide range of dance courses for children generally between the age of 2 and 16, the Group also develops operations of day care centres, kindergartens and enrichment courses in Singapore. The vision of the Group is to provide social and life experience to children at a young age through their participation in dance courses and pre-school activities, thereby nurturing their social interaction skills and confidence.

Business Review

Hong Kong

The Group continues focusing on engaging in business of jazz and ballet and pop dance academy in Hong Kong, and early childhood education business in Hong Kong and Singapore. During the year under review, competition in the dance institution industry for children in Hong Kong was intense. The Group continued to maintain and attract students to enroll in the Group’s courses by developing new courses and enhancing courses to respond to changes in market trends so as to expand the Group’s coverage and effectively market the courses to a broader base of students.

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

Singapore

The performance of the Group’s pre-Schools in Singapore has been improving gradually since 2021. As at 30 June 2023, the number of enrollment was approximately 1,000 out of total capacity of 1,500 representing utilization rate of 67% (30 June 2022: 1,000 out of 1,665, representing utilization rate of 60%). The Group is confident that utilization rate will increase steadily in the future.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Financial Review

Revenue of the Group for the Reporting Period was mainly contributed by (i) dance academy business in Hong Kong (the “**Dance Academy Business**”) and (ii) early childhood education business in Hong Kong and Singapore (the “**Early Childhood Education Business**”). Total revenue increased by approximately HK\$19.8 million from approximately HK\$69.2 million for the corresponding period in 2022 to approximately HK\$89.0 million for the Reporting Period. The increase was mainly due to the increase in revenue from Dance Academy Business in Hong Kong by approximately HK\$20.9 million as mentioned under “Business Review”.

Other income of the Group was approximately HK\$24.2 million (2022: HK\$22.2 million). Other income of the Group mainly comprises the management fee income, franchise fee income, sub-lease rental income, examination handling income, government grants and rent concessions.

Staff and teaching consultants services costs amounted to approximately HK\$56.6 million during the Reporting Period (2022: approximately HK\$51.4 million), representing a increase by approximately 10%. The increase was mainly due to increase salaries during the Reporting Period.

Other operating expenses of the Group was approximately HK\$20.5 million during the Reporting Period (2022: approximately HK\$15.6 million), representing a increase of approximately 31% as compared to the corresponding period in 2022. The increase was mainly due to increase in legal and professional fee.

The Group recorded a loss attributable to owners of the Company for the Reporting Period of approximately HK\$0.91 million as compared to a loss of approximately HK\$14.1 million for the corresponding period of last year. The loss decrease was due to the increase in revenue from Dance Academy Business as mentioned above.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Potential Settlement of Convertible Note

Reference is made to the announcements of the Company dated 27 December 2018, 12 February 2019 and 14 April 2022.

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

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

According to the terms of Subscription Agreement, the maturity date of the Convertible Note with face value of US\$25 million was 31 March 2023. As disclosed in the Company’s announcement dated 14 April 2022, the Company has been discussing with the Noteholder to explore the possibility of settlement of the Convertible Note since 2022. As of the date of this report, the Issuer, the Company and the Noteholder reached a consensus to extend the repayment date of the indebtedness under the Convertible Note by installments. On 5 April 2023, the Company remitted US\$2 million (equivalent to approximately HK\$15.6 million) to the Noteholder for partial repayment.

As of the date of this report, the Company is still discussing with the Noteholder to finalise the terms of the settlement agreement, which has yet been entered into among the Issuer, the Company and the Noteholder. The Company will make further announcements in relation to the settlement as and when it is required under the relevant GEM Listing Rules.

Significant Investments

As at 31 December 2022 and 30 June 2023, there was no other significant investment held by the Group.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Liquidity and Financial Resources

The Group generally finances its operation through internally-generated cash flows, private funds, individual investors and banking facilities during the period. As at 30 June 2023, the total bank balances and cash of the Group amounted to approximately HK\$33.8 million (31 December 2022: approximately HK\$25.7 million).

There were bank and other borrowings of HK\$34.9 million and HK\$4.7 million (31 December 2022: HK\$41.6 million and 4.8 million) borrowed by the Group which were classified as current liabilities and non-current liabilities, respectively as at 30 June 2023.

In addition, the Group has issued two convertible notes, one with a face value of US\$25 million (with carrying amount of approximately HK\$195 million) and another one with a face value of US\$5.85 million (with carrying amount of approximately HK\$46 million) were classified as current liabilities as at 31 December 2022 and 30 June 2023.

Furthermore, as at 30 June 2023, a loan with the principal of HK\$13,080,000 from a licensed bank in Hong Kong through Mr. Chiu with a term of 300 months (the “**Loan**”) was included in the amounts due from related parties.

The loan agreement for the Loan was entered into by Mr. Chiu and Dr. Chun Chun (“**Dr. Chun**”), the executive director of the Company, on behalf of the Company, which was secured by a property owned by them. The interest rate for the Loan is the lower of (i) prime rate minus 2.5%; or (ii) one-month HIBOR plus 1.3%.

As the Director’s Loan was secured by a property owned by Mr. Chiu and Dr. Chun, it constitutes a financial assistance received by the Company from a connected person, which is fully exempt pursuant to Rule 14A.90 as (1) it was conducted on normal commercial terms or better, given that they did not receive any benefits in providing their properties as security for the Director’s Loan; and (2) it was not secured by the assets of the Group.

As at 30 June 2023, the current ratio (defined as total current assets divided by total current liabilities) was approximately 0.23 times as compared to 0.18 times as at 31 December 2022.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Capital Structure

The shares of the Company were successfully listed on the GEM Board of the Stock Exchange on 14 October 2014. The share capital of the Group only comprises ordinary shares.

As at 30 June 2023 and 31 December 2022, the authorised share capital of the Company was HK\$800,000,000 divided into 8,000,000,000 shares of the Company of HK\$0.1 each (the “**Shares**”).

As at 31 December 2022, the issued share capital of the Company was HK\$45,760,000, divided into 457,600,000 shares of HK\$0.1 each.

On 13 March 2023, 228,800,000 shares of the Company were allotted and issued pursuant to the right issue on the basis of one right share for every two existing shares held on the record date (as detailed in the prospectus of the Company dated 17 February 2023 and the announcement of the Company dated 10 March 2023) (the “**Right Issue**”). The issued share capital of the Company increased to HK\$68,640,000 divided into 686,400,000 shares since then.

As at 30 June 2023, the Group had outstanding convertible notes with carrying amount of approximately HK\$276.5 million (31 December 2022: HK\$277.9 million). The convertible note with face value of US\$25 million (equivalent to HK\$195 million) carries interest at 8% per annum and matured on 31 March 2023. The convertible note with face value of approximately USD5.85 million (equivalent to approximately HK\$46 million) carries interest at 8% per annum and will mature on 30 April 2024. The repayment of the convertible notes is guaranteed by the Company.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Fund Raising Activities

Rights Issue

On 6 January 2023, the Group proposed to raise up to approximately HK\$22.88 million before expenses and set-off of the shareholders' loans (the "**Set-off**"), by way of rights issue by issuing up to 228,800,000 rights shares at the subscription price of HK\$0.10 per rights share on the basis of one rights share for every two existing shares on the record date (the "**Rights Issue**"). The detail of the Rights Issue was disclosed in the prospectus of the Company dated 17 February 2023.

On 3 March 2023, being the latest time for acceptance, a total of 15 valid acceptance of provisional allotments under the provisional allotment letters had been received for a total of 143,756,621 Rights Shares. As the Rights Shares were under-subscribed, the valid excess application has been accepted and a total of 7,738,750 excess rights shares will be allotted and issued to the relevant applicant in full.

Pursuant to the irrevocable undertaking committed by the substantial shareholders of the Company, Mr. Chiu, Dr. Chun and Wealthy Together Limited have accepted and subscribed for 139,375,000 Rights Shares provisionally allotted to them under the Rights Issue.

As a result of the under-subscription of the Rights Shares and pursuant to the terms of the underwriting agreement entered between the Company and the Underwriter, the Underwriter has subscribed for or procured subscribers to subscribe for 77,304,629 Rights Shares, representing approximately 33.79% of total number of 228,800,000 Rights Shares available for subscription under the Rights Issue.

For detail result of the Rights Issue, please refer to the announcement of the Company dated 10 March 2023.

The gross proceeds from the Rights Issue are approximately HK\$22.88 million and the net proceeds from the Rights Issue, after the Set-off amounted to approximately HK\$13.96 million and deducting the underwriting commission, professional fees and all other relevant expenses amounted to approximately HK\$1.42 million, are estimated to be approximately HK\$7.50 million (the "**Net Proceeds**"). The Company intends to apply the Net Proceeds as follows:

- (i) approximately HK\$2.50 million for expansion of the Dance Academy Business including the renovation cost of a new dance centre in Hong Kong in the fourth quarter of 2023; and
- (ii) approximately HK\$5.00 million for other general corporate and working capital purposes, including rental expenses of approximately HK\$2.7 million to be paid in March 2023 and the remaining for general staff costs.

As at 30 June 2023 and up to the date of this report, the Company has applied the net proceeds of the Rights Issue in accordance with the intended use as mentioned above. The remaining balance of HK\$2.50 million will be used for expansion of the Dance Academy Business.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Material Acquisitions

No material acquisition were taken place during the Reporting Period.

Commitments

The contractual commitments of the Group were primarily related to the leases of its dance centres, kindergartens, pre-schools and office premises. The Group's operating lease commitments was recognised as lease liabilities in the Condensed Consolidated Statement of Financial Position in accordance with HKFRS 16 as at 30 June 2023 and 31 December 2022.

Treasury Policies

The Group adopts a conservative approach towards its treasury policies. The Group's credit risk is primarily attributable to debt investments, trade and other receivables, amounts due from related parties, and non-controlling shareholders of subsidiaries, pledged bank deposits and bank balances. In view of the business nature of the Group, the Directors considered that the credit risks of trade receivables at FVTOCI 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 as well as the good settlement records from students and organizational customers of the swallowing and speech treatment. The management considered there was no recoverability problem from the related parties of the Group. The pledged 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.

Charge on Group's Assets

As at 30 June 2023 and 2022, the entire shares in SDM Asia Limited and SDM Australian Education Limited held by the Group were pledged as securities for the two convertible notes with carrying amount of approximately HK\$276.5 million (31 December 2022: HK\$277.9 million).

Employees and Remuneration Policies

The total staff and teaching consultants services costs for the operations of the Group, including Directors' emoluments, was approximately HK\$56.6 million for the six months ended 30 June 2023 (six months ended 30 June 2022: approximately HK\$51.4 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.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Future Plans For Material Investments and Capital Assets

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

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

The acquisitions are in line with the business development plan and expansion plan of the Group. The Board believes that the acquisition provides an excellent development platform and opportunity to expand its early childhood education business into international markets. The Group's core business — jazz and ballet and pop dance academy can generate synergies with mainstream education to expand its business into the overseas market and enhance the competitiveness of the Group. The Board believes that the acquisition provides excellent investment opportunity for the Group to further establish its position in education and related businesses.

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

Contingent Liabilities

As at 30 June 2023, the Group did not have any significant contingent liabilities or guarantees (31 December 2022: Nil).

OTHER INFORMATION**Disclosure of Interests****(a) Directors' and Chief executives interests in Shares**

As at 30 June 2023, 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 of the GEM Listing Rules were as follows:

Long positions in the Shares of the Company

Name of Directors and chief executive	Nature of interest/ Holding capacity	Number of ordinary shares held	Number of underlying shares held	Percentage of interest in the Company's issued share capital (Note 1)
Mr. Chiu Ka Lok ("Mr. Chiu")	Interest of a controlled corporation, beneficial owner and family interest	418,125,000 (Note 2)	—	60.92%
Dr. Chun Chun	Beneficial owner and family interest	418,125,000 (Note 3)	—	60.92%

OTHER INFORMATION (CONTINUED)

Disclosure of Interests (Continued)

(a) Directors' and Chief executives interests in Shares (Continued)

Long positions in the Shares of the Company (Continued)

Notes:

- (1) As at 30 June 2023, the total issued share capital of the Company was HK\$68,640,000 divided into 686,400,000 Shares of HK\$0.1 each.
- (2) Wealthy Together is wholly and beneficially owned by Mr. Chiu, an executive Director and the Chairman of the Company. Mr. Chiu is deemed to be interested in 298,125,000 Shares held by Wealthy Together by virtue of his 100% shareholding interest in Wealthy Together. Mr. Chiu Ka Lok beneficially owned 46,500,000 Shares and Dr. Chun Chun being the spouse of Mr. Chiu Ka Lok, beneficially owned 73,500,000 Shares. By virtue of the SFO Mr. Chiu Ka Lok is deemed to be interested in 418,125,000 shares.
- (3) Dr. Chun Chun, a non-executive Director, is the spouse of Mr. Chiu and is therefore deemed to be interested in all the shares held/owned by Mr. Chiu (by himself or through Wealthy Together) by virtue of the SFO.

Save as disclosed above, as at 30 June 2023, 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 of the GEM Listing Rules.

OTHER INFORMATION (CONTINUED)**Disclosure of Interests (Continued)****(b) Substantial shareholders' and other persons' interests and short positions in shares and underlying shares of the Company**

So far as is known to the Directors, as at 30 June 2023, the following entities (not being Directors or chief executive of the Company) had, or were deemed to have, interests or short positions (directly or indirectly) in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO were as follows:

Long positions in the Shares or underlying Shares of the Company

Name of Shareholder	Nature of interest/ holding capacity	Number of shares	Percentage of interests in the Company's issued share capital (Note 2)
Wealthy Together	Beneficial owner	298,125,000 (Note 1)	43.43%
Hui Pui Cheung	Beneficial owner	39,980,000	5.82%
Chance Wise Investments Limited	Interest of a controlled corporation	75,000,629	10.93%
Fok Yuk Tong	Interest of a controlled corporation	75,000,629	10.93%
Hsieh Ching Chun	Interest of a controlled corporation	75,000,629	10.93%
Pacific Foundation Securities Limited	Beneficial owner	75,000,629	10.93%
PF Group Holdings Limited	Interest of a controlled corporation	75,000,629	10.93%

OTHER INFORMATION (CONTINUED)**Disclosure of Interests (Continued)****(b) Substantial shareholders' and other persons' interests and short positions in shares and underlying shares of the Company (Continued)**

Long positions in the Shares or underlying Shares of the Company (Continued)

Notes:

- (1) Wealthy Together is beneficially and wholly owned by Mr. Chiu, an executive Director and the Chairman of the Company. By virtue of the SFO, Mr. Chiu is deemed to be interested in the shares held by Wealthy Together.
- (2) As at 30 June 2023, the total issued share capital of the Company was HK\$68,640,000 divided into 686,400,000 Shares of HK\$0.1 each.

Save as disclosed above, as at 30 June 2023, the Directors were not aware of any other persons (other than the Directors and the chief executive of the Company) who had, or was deemed to have, interests or short positions in the Shares or underlying Shares of the Company which fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

SHARE OPTION SCHEME

The Company's share option scheme (the "**Share Option Scheme**") was conditionally adopted by a written resolutions of the shareholders of the Company on 26 September 2014, and is a share incentive scheme prepared in accordance with Chapter 23 of the GEM Listing Rules and is established to recognize and acknowledge the contribution of the Directors, other employees and other eligible participants who have made valuable contribution to the Group.

The maximum number of shares which may be issued upon exercise of all share options to be granted under the Share Option Scheme shall not, in the absence of shareholders' approval, in aggregate exceed 10% in nominal amount of the total number of shares in issue immediately following the completion of the offering for the listing of the shares of the Company (i.e. 20,000,000) (the "**Scheme Limit**"). Options lapsed in accordance with the terms of the Share Option Scheme will not be counted for the purpose of calculating the Scheme Limit.

SHARE OPTION SCHEME (CONTINUED)

The Company may renew the Scheme Limit at any time subject to prior shareholders' approval but in any event, the total number of shares which may be issued upon exercise of all share options to be granted under the Share Option Scheme under the limit as refreshed must not exceed 10% of the shares in issue as at the date of the shareholders' approval of the renewed limit.

A circular dated 6 May 2019 was sent to shareholders by the Company in relation to "Proposal for Refreshment of Share Option Scheme Mandate Limit and Notice of Extraordinary General Meeting" (the "**May Circular**"). Pursuant to the Circular, the Company proposes to seek the approval of the shareholders of the Company to approve the Refreshment (as defined in the May Circular) so that the total number of Shares (as defined in the May Circular) which may be issued upon exercise of all options to be granted under the Share Option Scheme shall not exceed 35,410,000 Shares, representing 10% of the Shares in issue as at the date of approval of the Refreshment by the shareholders at the Latest Practicable Date (as defined in the May Circular), assuming that the number of Shares in issue remains unchanged prior to the date of the extraordinary general meeting to be held by the Company on 27 May 2019 (the "**2019 May EGM**"). The Refreshment is approved by the shareholders of the Company at the 2019 May EGM.

The Company issued another circular dated 18 December 2019 to the shareholders in relation to "Proposal for Refreshment of Share Option Scheme Mandate Limit and Notice of Extraordinary General Meeting" (the "**December Circular**"). Pursuant to the December Circular, the Company proposes to seek the approval of the shareholders to approve the Refreshment (as defined in the December Circular) so that the total number of Shares (as defined in the December Circular) which may be issued upon exercise of all options to be granted under the Share Option Scheme shall not exceed 35,410,000 Shares, representing 10% of the Shares in issue as at the date of approval of the Refreshment by the shareholders on 13 December 2019, assuming that the number of Shares in issue remains unchanged prior to the date of the extraordinary general meeting to be held by the Company on 10 January 2020 (the "**2020 January EGM**"). The Refreshment is approved by the shareholders at the 2020 January EGM.

Pursuant to the 2020 January EGM, the Company granted 6,380,000 share options (one share for each option) at an exercise price of HK\$1.20 per share on 11 February 2020 to certain full-time employees of the subsidiaries of the Company and business partners and consultants of the Company, 2,300,000 share options (one share for each option) at an exercise price of HK\$1.44 per share on 25 February 2020 to certain consultants and full-time employees of the subsidiaries of the Company and 26,730,000 share options at an exercise price of HK\$0.80 per share on 15 June 2021 to certain employees, supplier and business partners of the Company, subject to the acceptance of the grantees, under the Share Option Scheme adopted by the Company on 26 September 2014, details of which are set out in the Company's announcements dated 11 February 2020, 25 February 2020 and 15 June 2021.

SHARE OPTION SCHEME (CONTINUED)

As at 30 June 2023, the Company had 27,325,892 outstanding share options under the Share Option Scheme carrying rights for the holders thereof to subscribe for an aggregate of 27,325,892 new Shares, details of movements of which are set out below:

Date of grant	Owners/ Grantees	Number of share options						Adjustment on Rights Issue during the period*	At 31 March 2023	Exercise period	Exercise Price HK\$
		At 1 January 2023	Granted	Exercised	Lapsed	Cancelled					
11 February 2020	Employees	680,000	—	—	(680,000)	—	—	—	11 February 2020 to 10 February 2023	1.20	
25 February 2020	Employee	300,000	—	—	(300,000)	—	—	—	1 January 2023 to 24 February 2023	1.44	
	Consultants	2,000,000	—	—	(2,000,000)	—	—	—	1 January 2023 to 24 February 2023	1.44	
15 June 2021	Employees	15,192,000	—	—	—	—	338,675	15,530,675	15 June 2021 to 14 June 2024	0.391	
	Supplier	3,846,000	—	—	—	—	85,739	3,931,739	15 June 2021 to 14 June 2024	0.391	
	Business partner	7,692,000	—	—	—	—	171,478	7,863,478	15 June 2021 to 14 June 2024	0.391	
		29,710,000	—	—	(2,980,000)	—	595,892	27,325,892			

* As a result of Rights Issue, adjustments were made to the exercise price of and the number of the outstanding share options under the Share Option Scheme with effect from 13 March 2023.

The total number of Shares available for issue under the Share Option Scheme is 41,110,000, which represented 5.99% of 686,400,000 Share in issue of the Company as at the date of this report.

COMPETING INTERESTS

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 (as defined in the GEM Listing Rules) that compete or may compete with the business of the Group and any other conflicts of interest which any such person has or may have with the Group during the Reporting Period.

NON-COMPETITION UNDERTAKINGS

Each of the controlling shareholders of the Company has undertaken to the Company in the deed of non-competition (the “**Deed of Non-Competition**”) that it/he will not, and procure its/his associates (other than members of our Group) not to directly or indirectly be involved in or undertake any business that directly or indirectly competes, or may compete, with the Group’s business or undertaking, or hold shares or interest in any companies or business that compete directly or indirectly with the business engaged by the Group from time to time except where the controlling shareholders hold less than 5% of the total issued share capital of any company (whose shares are listed on the Stock Exchange or any other stock exchange) which is engaged in any business that is or may be in competition with any business engaged by any member of the Group.

For the year ended 31 December 2022, the Company has received an annual written confirmation from each controlling shareholder of the Company in respect of its/his and its/his associates’ compliance with the Deed of Non-Competition. The independent non-executive Directors have also reviewed and were satisfied that each of the controlling shareholders of the Company had complied with the Deed of Non-Competition.

CODE OF CORPORATE GOVERNANCE PRACTICES

The Company endeavors to adopt prevailing best corporate governance practices. For the six months ended 30 June 2023, the Company had complied with all the code provisions set out in the Corporate Governance Code as contained in Appendix 15 of the GEM Listing Rules and there has been no deviation in relation thereto.

DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by the Directors (the “**Code of Conduct**”) on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules (the “**Required Standard Dealings**”). The Company had also made specific enquiry of all the Directors and each of them was in compliance with the Code of Conduct and Required Standard Dealings during the Reporting Period. Further, the Company was not aware of any non-compliance with the required standard of dealings regarding securities transactions by the Directors for the six months ended 30 June 2023.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company during the Reporting Period.

AUDIT COMMITTEE

The interim results during the Reporting Period are unaudited and not reviewed by the external auditors of the Company. The Company's Audit Committee (the "**Audit Committee**"), comprising Dr. Kao Ping Suen, Mr. Chak Chi Shing and Mr. Sek Sing Chor, being the independent non-executive Directors, has reviewed with the Company's management the accounting principles and practices adopted by the Group and financial reporting matters including a review of the unaudited consolidated results of the Group for the six months ended 30 June 2023. There were no disagreements within the Audit Committee in relation to the accounting treatment adopted by the Company.

BOARD OF DIRECTORS

As at the date of this report, the Board comprises Mr. Chiu Ka Lok (Chairman), Mr. Chun Chi Ngon Richard (Chief Executive Officer) and Dr. Chun Chun, as the executive Directors, Ms. Yeung Siu Foon, as the non-executive Director and Dr. Kao Ping Suen, Mr. Chak Chi Shing and Mr. Sek Sing Chor, as the independent non-executive Directors.

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

Hong Kong, 11 August 2023